AFGC SUBMISSION

2022-2023

PRE-BUDGET SUBMISSION

Sustaining Australia

ABOUT US

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's $132 billion food and grocery supply industry, which includes local manufacturing and distribution employing 270,000 people. Our role is to be the voice of the food and grocery supply industry and to help shape a business environment that encourages a thriving, trusted industry that Sustains Australia.

EXECUTIVE SUMMARY

The Australian Food and Grocery Council (AFGC) submission to the 2022-23 Federal Budget outlines a series of policy recommendations that aim to enhance the competitiveness and resilience of our critical sector. The AFGC's recently published report, Sustaining Australia: Food and Grocery Manufacturing 2030, sets out a clear vision to double the sector's size to $250 billion by 2030. The sector's high growth scenario will grow the number of quality jobs in Australia and drive the creation of a more sustainable, digitally enabled and export focussed sector.

Food and grocery manufacturing is critical to the nation. The sector generated over $132 billion in economic activity over the past fiscal year. It continues to directly employ over 270,000 Australians and acts as a significant job multiplier, particularly in our regions where over 40 per cent of the sector is employed. It is the largest sector of the manufacturing industry in Australia. The sector is not only critical for the total contribution it makes to the Australian economy, but also in delivering Australian's everyday nutritional, personal care and domestic household needs as well as supplying products to health and aged care facilities, educational institutions, workplaces and restaurants.

The sector is experiencing several significant challenges including: a fall in profitability and stagnation of investment over the last decade; evolving consumer diets driving the need for increased product development; a critical skills and labour gap; dynamic global trading relationships; increasingly critical sustainability targets; and a vulnerable supply chain exacerbated by the pressures of COVID-19. These challenges however are also the sector's opportunities. Our vision to double the sector to over $250 billion by 2030 can be achieved by:

- calibrating and expanding existing investment incentives

- backing the transition of front-to-end digitalisation of the industry's supply chain

- identifying and better targeting the sector's skills needs, and

- continuing to support the sector's sustainability journey.

While it will be up to the 16,000 plus businesses that make up the sector to invest in the necessary capital required to transform their domestic operations and processes to deliver on these challenges and opportunities, there is a need for Government policies that incentivise investment in Australia. As the AFGC's report Sustaining Australia: Food and Grocery Manufacturing 2030 showed, the increases in manufacturing costs, combined with limited ability to pass cost increases through to the retail trading environment over many years, has impacted profitability and has led to a low investment trap. In addition, increased competition for global capital and talent from nations that provide significant support to food and grocery industries, has created an uneven playing field making the case for investment in Australia more difficult.

The impact of COVID-19 has underscored the criticality of a strong food and grocery manufacturing base in Australia. Given global freight disruptions, the risks to local food and grocery supply could have been more significant if Australia were more dependent on imports and not able to quickly adjust local production to meet increases in demand. COVID-19 has however highlighted some vulnerabilities and the need to ensure resilience in food and grocery supply chains.

In order for the sector to improve its global competitiveness and resilience, it is important for Government to incentivise investment in three main areas: the adoption of smart manufacturing technology; digitalisation of the industry's supply chain; and capital equipment that is needed to improve packaging sustainability and meet the 2025 National Packaging Targets.

Front-to-end digitalisation of the industry's supply chain will enable improved industry resilience through more accurate planning, faster and more informed decision making, and significantly improved inventory management. It will also enable companies to reduce input and product waste and meet increased consumer expectations for easily accessible information about the environmental and health attributes of products. However, whilst some firms are leading on the digitalisation effort, most businesses have mis-matched legacy and analogue systems, in large part due to the low investment trap already discussed. As a start the sector requires an immediate review and mapping of the digital supply chain to identify the gaps and barriers along-side a funding program for fast-moving consumer goods (FMCG) to digitise elements of their supply chains.

The sector is committed to playing its part in developing a circular economy through increasing the recyclability, and recycled content of product packaging through the 2025 National Packaging Targets. There are however significant commercial risks and costs associated with changing packaging formats, such as the need for new packaging lines and moulds, which can be millions of dollars for an individual company. While there are Government programs in place to support the recycling industry to undergo transformation, there is no such program to assist food and grocery manufacturers to make the changes necessary to achieve the National Packaging Targets.

