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*RESPONSE TO CONSULTATION REGULATION IMPACT STATEMENT CONSUMER AFFAIRS
AUSTRALIA AND NEW ZEALAND – 4TH DECEMBER 2015 – Country of Origin Labelling*

Submission Paper

Scalzo Food Industries – Response to the Country of Origin Consultation Paper (December 2015)

Contact Details:

Name: Donna Shearsby

Position: National Quality Manager

Address: 156-174 Kensington Road West Melbourne, Vic 3003

Telephone: (03) 9245 7000

Fax: (03) 9245 7050

Email: donna.shearsby@scalzofoods.com.au

Submission Authorised by: Donna Shearsby – National Quality Manager

Consultation Paper - Country of Origin Labelling

Prepared by:

Tammy Truong (Technical Services Manager);
Donna Shearsby (National Quality Manager)

Introduction:

Scalzo Food Industries is an Australian family owned company. Our head office is situated in Melbourne, where we also have our largest manufacturing site and flagship distribution centre, both of which have processes governed by our HACCP and BRC accreditation. Manufacturing facilities are also located at Bayles, south-east of Melbourne and in Auckland. Further sales offices and warehouses are in Sydney, Brisbane, Perth and Auckland, allowing us close proximity to all major food companies throughout Australia and New Zealand. Our ingredients are sourced both locally and from around the globe. Included in our ingredient portfolio are nuts, vegetables, fruit, seeds, grains, snacks, starches and dehydrated meats. Our own retail brands, Freshlife and Nutters are manufactured and packed in these facilities.

Scalzo Food Industries has approximately 610 SKU's ranging in size from 1kg packs to 14 grams, our packaging formats also vary from pillow packs, block bottoms, pouches, to small snack packs and tubs.

Overview:

On review of the consultation paper we believe that the proposal has not clearly addressed the issue of country of origin labelling. Consumers want more information that is clear and easy to read and specific to the percentage of Australian ingredients. The proposal as laid out in this paper is not clear, it is confusing to the industry and this being said would no doubt add more confusion to the everyday consumer.

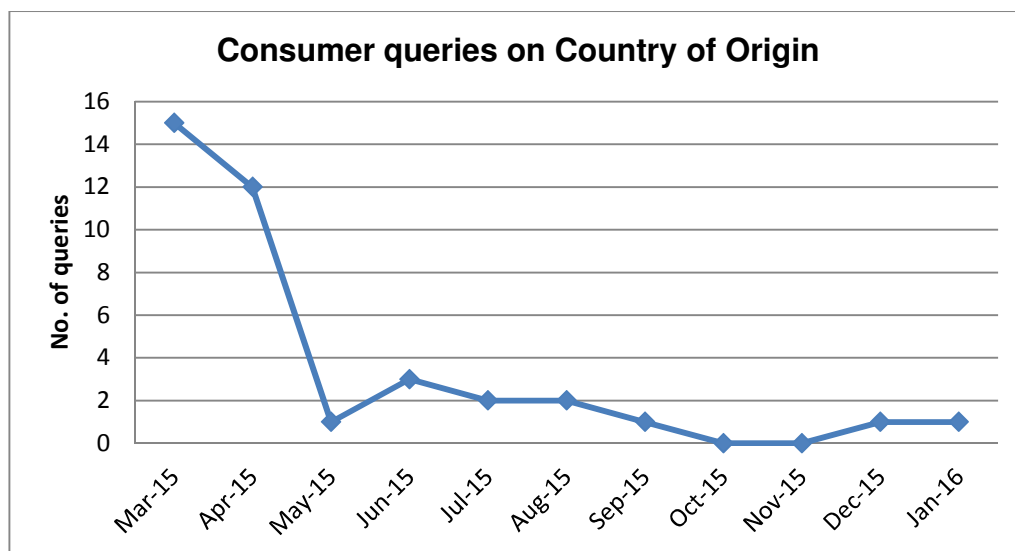
Additional information on the back or front of pack will cause significant issues to the food industry from significant costs due to artwork changes through to finding enough room to add the kangaroo logo and bar chart potentially compromising food safety information about the product.

Further to the above the proposed changes will add significant costs to Australian manufacturers associated with label changes, seasonal variations and the inability to pass these costs onto the retailers and consumers. As per the research conducted by Colmar Brunton (2015) 83% of consumers were not likely to pay for the increase in product cost as a result of the recommended changes. The research also highlighted that price was a prominent decision factor for the consumer.

Our recommendations and comments are as follows:

1. Conduct further research into what consumers actually want to see on the label. The paper states that the consumer research was conducted in June 2015, only a few months after the Patties berry recall, this was front of mind for most consumers. The question is what is important to them now?

2. Please see graph below showing consumer concerns over country of origin labelling from March 2015 to January 2016. The graph clearly shows that consumers concerns dropped post the berry recall in 2015.



