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Dear Assistant Secretary

Food Export Taskforce Discussion Paper on Food Regulation

I am writing in relation to the Food Export Taskforce's recent discussion paper, *Ensuring Australia's System of Food Regulation Supports Growing Food Export Industries*. Thank you for taking some time with Australian Pork Limited (APL) last week to clarify the purpose of the discussion paper and to hear the concerns of the Australian pork industry.

APL is the peak national representative body for Australian pork producers. It is a producer-owned company combining marketing, export development, research and innovation and strategic policy development to assist in securing a profitable and sustainable future for the Australian pork industry. The pork industry employs more than 36,000 people nationally and contributes \$5.2 billion in gross domestic product.

The Australian meat export industry is highly-regulated. And while regulation plays an important role underpinning Australia's food export success, its impact on competitiveness is multi-faceted. When overdone, mistargeted, or poorly designed, regulation undermines Australia's international competitiveness, inhibits uptake of new production methods, and raises barriers to entry for new exporters.

APL welcomes a discussion of the role played by regulation in Australia's food export growth. This letter will outline APL's basic position on the issues raised in the Discussion Paper.

Broadly speaking, APL recognises that strong food safety, quality assurance, biosecurity, and associated measures underpin our export market access. They provide assurances for trading partners that Australian exported food is safe to eat and of high quality. The rules help to protect industry from reputational damage caused by unscrupulous operators. Most importantly, they exist to safeguard the health and wellbeing of domestic and overseas consumers of Australian food products.

But this all comes at a price. An honest discussion about the role of Australia's system of food regulation in supporting the growth of food exports must consider also the costs on business imposed by this system. Unfortunately, the Discussion Paper fails to recognise the complex relationship between regulation and export competitiveness.

Illustrating the point, the first very assumption offered by the paper is that "Australia's food regulation system is world class" and that this system "gives our food export industry a competitive advantage". Here is a simplistic view of regulation as an unmitigated good that sets the tone for the rest of the Discussion Paper. The reader is left with the impression that government believes itself to be responsible for the success of our exporters, that more regulation is better, and that we must search for new areas to regulate.

Nowhere in the paper are the trade-offs for business in terms of the additional cost, time, and complexity of regulation given any meaningful consideration. These concerns must be front of mind when contemplating the relationship between regulation and food exports growth.

The Relationship Between Regulation and Competitiveness

Other major food-producing economies, including the USA and Brazil, are enjoying increasing success in export markets without high levels of domestic food regulation. This is especially true in the export pork production sector, where North American and Brazilian product is vastly more cost competitive than Australian pork on global markets. The absence of a complex and costly regulatory system is an important contributing factor to that competitiveness.

Even in the aftermath of shocking food safety scandals in the Brazilian meat export sector in 2017, highlighting the weakness of domestic regulation in that country, Brazil continues to build profitable export markets for its products, especially in the Asian region where it is competing directly with Australian producers. There would appear to be very little in the way of reputational damage for Brazil's food exporters as a result of the scandal. The lack of effective food safety regulation, in this case, has had minimal bearing on export success.

APL is not suggesting Australia should be more like Brazil, only that the relationship between regulation and export success is more nuanced than the assumptions which appear to underlie the Discussion Paper.

One area of regulation which, conversely, is undersold in the paper is biosecurity. Although it is not a component of food regulation *per se*, its importance in relation to export success cannot be understated. Put simply, biosecurity *is* market access. Without effective biosecurity, all market access is jeopardised. For this reason and more (including the environmental, human health and social amenity benefits) biosecurity is one of the few areas of regulation that APL would encourage government to further strengthen.

Regulation as a Barrier to Innovation

Care must be taken in the design of regulation to ensure it does not act as a barrier to the uptake of new production and management systems. It must be well designed to ensure efficiency and flexibility in such a way that the rules support industry advancement, rather than hamper it.

Unfortunately, this is not necessarily the case under Australia's current system of export food regulation. The following is an ongoing example of how process-driven, rather than outcomes-driven regulation can restrict adoption of new technologies and techniques.

One of Australia's largest pork export operations, the Swickers Bacon Factory in Kingaroy, Queensland, is undergoing a multi-million-dollar upgrade, but its plans to implement the latest systems are being held back by unnecessarily rigid export control regulation.