To address the investment needs outlined above, the AFGC recommends that Government extend the timeframe and adjust the eligibility criteria for the full expensing measures and build on the grants programs under the Modern Manufacturing Strategy (MMS).

An emerging and increasingly critical issue to the sector's growth ambitions is the shortage of suitably qualified skilled employees to meet the evolving needs of the sector. As the sector incorporates advanced technologies and processes, skills commensurate to these capabilities will need to develop in Australia or attracted from abroad.

Addressing cost competitiveness, investment and skills challenges through broader policy and budgetary measures is essential to ensuring that food and grocery manufacturing can increase its contribution and value to the Australian economy.

Our recommendations aim to:

- Enhance and promote private sector investment in capital, innovation, and R&D expenditure

- Drive technology adoption, to enable a more competitive and resilient sector

- Accelerate the sector's capability to fast-track the transition to a packaging circular economy

- Attract, retain, upgrade, and deepen the skills required for the sector to thrive as a leading global sector.

We present a set of recommendations for Government's consideration in supporting more than 16,000 businesses and over 270,000 Australians directly employed in the sector.

Tanya Barden OAM
CEO
Australian Food and Grocery Council

SUMMARY OF KEY RECOMMENDATIONS

RECOMMENDATION 1: Amend the alternative test for the temporary full expensing measure and extend the timeframe for eligibility to the end of fiscal year 2024-25.

RECOMMENDATION 2: Consider a concessional tax incentive to firms looking to invest, create jobs and onshore advanced manufacturing capability to Australia and make it easier for these firms to invest by eliminating the barriers to re-enter the Australian market.

RECOMMENDATION 3: Increase the level of co-investment grants within the Translation and Integration Streams in the MMS that supports the sector to invest in modern manufacturing and digital technologies to improve the sector's ability to enhance competitiveness in domestic and export markets, added resilience, sustainability, and agility.

RECOMMENDATION 4: Government to fund the AFGC to undertake a study to map the standards and processes required for digitalisation across the supply chain, and to better understand the gaps and barriers to industry adoption.

RECOMMENDATION 5: Initiate a comprehensive skills audit and map priority technical and advanced skills required to support the future needs of the food and grocery manufacturing sector.

RECOMMENDATION 6: Develop a grant program that enables industry connections via integrated learning and immersion programs and on the job training to attract and upgrade the flow of skilled workers into the sector.

RECOMMENDATION 7: Provide a co-investment grants program for brand owners to invest in packaging design R&D and packaging plant and equipment to fast track creating a circular, and thriving, manufacturing economy.

RECOMMENDATION 8: Provide grant funding to assist establishing advanced recycling plants on shore to meet food and grocery manufacturers' demand for food grade soft plastic packaging containing post-consumer recycled content

RECOMMENDATION 9: Implement tax incentives in the form of credits or deductions to encourage a greater number of food manufacturers, retailers, and farmers to make the necessary changes to donate additional food and groceries to organisations such as Foodbank.

A PERFECT STORM HAS CREATED A LOW INVESTMENT TRAP

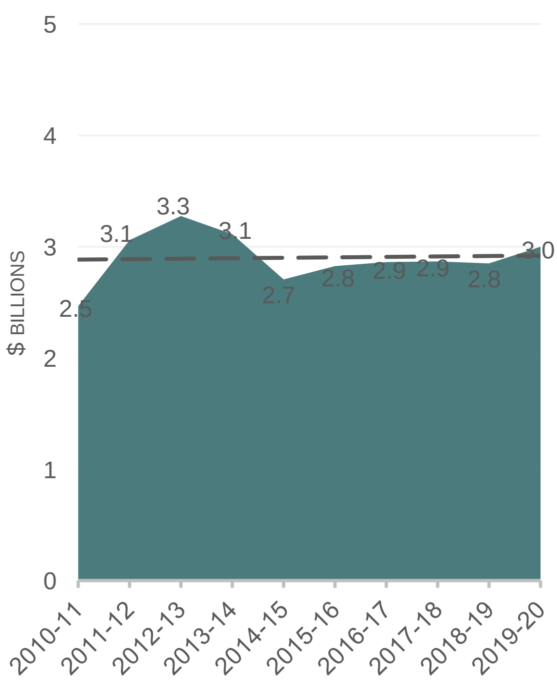
ISSUE 1: CAPITAL INVESTMENT IS STAGNANT

Food and grocery manufacturing requires significant investment to bring it into the modern age, utilising automated and digital technologies to improve the sector's competitiveness and agility to meet rapidly changing consumer expectations with respect to health, wellness, sustainability, and convenience.

