

Submission to FSANZ regarding:

**A Feasibility Study into Extending Country of Origin Labelling to
Selected Packaged Fruit or Vegetable Whole Food Produce**

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NSW Farmers' Association Background

The NSW Farmer's Association (the Association) is Australia's largest State farmer organisation representing the interests of its farmer members – ranging from broad acre, meat, wool and grain producers, to more specialised producers in the horticulture, dairy, egg, pork, oyster and goat industries.

Executive Summary

NSW Farmers' Association concurs with the overall aims outlined in the recent discussion paper developed by Food Standards Australia New Zealand (FSANZ). These were in brief, to make Country of Origin Labeling (CoOL) clear, unambiguous and consistent with World Trade Organization (WTO) and Trade Practices Act (TPA) guidelines.

The proposed mandatory Country of Origin labeling of unpackaged produce is welcomed and will be a positive step forward in providing consumers with clear information at the point of sale for these products.

However, the Association feels that the proposed changes for packaged foods will not achieve the objective of providing appropriate information to consumers to allow them to make an informed decision regarding the Country of Origin of the product based on a packaged good label. Our previous submission, which was presented to FSANZ in September this year, outlined our position on Country of Origin labeling of 'characterising ingredients' as a possible way to identify the critical ingredients in a packaged food product. The Association also put forward a proposal for FSANZ consideration which outlined a number of ways in which qualified claims could be addressed. Our position has not altered despite assessment of the latest proposal.

The current feasibility study into CoOL for selected packaged fruit or vegetable whole food produce is a positive step towards addressing some of the Association's concerns, particularly in relation to processed fruit and vegetables and juice products. Many of these products are currently labeled using the qualified claim 'made in Australia from local and imported ingredients' etc. and are not required to identify the CoO of the imported components. This is an area which has been identified by both growers and consumers as one which is impacting negatively on the sustainability and security of the Australian food supply.

The Association believes that whilst data to validate the case in favour of applying CoOL to these fruit and vegetable products is difficult to obtain, the costs associated with the proposed changes are minor in comparison to the benefits to Australian consumers, producers, and the many significant regional communities which are dependant on primary production.

The Association is also not convinced that the transitional code is being properly enforced even in its current form, and that consumers are therefore suffering from a lack of consistent application of Country of Origin labeling requirements. As was stated in our previous submission, the need for proper enforcement and auditing of CoOL at manufacturing level, as well as retail, is critical to the success of these new proposals.

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
1. OVERVIEW	4
1.1 <i>IMPORTANCE OF THE AUSTRALIAN FRUIT AND VEGETABLE INDUSTRY</i>	4
1.2 <i>IMPORTANCE OF THE AUSTRALIAN PROCESSED FRUIT AND VEGETABLE INDUSTRY</i>	4
1.3 <i>VALUE OF IMPORTS.....</i>	5
2. FSANZ ISSUES FOR CONSIDERATION.....	5
2.1 <i>WHAT ARE THE POSSIBLE BENEFITS OF FURTHER EXTENDING COOL REQUIREMENTS TO EACH OF TWO (OR LESS) PRINCIPAL WHOLE FRUIT OR VEGETABLE PRODUCE PACKAGED TOGETHER?.....</i>	5
2.2 <i>WHAT ARE THE POSSIBLE DISADVANTAGES OF FURTHER EXTENDING COOL REQUIREMENTS TO EACH OF TWO (OR LESS) PRINCIPAL WHOLE FOOD COMPONENTS?.....</i>	8
2.3 <i>WHAT ARE THE PRACTICAL REQUIREMENTS AND IMPLICATIONS OF IMPLEMENTING SUCH A CHANGE?</i>	10
CONCLUSION.....	10

1. Overview

1.1 **Importance of the Australian Fruit and Vegetable Industry**

The horticulture sector is Australia's second largest agricultural sector, contributing an average of \$6.9 billion to GDP each year, \$0.8 billion of which is exported. The sector is diverse comprising over 140 commodities including fruit, nuts, vegetables, nursery, extractive crops, cut flowers, turf, and table and dried grapes.