The new Swickers plant will have the capacity to process up to 750 pigs per hour. This necessitates the installation of a range of technologies that assist workers to keep up with the high throughput and to make the plant as efficient as possible. Among these is an advanced digital inkjet printing system to take over the work of carcass stamping. This task, traditionally requiring one or two extra workers on the line, can now be automated, freeing up scarce labour resources for other jobs.

The new digital system, however, is limited in the fonts and shapes it can produce. As such, it is unable to replicate exactly the Australian Inspected Official Mark, which is produced using an older analogue system, as required for the establishment under the Export Control (Prescribed Goods – General) Orders.

APL is aware of two other pork export plants that investigated the use of a similar system. However, in both cases, the regulatory complexity of seeking a varied arrangement with the Department of Agriculture and Water Resources has contributed to decisions not to proceed. The inflexibility of the current regulation acts as a barrier to improvement and innovation and exacts a high cost in terms of productivity growth.

This is a problem that can be addressed by taking a different approach to regulation. Instead of prescriptive specification of processes, regulation should focus on outcomes, with allowance for variation in how these are realised.

In the case of official marks, what is important is that Australian and importing authorities both recognise the appropriate mark and that it is relatively difficult to falsify or tamper with. It is not important what particular shape the mark is, so long as it contains the required information in form accepted by both parties, the mark fulfils its purpose.

APL encourages government to review the food regulation system in light of its ability to facilitate innovation. Reducing the density and prescriptiveness of regulation will enhance its flexibility in this regard.

Regulation as a Barrier to New Market Entrants

Another trade-off imposed by the system of food regulation in relation to exports is the erection of higher barriers to new market entrants. The challenge of navigating a complex regulatory environment is particularly acute for small and medium-sized enterprises (SMEs).

Typically, SMEs struggle to meet stringent domestic and importing country requirements to export meat. The requirements are administratively complex and expensive to implement.

For example, satisfying Australia's domestic regulation, as set out in the Export Control (Meat and Meat Products) Orders 2005, requires establishment accreditation, approved arrangements, permits, certificates, inspectors, quality assurance systems, product traceability, official marks, regular audits, trade descriptions, chemical withholding periods, export slaughter intervals, and more. The tangle of compliance measures is difficult to unravel, particularly for SMEs.

Then there is the cost. A small domestic processor looking to become export eligible for uncooked pig meat faces initial costs upwards of \$100,000, including registration, external training, inspectors, and initial audits.

These hurdles are all but insurmountable for SMEs interested in entering the export market for uncooked pig meat. While entering the processed meat export game presents lower regulatory barriers to entry, these are not insignificant.

APL encourages government to consider the impact of ever-expanding regulation on fledgling food exporters. Export growth is most sustainable when the benefits flow to a broader range of enterprises, and so facilitating the entry of new market entrants should be an important government objective.

Emerging Issues and Challenges

The Discussion Paper canvasses an array of international trends relevant to Australia's food exports, asking respondents to consider the implications for regulation.

Increasing consumer demand for more information about the food they consume and technological advances in food testing are two issues raised by the paper. It is true that these are important trends, but difficult to see, in the export context, that there is demand for new Australian regulation. These matters can safely be left to the market and to existing regulations.

Similarly, the paper identifies food fraud as a growing international issue. But again, existing regulation should be enough to deal with food fraud. The answer is better enforcement of current regulations, not more regulation.

Recommendations

- 1) APL encourages the Food Export Taskforce to honestly evaluate the relationship between regulation and export competitiveness, acknowledging and exploring those areas where regulation can detract from export success.
- 2) APL strongly encourages the Food Export Taskforce to include biosecurity in its consideration of how regulation can support Australia's food export industries.
- 3) APL encourages the Food Export Taskforce to explore how outcomes-focused regulation can reduce the barriers to uptake of new production and management systems in Australia's food export sector.
- 4) APL recommends the Food Export Taskforce consider fully how the tangle of food regulation acts to deter new entrants from pursuing export markets, especially SMEs.

I would be happy to discuss this submission further. If you have any questions or comments, please contact Mr Andrew Robertson, Policy Manager – Trade, on (02) 6270 8888 or andrew.robertson@australiapork.com.au.

Yours sincerely



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