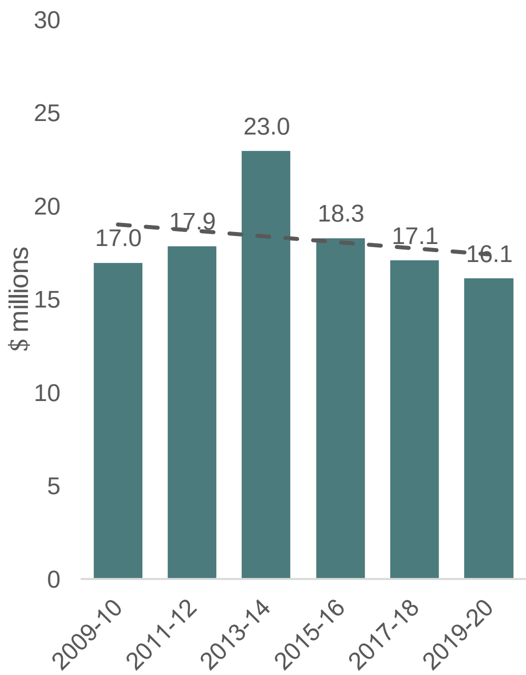
Of the 16,000 businesses ranging from large multi-national firms to small local family-owned businesses, total capital investment in the previous fiscal year was around $3 billion, a shortfall of $4.5 billion of what is needed annually to double the size of the industry by 2030. Australia, once a global innovation hub for consumer food and grocery products, has observed stagnant growth at under $3 billion a year for the past 5 years having reached a high point of $3.3 billion in 2012-13. As a result, a disturbing trend in capital investment and R&D spend is emerging.

A DISTURBING TREND IN CAPITAL INVESTMENT AND R&D SPEND IS EMERGING

ANNUAL, FOOD AND BEVERAGE GROSS CAPITAL FORMATION (2010-2020)



FOOD MANUFACTURING R&D SPEND (2009-20)



The data indicates that the sector is not significantly growing its productive capacity, which has implications for the future ability to meet an increased level of growth and demand, particularly for the growing international market. Many of the food and grocery multi-national firms had local innovation centres and would use Australia's stable and sophisticated market as a test bed for new products. However, multi-national businesses are increasingly centralising innovation spend in offshore global hubs that offer targeted and effective incentives, while local players are struggling to find the budget to invest. Internationally, there are several high-cost economies that are increasing their levels of manufacturing support to shore up their economies and to ensure food security.

Without strategic government intervention, Australia risks losing an increasing proportion of the food and grocery manufacturing sector together with the employment and investment opportunities to comparator economies. Given the criticality of the food and groceries manufactured, an increased reliance on imports will have a sizeable impact on Australia's resilience to events such as the COVID-19 pandemic or geo-political tensions, and Australia's terms of trade.

ISSUE 2: THE CURRENT MIX OF INCENTIVES ARE INADEQUATE TO DRIVE INVESTMENT GROWTH

The current mix of direct and indirect investment incentives are not adequate to lift Australia's standing as a desirable investment destination for the industry. The temporary full expensing and loss carry back measures were welcomed by industry although there were some limitations that need to be addressed. The current incentive period is unrealistically limited and needs to be extended for several years as it takes time for companies to meet external regulatory approvals and internal board-level approvals for investments of this scale. Having the certainty of tax incentives over forward years will allow businesses to make the necessary and often risky investment decisions here in Australia, particularly as investment is often in tranches over several years.