Australian horticulture has been a growth sector of Australian economy for the past 10 years. GVP has grown at 6.6% and production at 1.2% per annum. Horticulture also employs over 108,000 people, accounting for 25% of agricultural employment in Australia. Two thirds of horticulture's value is generated in regional Australia where 71,600 of the sector's 108,000 workers are employed¹.

1.2 **Importance of the Australian Processed Fruit and Vegetable Industry**

The processing fruit and vegetable sectors contribute significantly to the Australian economy as seen in the following figures in Table 1:

Table 1 - Retail sales of processed fruit & vegetables²

Category of packaged good	Retail value in total Australian sales (\$Mill.)
Fruit juice/drinks (517 m l)	784
Pickled vegetables	85
Dried fruit	154
Canned fruit	257
Frozen potato/vegetables	442
Packaged vegetables	276
Total for potential CoOL required items	\$1,998,000

Other sources put the fruit juice-based drinks category listed above at approximately one billion litres a year with a retail price of about \$1.5 billion. (Source: Australian Fruit Juice Association).

The above figures can be compared to the total value of food retailing which is worth \$80 billion annually and accounts for 40 per cent of retail trade in Australia. This is broken down in Table 2.

Table 2 - Food retailing turnover 2004- 05³

Category	Annual Turnover (\$b)	Per cent of Total
Supermarkets & grocery stores	57.28	71.3
Takeaway food	8.89	11.0
Other food retailing	14.20	17.7
Total food	80.37	100

¹ Submission to Agriculture and Food Policy Reference Group by Horticulture Australia Limited, 2005

² 2003 - 12 month MAT figure - Retail World's Australian Grocery Guide 2004

³ ABS, *Retail Trade Cat. No. 8501.0*, 2 August 2005

While the major food retailers have continued to expand their products and services into new areas, such as banking facilities, magazines, petrol retailing and pharmacies, the proportion of the average household's spending on food has declined. In 1980–81, 13.9 per cent of total household final consumption expenditure was spent on food, but by 2003–04 its share had fallen to 10.3 per cent.⁴

1.3 Value of imports

The overwhelming share of fresh food and grocery shelf merchandise sold in supermarkets is Australian grown or Australian made. Moreover, fresh food accounts for 20–25 per cent of total supermarket sales and the volume of imported fresh food sold in supermarkets is low, less than 5 per cent of fresh food sales for the largest food retailer.

Australian imports of food in 2003–04 were valued at \$5.88 billion, a 27% increase from the \$4.62 billion valued in 1999–00. Processed seafood and processed fruit and vegetables are the two largest categories of food imports (16 per cent and 15 per cent respectively).⁵ The impact of 'processed' imports has been far greater than that of 'fresh' though the vegetable sector has been particularly impacted with a 40% increase in imports, from \$245M to \$313M over the last 4 years⁶.

2. FSANZ Issues for consideration

2.1 What are the possible benefits of further extending CoOL requirements to each of two (or less) principal whole fruit or vegetable produce packaged together?

The Ministerial Policy Guidelines state that any standard that is developed should ensure that:

- Consumers have access to accurate information regarding the contents and production of food products.
- Consumers are not misled or deceived regarding food products.
- Country of origin labelling of food is mandatory for the purpose of enabling consumers to make informed choices;

The benefits, in line with the Policy Guidelines above, associated with the proposed changes can be classified under the following key areas:

1. Consumers must have CoO in order to make judgements about their selection of foodstuffs based on a number of factors such as:

a) Desire to support domestic regional producers, processors and the communities that depend on those industries.

This particular point is of paramount importance to the farming community given the recent impacts of imported product on their livelihood, and the economic upstream impacts on regional community's dependant on these industries.

