

Bonlac Foods Limited

Submission to

Productivity Commission

in its Inquiry into

Review of Australia's
General Tariff
Arrangements

EXECUTIVE SUMMARY

For the reasons set out in this submission, including those sections submitted “*Commercial in Confidence*”, it is Bonlac Foods Limited’s position that:

- ◆ To encourage the development of internationally competitive industries in Australia; and
- ◆ To promote the provision of competitively priced goods to Australian businesses and consumers;

the Commission in its report to Government should recommend:

- The removal of the 3% impost on business inputs that was with effect from mid 1996, applied to import of advanced process technology, plant and equipment, unobtainable from Australian manufacture;
- The retention of the Project By-law & Policy By-law Schemes;
- That as will deliver substantial cost reductions to both Government and industry, The Department of Industry Science & Resources AusIndustry component [**AusIndustry**] administration of the above schemes be brought into line with “*World’s Best Practice*”, and demonstrate a greater responsiveness to the targeted objectives of Government policy as well as the needs of Australian industry; and
- The retention of the Tariff Concession Order System.

BONLAC FOODS LIMITED

AN ASSET TO THE NATION

Bonlac Foods Limited, an Australian company, wholly owned by its 3,000 farmer shareholders, is one of the nation's largest primary resource producers and manufacturers within the broader processed foods industry sector, as well as being one of Australia's largest exporters of value added dairy products.

- In the 1998-99 financial year, Bonlac Foods Limited lifted its operating revenue to \$1,175 M.
- Through re-investment of returns from milk production to acquire advanced process technologies, so as to produce high value-added products for export, Bonlac Foods Limited in the 1998-1999 financial year, lifted its exports to 52.39% of total sales.
- Through value-adding to its sustainable resource, the Australian dairy industry, overall in the 1998-99 financial year, contributed by way of export incomes in excess of \$2 billion to the nation's economy.
- With its manufacturing facilities, being decentralised into several locations throughout the state, Bonlac Foods Limited and indeed the Australian dairy industry as a whole, provide significant employment opportunities in otherwise depressed rural areas, where unemployment remains a significant problem for Government.

BONLAC FOODS LIMITED
AN ASSET TO THE NATION

Demonstrating Bonlac Foods Limited's objective of increasing returns to its farmer shareholders through value-adding to the products it derives from their milk production, is the work being undertaken by their Bioscience Division in the manufacture and sale of a revolutionary bio-active ingredient, *Recaldent*TM, that promotes strong teeth by re-mineralising teeth de-mineralised by the acids produced by plaque bacteria.

Developed in close co-operation between the University of Melbourne and the Victorian Dairy Industry Authority, *Recaldent*TM is the first product to come from Bonlac Foods Limited's recently formed Bioscience Division and exemplifies the productive relationship that can be achieved between science and industry, as well as the benefits that can flow to the Australian economy when the nation's manufacturing industries are encouraged to embrace new or advanced process technologies.

KEY ISSUES

To obtain for Australia a greater share of the growing world market for processed foods and to provide greater returns to its farmer shareholders through the development and export sale of high value-added products, it is necessary for Bonlac Foods Limited to acquire the latest process technology, capital, plant and equipment.

Where that process equipment is unavailable from Australian manufacturers, and has therefore to be acquired from overseas, by lowering the tariffs applicable to that equipment, the Tariff Concession Order Scheme therefore reduces the cost to Bonlac Foods Limited to acquire the latest process technologies.

The Tariff Concession Order Scheme therefore assists Australian manufacturers to reduce their costs to *make and sell* their products, and accordingly, it contributes in part, to achieving the Government's objectives of promoting sustainable, prosperous and internationally competitive industries in Australia, whilst promoting also, the provision of high quality, competitively priced goods to Australian consumers.

- **It is therefore Bonlac Foods Limited's view that the Tariff Order Concession Scheme should be retained.**

KEY ISSUES

In mid 1996, all manufacturing inputs unavailable locally, were subject to the application of a 3% impost. Whilst this increased Australian industry's manufacturing costs, no similar impost was applied to the general tariff level and to the imported products against which the nation's manufacturers must compete.

Accordingly, since its introduction, this 3% impost on business inputs, has acted to reduce the nation's manufacturing industries' ability to provide competitively priced goods to Australian consumers, and by increasing the cost *to make and sell* goods into export markets, has therefore acted to reduce the international competitiveness of Australian industries.

- **It is therefore Bonlac Foods Limited's view that the 3% impost that is applied to business inputs, and the process equipment that it requires to produce the goods that it exports, be removed.**

KEY ISSUES

In the building of new manufacturing facilities, where the investment that is being made in new or advanced process technologies, capital, plant and equipment, is in excess of \$10M, the Project By-law Scheme and in certain instances, the Policy By-law Scheme provide relief from the import tariffs normally applicable where it can be demonstrated that the capital, plant and equipment, [nor any equivalent thereof], cannot be sourced from local manufacture.

Equipment coming within the scope of the Project & Policy By-law Schemes do not carry the 3% impost that applies to all other business inputs unavailable from Australian manufacture and through features such as the involvement of the ISO in a projects equipment sourcing and supply side procedures, the Project By-law Scheme acts to maximise the utilisation of process equipment inputs that are available from local manufacture.

The Project and Policy By-law Schemes maximise import replacement by applying a practicable and merits-based assessment to the items of capital equipment under consideration.

- **It is therefore Bonlac Foods Limited's view that the Project and Policy By-law Schemes should be retained.**

KEY ISSUES

Government's costs to administer the Project & Policy By-law Schemes are not high when compared to the benefit that those schemes deliver through increasing the international competitiveness of Australian industries.

Nonetheless, Government's current costs to administer those schemes could be **substantially reduced** and fiscal responsibility requirements fully achieved, through bringing the administrative arrangements currently employed by **AusIndustry** and inherited from the Australian Customs Service, into line with "*World's Best Practice*".

Likewise, by recognising "*World's Best Practice*", and demonstrating a greater responsiveness to Government's targeted objectives, as well as the needs of Australian industry, the efficiencies within **AusIndustry's** delivery of these programs could be substantially improved, and consequently industry's costs similarly reduced.

The measure of industry assistance that is delivered by the Project By-laws Scheme should properly reflect a co-operative partnership between Government, the project proponent and local industry, delivering positive outcomes for all concerned.

Current administrative arrangements, do not however, achieve this!

- **It is therefore Bonlac Foods Limited's view that having regard to the intent of Government policy, that AusIndustry undertake an immediate review of its administrative procedures with a the objective of reducing both industry's and Government's costs as well as bringing its procedures into line with "*World's Best Practice*".**