The initial $5 billion aggregate turnover test of the temporary full expensing measure excluded many businesses in our sector, yet it is the largest enterprises in the sector that create a considerable proportion of the sector's jobs and output. The alternative income test that was subsequently introduced, required statutory turnover of $5 billion and local investment of $100 million over the last three years, irrespective of the size of the business. Given the long-term nature of manufacturing assets, the pressure on industry profitability in recent years and the stagnation in capital investment across the industry, it has been difficult for many multinational companies that manufacture food and grocery products to demonstrate a local capital spend of the above amount over the last three years to qualify.

> THE EFFECT OF EXCLUDING LARGE BUSINESSES FROM THE TEMPORARY FULL EXPENSING MEASURE IS NOT JUST THE LOST GROWTH POTENTIAL FOR JOBS AND INVESTMENT, BUT ALSO THE RISK OF LOSING LARGE MANUFACTURING FACILITIES FROM AUSTRALIA

The AFGC recommends amending the alternative test to one based on capital expenditure as a percentage of total income (rather than a fixed dollar value), or alternatively as a percentage of overall expenditure (a capital expenditure "intensity threshold") to increase the eligibility for the full expensing measure.

The following table outlines a proposed change to the alternate test, that is, for local investment to equal one per cent of total income and statutory income per annum. As with the existing test, this could be averaged across three years. This is more reflective of an equitable and realistic target for corporate taxpayers within the Australian food and grocery manufacturing industry to demonstrate a strong history of significant investment.

Description	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
(A) Total ordinary and statutory income (p.a.)	$250,000,000	$500,000,000	$1,000,000,000	$2,000,000,000	$5,000,000,00
(B) Average spend on depreciating assets (p.a.) (A)x(C)	$2,500,000	$5,000,000	$10,000,000	$20,000,000	$50,000,000
(C) Proposed capital intensity percentage	1.00%	1.00%	1.00%	1.00%	1.00%

The AFGC also suggests including an additional alternative test regarding expenditure which looks at current year and future, committed, capital expenditure to encourage businesses to spend over and beyond what may have been expended in the past. This proposed model would see a greater uptake of the incentives and, for the largest of businesses, bring forward consideration of substantial investment. The impact to the budget through amending the alternative income tests would have a significant multiplier effect throughout the economy. Larger projects such as the upgrading of manufacturing plants and facilities will support product innovation, job creation, technical skills in STEM and product R&D in the sector and the manufacturing industry. Critically it well help fill the $4.5 billion private sector investment gap needed to double the size of the industry by 2030.

RECOMMENDATION 1: Amend the alternative test for the temporary full expensing measure and extend the timeframe for eligibility to the end of fiscal year 2024-25.

ISSUE 3: AUSTRALIA LACKS AN ONSHORING INCENTIVE SCHEME TO ENTICE ADVANCED MANUFACTURING CAPABILITY TO AUSTRALIA

Internationally, competitor economies are implementing aggressive capital onshoring incentives. In the US, congress is currently exploring a range of policies under the 'Made in America' Initiative. This includes an anchoring tax cut for corporations if they bring their supply chains from overseas to the U.S by lowering the tax rate for companies that onshore their supply chains to 10.5 per cent supplemented by a 20 per cent tax credit.

A 10 per cent advanceable tax credit for companies making investments that drive job creation and accelerate economic recovery should be further considered in Australia.

AUSTRALIA HAS A SIGNIFICANT ONSHORING OPPORTUNITY

Canada, New Zealand, and Ireland have also incorporated a mix of policy tools, initiatives, and programs to attract and retain an advanced manufacturing presence. For instance, Canada has implemented a foreign trade zone with duties and tax relief, infrastructure, and research support as well as government funded innovation hubs and research funding. The New Zealand government has incorporated an international growth fund – government funding for projects, direct exporter assistance and R&D tax credits. And in Ireland the government has implemented preferential income tax rates for target segments within the sector and implemented the SmartFood initiative to attract FDI including through tax incentives, infrastructure, and administration support. These and similar initiatives should be explored by government to create an investment attraction program to onshore advanced manufacturing capability to Australia.