⁴ *Ibis World Industry Report – Supermarkets and other grocery stores in Australia – 2005, p.26*

⁵ *Australian Food Statistics 2004, Table 6.1.*

⁶ *AUSVEG – ABS Vegetable Imports Stats 2001-2005.*

A case in point is the Australian apple industry.

- In 1996, **920,000** litres of apple juice concentrate was imported from China. (This equates to approximately 7.3 million litres of single strength apple juice).
- In the first eight months of the current financial year, **21 million** litres of apple juice concentrate was imported into Australia. (This equates to 168 million litres of single strength apple juice). This is equivalent to 15-30% (depending on data sources) of the total juice market in Australia.

The Chinese are able to land this product in Australia at a fraction of the price Australian growers can accept for their product, primarily due to the fact that Chinese producers do not have to meet the same environmental, food safety, worker occupational health and safety and human rights standards that are implicit to Australian production.

The North American apple industry was able to address the dumping of Chinese apple juice on their shores by introducing a 54% tariff. However, Australian growers have been unable to mount a similar case due to the fact that the Australian Government requires *processors* to pursue the case, and they are the major importers of this very product.

The vast majority of juice product labels, particularly apple and orange juice, use the qualified claim of 'made in Australia from local and imported ingredients subject to seasonal availability'. This demonstrates that although local producers supply processors significantly less every year, the claim that fruit is not 'seasonally available' continues to be used when, clearly, imported product is being substituted for domestic product, *and the Australian consumer is oblivious to this fact.*

In light of this case, and many similar scenarios which occur both within and outside of the juice industry, it would seem obvious that there is little or no incentive for major importers of certain products to adhere to the letter or even the spirit of the Trade Practices Act guidelines on qualified claims. Not only are the guidelines vague and confusing for the consumer, they are open to abuse and distortion due to pressures on sections of the supply chain to be 'globally competitive' and to 'deliver profits to their shareholders'.

b) Religious beliefs (self-explanatory).

c) Direct customer value – realisable willingness to pay for information (as expressed in price).

While the net benefits of mandatory Cool have proven difficult to quantify, several studies have looked at consumers' willingness-to-pay for CoOL. The table following is a summary of these studies and the premium consumers will pay for US products.⁷ One conclusion which can be drawn from the studies is that US consumers will pay a range of premiums if they perceive that a product's origin is integral to its quality. The figures quoted in Table 3 demonstrate the influence and importance of the background issues at the time of the survey, especially the recent European and Japanese BSE outbreaks and occurrences of *E-coli* 0157:H7 in U.S. beef⁸.

⁷ See Umberger, W.J., Feuz, D.M., Calkins, C.R. and Sitz, B.M., 'Country-of-Origin Labeling of Beef Products: U.S. Consumers' Perceptions', *Journal of Food Distribution Research* 34(3): 77–82, November 2003.

⁸ *Ibid.* Umberger et al. p1.

Table 3 - Realisable consumer premium for CoOL⁹

Food	Location	Premium	Summary
Steak Hamburger	Colorado	38% (\$1.53/lb)	Consumers were willing to pay \$184 per year for CoOL and a premium for US Certified Steak and US Certified Hamburger. (Loureiro and Umberger)
		58% (\$0.70/lb)	
Steak Hamburger	Chicago/ Denver	11% (\$0.42/lb)	Consumers cited food safety concerns, CoOL information and a desire to support producers as reasons for buying US beef. (Umberger et al)
		24% (\$0.36/lb)	

d) External value – societal willingness to pay for improved trust and reputation of the food system and claims made about it – stemming from the “right to know”.

i) The country of origin effect and its relevance to consumers -

The country of origin effect is a phenomenon whereby consumers attach a stereotypical perception to products originating from a particular country, which in turn can influence their purchasing behaviour. Consumers can be influenced by a combination of national economic, cultural, quality or patriotic forces that may alter their attitude towards a particular product, depending on its origin. Procurement policy can also influence the selection of a product, based on its origin.