Our understanding of manufacturing needs to evolve. The industry is a key driver of jobs growth, via the multiplier effect it has on services, particularly in regional areas. It is no longer, just about production and assembly as measured by the Productivity Commission and Australian Bureau of Statistics. Rather a much more comprehensive smiley curve of pre- and post-production services and activities that make advanced manufacturing, advanced. The industry has typically attracted significant R&D, innovation, and capital investment activity. Without a manufacturing presence in Australia we lose valuable IP, R&D, innovation capability, advanced capital equipment and the skills set that go with it. As such, targeted onshoring incentives do not require the entire supply chain to be brought back to Australia, but elements of it that have significant value-add to the economy such as R&D and innovation capability, and advanced production equipment. We need smart investment incentives to target these high value-add activities to Australian shores.

RECOMMENDATION 2: Consider a concessional tax incentive to firms looking to invest, create jobs and onshore advanced manufacturing capability to Australia and make it easier for these firms to invest by eliminating the barriers to re-enter the Australian market.

ISSUE 4: THE MMS DOES NOT GO FAR ENOUGH TO RECOGNISE THE SIGNIFICANT GROWTH POTENTIAL OF THE INDUSTRY

The Federal Government's commitment to growing a strong manufacturing sector in Australia through the Modern Manufacturing Strategy (MMS) is a step in the right direction, however the way in which it is currently structured does not go far enough to stimulate scale in investment in the food and grocery manufacturing industry.

THE SCALE AND PACE OF FUNDING THROUGH THE MODERN MANUFACTURING STRATEGY HAS BEEN A DISAPPOINTMENT TO THE SECTOR

The sector is disappointed over the level of grant funding made to date through the MMI, particularly after food and beverage was named as one of six national manufacturing priority areas. The pace and scale of fund distribution has been slower and at much lower levels than anticipated. The latest data tells us that the sector's capital investment expenditure is under $3 billion per annum and that it needs to grow to about $7.5 billion per annum to keep the sector resilient and competitive. To date government has granted only $33 million through one element of the Modern Manufacturing Strategy which will only support a tiny fraction of what is needed.

Another disappointment with the program is that most of the funding - $800 million – is allocated across six sectors through the Collaboration Stream, which is aimed at business to business or business to research projects to build industry scale. The diversity and intense competitiveness in the food and grocery manufacturing sector makes large industry collaborations to build industry scale very difficult. By contrast, the Translation and Integration Streams were more useful at incentivising investment in individual companies, however the level of funding in these programs is inadequate to have an impact.

To address this, the AFGC recommends that additional funding be allocated to the Translation and Integration Streams of the MMS. In the past, large food and grocery manufacturers have responded well to co-investment grant programs such as the Clean Technology Investment Program, which resulted in a significant leverage rate over and above Government contributions.

RECOMMENDATION 3: Increase the level of co-investment grants within the Translation and Integration Streams in the MMS that supports the sector to invest in modern manufacturing and digital technologies to improve the sector's ability to enhance competitiveness in domestic and export markets, added resilience, sustainability, and agility.

BACKING THE TRANSITION OF FRONT-TO-END DIGITALISATION OF THE INDUSTRY'S SUPPLY CHAIN

ISSUE 5: AGEING INFRASTRUCTURE AND OPERATIONAL METHODS RISK THE SECTORS FUTURE

During the initial phases of the COVID-19 pandemic, global supply chains were confronted with significant disruptions and containment measures. In the early phases of the pandemic where shortages occurred, these were mostly caused by unprecedented demand, rather than collapsing supply.

However, subsequent variants of COVID-19 led to an unprecedented supply-side shock on the food and grocery sector supply chain, leading to shortages in the production and movement of essential everyday items.

The supply of inputs into manufactured goods has also been impacted as associated industries in freight, logistics and aviation experience considerable impacts to their operations. Whilst these issues may be short-term, they expose the vulnerabilities of the supply chain in the medium-to-long term.

THERE IS A CRITICAL NEED FOR THE SECTOR TO UPGRADE TO SMART MANUFACTURING DIGITAL TECHNOLOGIES TO BETTER ANTICIPATE AND MANAGE FUTURE ECONOMIC SHOCKS

COVID-19 has led to significant demand and supply side shocks to the food and grocery manufacturing sector. Supply and demand side shocks are expected to continue to impact the food and grocery supply chain as economies, and industries adjust to the 'new normal'.

There is a critical need for the sector to upgrade its technology to incorporate smart manufacturing digital technologies to better anticipate and manage further shocks. The integration of digital systems and processes is not expected to replace or reduce the total number of jobs in sector. However, it will require a commensurate effort by government to recognise the sector's evolving workforce skills needs.

To build more resilience into manufacturing and supply networks, firms have recognised that the issues go far beyond the context of the COVID-19 pandemic to incorporate the rapid pace of digitalisation of the economy, threats of rising protectionism and policy uncertainty globally and increasing risks of weather disasters.

Better data proved to be a key enabler of supply chains for companies both domestically and internationally. The sector needs to invest in the digitalisation of the entire supply chain to meet consumer and business expectations in a more volatile and uncertain operating environment.

The front-to end digitalisation of the supply chain can significantly improve the way in which firms and the industry operate, by streamlining efficiencies, improving production output while reducing wastage without risking human health. Data and digital networks and improved integration and transparency amongst firms (B2B) and between firms and consumers (B2C) can set up the sector to avoid current and future food shortages and empty shelves at retailers.

Food and grocery manufacturers see it as a priority to better anticipate, prepare and adapt their operations to ensure business continuity and food and grocery security during subsequent global supply and demand disruptions. Greater transparency, including through early availability and access to real-time and reliable information and data, can help business forecast developments. Faster decisions can lead to reduced waste and operating costs. It can improve employee productivity and lower inventory costs. The integration of data and smart digital systems also eliminates human error, improved product recall and withdrawal processes, improves quality assurance and management.

THE INDUSTRY CURRENTLY LACKS A COHESIVE VIEW AND UNDERSTANDING OF THE DIGITAL LANDSCAPE

Food and grocery manufacturing firms recognise the need to upgrade their technology to smart manufacturing digital technologies, however there is a lot of technology that is bespoke to the sector. It is important to be able to map and audit technologies across the supply chain of the food and grocery sector as a pivotal first step to better understand and audit the industry's needs. The supply chain digital mapping exercise should result in a better understanding of data availability, transparency and integration needs as well as opportunities to better geo-locate, track, and monitor the physical movement of goods across the supply chain. The industry currently lacks a cohesive view and understanding of the digital landscape. The current fragmentation of digital systems and processes may lead to a missed opportunity for enhanced efficiencies in processes and system integration across the sector where significant economic benefits can be had to the sector and broader community.

There is a unique role for government to initiate an integrated, coordinated mapping of the digital ecosystem of the food and grocery supply chain. The purpose is to reveal policy and market gaps in a highly bespoke and fragmented industry. The mapping exercise should audit where there are and aren't technologies, services and standards used across the industry. For instance, ePIF, launched by the AFGC in July 2017, aims to assist companies to better source, manage and provide information to their customers about their products. The purpose of the ePIF is to facilitate information exchange between businesses along the supply chain and to improve the transparency of their operations to their customers. The digitisation of the data, however, means it can also be used for discreet purposes such as digital labelling. The Australian Government has recognised the ePIF and digital labelling as eligible activities for funding under the MMS, however, the current level of funding is inadequate for the significant investments needed for a sector-wide approach to labelling.

THE MAPPING EXERCISE CAN BE USED BY GOVERNMENT TO GUIDE WHERE FUNDING AND SUPPORT PROGRAMS NEED TO GO TO ASSIST THE DIGITAL TRANSFORMATION OF THE SECTOR

Many existing firms have mismatched legacy and analogue systems, lack the appropriate skills, capabilities, and processes, and are concerned about moving business to new platforms without broad-scale adoption. A mapping exercise funded by government and supported by industry partnerships can better plan, prepare and set up Australia for success in the highly volatile trading period ahead. And improve and maintain the resilience of Australia's food and grocery sector.

The need for a comprehensive mapping of the digital supply chain can also initiate entrepreneurial activity and drive firm-creation to meet the greater demand for business-to-business and business-to-consumer intelligence and data sharing systems and services.