Consumers also attach attributes of safety to a product based on its country of origin, and will use country of origin information to evade products from particular countries based on perceptions of health, quality and safety.

ii) Buying behaviour -

The extent to which the country of origin effect translates into buying behaviour depends on the product itself. For example, consumers will seek out and purchase Australian fresh and processed food products more often than they will other types of products (such as electrical items). These findings are consistent with the results of industry and consumer research conducted nationally by Sweeney Research on behalf of the Commonwealth Department of Industry, Science and Resources (1999). That study found that almost 70 per cent of consumers look for information about a product's origin when making purchasing decisions.

- Consumers look for country of origin labels to help them determine the quality of an item and to support local industry and employment.
- When consumers specifically ask for country of origin information at the point of sale, 78 per cent of those who receive an answer go on to purchase the product whereas only 45 per cent of those who do not receive the requested information go on to purchase the good.

Australian Made Campaign research (2000) found that product packaging is by far the most significant source of country of origin information. Of the total respondent population 71.7 per cent said they used product packaging to identify the origin of products, 7.2 per cent said they used advertising and 5.9 per cent said they used in-store

⁹ *Ibid* p.27

displays.¹⁰ *This last finding strongly underlines the importance to consumers of strengthened CoOL on packaged fruit and vegetable products.*

e) Health and safety concerns which may be related to Country specific issues – the agricultural practices of some countries are not necessarily at the same standard of Australian producers in relation to food safety compliance.

Other cost benefit studies on the issue of CoOL do not link health and safety to the application of CoOL to various food products. The rationale for this is that other areas of the Food Standards Code are designed to specifically deal with this area and the Ministerial Policy Guidelines exclude health and safety concerns from the terms of reference of the policy guideline. However, the issue of traceability in relation to CoO is of strong significance and value in the eyes of the Australian consumer. The Australian Consumer's Association (ACA) in its own submission to FSANZ has clearly stated its support for CoOL on the basis of traceability in the event of a food poisoning outbreak.¹¹

A recent survey of imported produce conducted by AQIS confirmed that fresh vegetables from certain countries can be contaminated by *e.coli* and that the current testing procedures of AQIS were not adequate to pick up these potentially life threatening pathogens. Since this discovery some low level random testing has been introduced but consumers, as demonstrated by the ACA submission, are still strongly in favour of being able to identify the CoO of the exporting country for traceability reasons.

f) Environmental concerns

These concerns emanate from the practices of some countries which result in environmental degradation in return for least cost outcomes and market access (negative environmental subsidisation).

g) Human rights concerns

These concerns are derived from consumers having moral objections to certain countries human rights practices and as a result they may abstain from purchasing products on that basis. This also relates to worker conditions and rates of pay in other countries.

2.2 What are the possible disadvantages of further extending CoOL requirements to each of two (or less) principal whole food components?

The primary arguments against the extension of CoOL to this new category are related to the added costs of labelling. These costs would be borne primarily by the manufacturing sector and to a lesser degree by retailers who import directly for their Private Label offerings. The exact magnitude of these costs can not be properly assessed from a Farming Organisation perspective; however the recent NZIER¹² cost benefit analysis on CoOL gives some area of consideration as follows:

- Compliance costs for food processors and retailers with responsibility for meeting labelling requirements. These are primarily:
 - Additional costs of changing label design to comply: a once only issue primarily for packaged food suppliers;

¹⁰ Australian Made submission to Productivity Commission 2003.

¹¹ ACA Submission to FSANZ P292 Draft Proposal on CoOL.

¹² NZIER Cost Benefit Analysis for FSANZ August 2005

- Enhanced quality assurance on labelling systems to avoid inadvertent non-compliance, with attendant costs of non-compliant product withdrawal and risk of prosecution: low additional cost;
- Relabelling to comply: a recurring cost for retailers and importers who need to over-label packaged produce in foreign languages;
- Allocative costs from changes in established supply patterns: producers may move to “second choice” ingredient suppliers to avoid costs of CoOL, but this is most likely to affect importers of packaged foods;
- Consumer costs: suppliers will pass additional costs on to consumers in the form of higher prices as much as they can, and there may be reduction in choices if suppliers remove foods from the market because CoOL reduces their profitability (e.g. imported foods, small specialty food lines).

Given the fact that there is no precedent to this specific extension of CoOL to 2 or less principal whole fruit or vegetable produce packed together, establishing exact cost implications in terms of the various supply chain participants is very difficult. The Association recommends an independent assessment be carried out of all industry participants' cost estimates so as to ensure a fair and equitable result for all stakeholders is arrived at by FSANZ and the Ministerial Council.

As stated on the [FSANZ website](#), the opposition of powerful lobby groups such as the Australian Food and Grocery Council is not always based on sound evidence:

“In past months the Australian Food and Grocery Council (AFGC), has voiced strong opposition to mandatory nutrition information panels and percentage labelling, claiming that current voluntary provisions are adequate, that the mandatory imposition of labelling will be costly, and that the information provided on the labels would be meaningless to most consumers.

Our consultation process tells us otherwise. While we agree that there are a large number of products with voluntary nutrition information on labels we have found that those products with high levels of fat or salt, or other nutrients that consumers don't want, rarely carry nutrition labels. For consumers to make an informed decision about buying healthy products they need information on all food labels, including the less healthy products.

As we have seen from recent media debate, there is strong consumer support for more information on labels. A survey by Newspoll commissioned by Sanitarium has indicated that 91% of Australians want to see sugar content in nutrition labels, 92% fat content and 85% fibre content. Also Kellogg and Sanitarium, both of whom are members of the AFGC, have put out advertisements in the national press supporting detailed nutrition labelling.

In fact, here we have two members of the AFGC calling for stronger labelling than even ANZFA has proposed.

The AFGC has also claimed in a report from KPMG, which incidentally the AFGC has still not provided in full to ANZFA, that these proposed labelling changes will cost the food industry at least \$400 million. ANZFA has not found evidence of this during the six years we have taken to develop the new Code. During this period we have carried out over seventy regulatory impact statements for individual projects, as well as one overarching one for the whole Code, to ensure that the proposed changes do not impose unnecessary costs on industry.¹³

The above quote needs to be kept in mind with reference to the changes being considered here on similar grounds.

¹³ Canberra Times 14/11/00 Page 9 'Food labels now with added information'

2.3 What are the practical requirements and implications of implementing such a change?

The practical operational requirements of the change are again best left with the retail and manufacturing sector to assess. The regulatory and administrative requirement is of strong interest to the farming sector however. The NSW Food Authority in its submission on CoOL regarding enforcement of the Code states the following:

“The Authority remains concerned that liability for the non-inclusion of CoOL on packaged foods at retail remains with the retailer, and that no action is available against the manufacturer or importer for non-declaration of CoOL. As FSANZ would be aware, NSW made a formal application to address this situation in March 2003 with the support of the Australian Consumers Association and the Australian Retailers Association, with a request for early consideration. The impracticality of addressing CoOL omissions through individual retailers rather than at source highlights the need for this issue to be addressed without further delay.”

This position is shared by the Association and we strongly recommend that enforcement needs to be able to be carried out at manufacturing level so as to ensure that the new requirement of applying CoOL to the 2 (or less) whole food components can be audited properly, and that the existing standard can be properly enforced.

Conclusion

The proposed changes to CoOL on fruit and vegetable products present an opportunity for Australian consumers to gain the information they require to properly support a sustainable Australian horticulture industry and to further enhance their ability to choose the highest quality and safest produce available.

The changes will incur new costs to the supply chain but these costs must be rigorously and independently verified to ensure that the needs of the Australian consumer are not subjugated in favour of particular interest groups in the supply chain.

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