Consumers and retailers in Australia and abroad are increasingly seeking more information and accountability; evidence of authenticity and traceability; engagement
and experiences from brands. This includes information and verification about the origin and impact of ingredient/input sourcing and methods of production. In addition, the regulatory requirements for labelling have increased, including health star ratings, country of origin labelling, and changes to ingredient, allergen, and recycling labelling. Beyond the consumer, the data needs within supply chains are also increasing – with retailers and suppliers seeking to improve the accuracy and management of inventory and reduce product waste.

RECOMMENDATION 4: Government to fund the AFGC to undertake a study to map the standards and processes required for digitalisation across the supply chain, and to better understand the gaps and barriers to industry adoption.

A SKILLS DEFICIT IS HOLDING BACK THE SECTOR

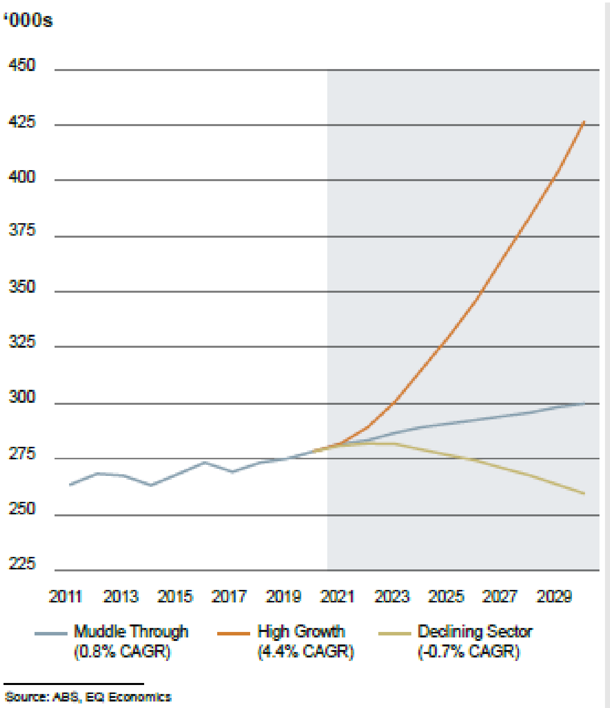
ISSUE 6: THERE IS AN EMERGING SKILLS GAP RISKING THE GROWTH POTENTIAL OF THE SECTOR

The AFGC's latest report, Sustaining Australia 2030, identified large employment opportunities associated with the high-growth scenario for the sector over the decade ahead. There is potential for hundreds of thousands of new jobs directly in the sector, with additional indirect employment opportunities. However, the type of roles are shifting from repetitious low-skilled work to highly skilled jobs requiring capability in managing advanced technologies.

In addition to traditional skills, there is a need for more advanced skills. The modernisation of the sector to incorporate robotics, 3D printing, AI and predictive analytics requires the need for higher skills to install and operate automated production and digital systems. Upskilling of the workforce is required across the sector, from small to large multi-national businesses, to ensure the future competitiveness of the sector. The first step in addressing this issue is to support funding for a skills audit. The sector requires a mapping of current capabilities and skills required for it to grow over the medium to long-term. This will help industry, government, and tertiary education to better understand the skills required to support its growth over the medium to long term.

This should complement existing initiatives such as the Industry Clusters program. The Industry Clusters program is limited in scope in providing industry with a stronger, more strategic voice and broader role in ensuring Australia's VET system continues to deliver on employer and learner needs. Our sector requires an uplift of skills that go beyond what the VET system can deliver, and this should be recognised via a designated skills audit for the sector.

POTENTIAL EMPLOYMENT GROWTH IN FOOD AND GROCERY MANUFACTURING



The success of Australian food and grocery sector depends on a highly skilled, flexible, and resilient workforce. An industry-led education and training system is vital to aligning needs with outcomes. Rapid changes in innovation and technology make this critical to ensure training courses are focused on current and future skills to produce job-ready graduates. On the job-training is critical to the sector. Manufacturers may need to have programs run in-house or on-site, as it can utilise the technology/machinery and equipment on the factory floor and the worksite that might be bespoke and that might make that training more relevant to the individual business.

RECOMMENDATION 5: Initiate a comprehensive skills audit and map priority technical and advanced skills required to support the future needs of the food and grocery manufacturing sector.

RECOMMENDATION 6: Develop a grant program that enables industry connections via integrated learning and immersion programs and on the job training to attract and upgrade the flow of skilled workers into the sector.

SUSTAINABILITY IS AN INCREASINGLY CRITICAL CHALLENGE

ISSUE 7: COLLABORATION AND INCENTIVES ARE REQUIRED TO ACCELERATE THE MARKET TO A CIRCULAR ECONOMY

Australia's food and grocery manufacturing businesses are committed to playing their part in developing a circular economy and achieving the 2025 National Packaging Targets, including increasing the recyclability, recycling rate and recycled content of product packaging. Meeting these targets will require research, development and safety/quality testing of new packaging formats, and changes to packaging equipment such as moulds and in many cases complete packaging lines, which come at a significant cost.

While significant Government funds have been provided to support an increase in recycling rates, much of this has been aimed at the waste industry, with little consideration for the significant cost barriers to food and grocery manufacturers improving the recyclability and recycled content of packaging.

The AFGC proposes the Government implement a co-investment grants program that supports and fast tracks food and grocery manufacturers' research, development and testing of new sustainable packaging formats, and changes to packaging equipment that facilitate a circular economy.

To create a truly circular economy in packaging, the industry requires collaboration and incentives to accelerate the market for advanced recycling. The collection, sorting and processing of soft plastics requires significant investment in emerging technology and infrastructure. Australia has the potential to be a world leader in advanced recycling due to having all other essential value chain sectors operating on shore. Specifically, the AFGC recommends the Government provide grant funding to assist establishing advanced recycling plants on shore to meet food and grocery manufacturers' demand for food grade soft plastic packaging containing post-consumer recycled content.

By capitalising on the existing onshore plastic supply chain capability, Australia is in a unique position to reverse the current practice of exporting waste plastics and importing value added packaging by creating a new local remanufacturing sector with extremely high export market potential.

POLICY RECOMMENDATION 7: Provide a co-investment grants program for brand owners to invest in packaging design R&D and packaging plant and equipment to fast track creating a circular, and thriving, manufacturing economy.

POLICY RECOMMENDATION 8: Provide grant funding to assist establishing advanced recycling plants on shore to meet food and grocery manufacturers' demand for food grade soft plastic packaging containing post-consumer recycled content

ISSUE 8: BACK BUSINESSES ACTING TO REDUCE FOOD WASTE, PROMOTE SUSTAINABILITY AND FEED THE MOST VULNERABLE IN OUR COMMUNITY

Many AFGC members donate to Foodbank, Australia's largest hunger relief organisation, which distributes food and grocery items to thousands of charity organisations and schools. Last year, Foodbank sourced more than 48.8 million kilograms of food and groceries. It supplies 74 per cent of all food received by charities from food rescue organisations.

The AFGC supports Foodbank's call for tax incentives in the form of credits or deductions to encourage food manufacturers, retailers, and farmers to make the necessary changes that will make it easier for them to donate additional food to the organisation rather than dump it. Foodbank is also seeking new tax mechanisms to incentivise donations of essential operational services across the entire supply chain, for example transportation and storage.

Sustainability is a key focus for the AFGC and reducing food waste is an essential part of the sustainability effort. It is estimated Australian's waste more than 5.3 million tonnes of food a year, coming at a cost of about $20 billion. This is occurring against a backdrop where many Australians – about 21 per cent – do not have adequate access to food. However, for food and grocery manufacturers giving can be costly.

Australia's current tax framework does not motivate manufacturers and producers to donate surplus products – in fact, it is no better than if they were to dump it. The AFGC considers that if tax settings were recalibrated to incentivise donations to food relief, it would increase the donations from manufacturers, retailers, and farmers.

While the AFGC understands the extensive considerations that must be considered in formulating tax policy, we consider the changes proposed by Foodbank to be minimal in scale but with the potential of big positive outcomes for Australians in need.

RECOMMENDATION 9: Implement tax incentives in the form of credits or deductions to encourage a greater number of food manufacturers, retailers, and farmers to make the necessary changes to donate additional food and groceries to organisations such as Foodbank.

AUSTRALIAN FOOD & GROCERY COUNCIL