3. Present further options to the consumers including adding the percentage of Australian ingredients in the country of origin statement, bold the percentage so that it is clearer (e.g. Made in Australia from **Australian ingredients (70%)** and Imported ingredients).
4. Educate in the role that imported foods have to play in our supply chain, reassuring consumers that these products are safe and are necessary to ensure ongoing supply of a variety of products.
5. Educate consumers on the current Country of Origin Labelling Framework.
6. The use of a logo and bar chart is not practical it will take up a significant amount of room that most food manufacturers don't have on their labels due to the amount already required by law.
7. **Based on our current number of SKU's the proposed change will cost well in excess of approximately \$2.5 million this does not include any administration and maintenance costs, staff training, IT costs, additional inventory planning or packaging changeovers.**

All costs associated with this change will be carried by Scalzo Foods, we know based on the current market that the retailers will not increase the price of the products supplied to consumers. These additional costs are exhaustive and for

most Australian businesses unachievable. There is no doubt that these costs will continue to push food manufacturers off shore.

8. On review of the draft information standard of food – Item 2 it details that products sold into food service is included in the scope, however on review of CRIS it states that food service sector is exempt from the scope of this proposal. This requires further clarification.
9. Finally we firmly believe that New Zealand should be included in the scope of this proposal.

Based on the proposal outlined; Scalzo Food Industries **does not** support the changes to Country of Origin Labelling. Additional studies and additional consultation with the food industry is required to ensure that the aim of providing clear country or origin labelling is beneficial to the consumer and achievable by the food industry.

Please see below responses to the questions outlined in the Consultation Regulation Impact Statement Consumer Affairs Australia New Zealand paper Attachment A – Consolidated questions.

Food covered by the framework

1 (a, b and c). The list of non priority foods is not clear and has not been well thought out. It is confusing to the food industry as to why some foods have been classed as non priority and others haven't. There is no clear definition as to what is a non priority food and some food categories are classed as both priority and non priority. Clear definitions need to be established.

Alternatively do not segregate the two; if country of origin labelling is important to consumers then it should be required for all products. In the consultation paper it states that bakery product manufacturer's make up 45% and beverage manufacturer's 19%, the products produced from these manufacturers would fall under non priority foods – exempt from the proposed labelling.

There are significant gaps in this area and it will be difficult to mandate due to the lack of clarity around what is classed as a non priority food and priority food.

Easy to read labels

2 (a, b). As stated in the overview section of this submission paper, the addition of a logo and bar chart would mean that there would be limited space for important information relating to food safety. Scalzo Food Industries produces small packages (63mm in diameter) and at present it is difficult to meet the requirements on the pack due to limited room. We would recommend that rather than using the kangaroo logo and bar chart, consideration should be given to stating the percentage of Australian ingredients in the country of origin statement; allowing enough room for consumers to read critical information about the product (allergens, nutritional panels, additional warnings, and barcodes).

Proportion of Australian Ingredients

3. It is estimated that at present it takes 2 days per fortnight to manage and to verify that the country of origin statements are correct. This is a current requirement that is governed by our quality and food safety standards and such claims need to be verified annually.

4 (a, b, c, d). Averages should be based on the previous 36 months. Significant costs would be associated with this review of which none of these costs are included in the proposal or could be passed onto the retailer.

5 (a, b, c). Yes we agree with the estimated costs for the initial label change, however this estimated cost does not take into account administration costs, packaging change over costs, changes to plates (\$3200) and additional artwork updates (\$1230). As previously stated the impact of these costs to our business is in excess of \$2.5m of which Scalzo Food Industries will have to carry.

6 (a, b). The proposed labelling changes will not affect our record keeping time as stated in question 3 this is already a requirement that is governed by our quality and food safety standards and such claims need to be verified annually.

7. The costs outlined will have a significant impact on all business sizes from the small privately owned manufacturer's to the Multi Nationals. Not only is there a cost relating to artwork changes, administration costs etc., there is also a significant cost associated with training businesses on the new changes - how to implement the change and clarity on the definitions. Of which we assume the Government will cover the costs and the training content.

Please note that it should not be assumed that larger manufacturers will have a better handle on this change. It is a change for the industry and as a result it is important that the entire industry be trained on this change.

As stated above, all costs associated with this change will be carried by the manufacturers as we know based on the current market that the retailers will not increase the price of the products supplied to consumers. These additional costs are exhaustive and for most Australian businesses unachievable. There is no doubt that these costs will continue to push food manufacturers off shore.

Specific country in which key ingredients were grown

8, 9,10,11,12. The costs would be the same as changing to the proposed country of origin labelling.

It is rare that we would be required to update artwork as a result of a change to country of origin. The space required to add the details of the country of origin for all ingredients would not allow for critical food safety information particularly on our smaller labels, which are approximately 63mm in diameter. The number of ingredients also varies from a single ingredient to approximately 20 ingredients. Calling out the percentage of Australian ingredients in the country of origin statement is a more practical solution without the use of a logo or bar chart. We are strongly opposed to listing the details of the origin of all ingredients and key ingredients (no definition provided) as a result we do not believe that this is a viable option that the government should consider.

As a consumer we would not want to see this information as labels are already cluttered and are difficult to read; additional non critical information will only further confuse a consumer.

How can businesses be more confident in using the safe harbor defences?

13,14,15,16 – No comment

How should labelling of imported food be treated?

17, 18, 19. The proposed label change requirements will not be met by international manufacturers or suppliers. The products will be required to be over stickered of which these will be done manually resulting in excessive labour hours. In some instances depending on the size of the shipment it could take weeks to manually resticker the information making this a non viable option. In order to ensure that all costs were captured the following would need to be considered:

- Labour to re sticker
- Labour to move the pallets
- Pallet storage due to the length of time it would take to re sticker.
- Any potential transport as a result of using 3rd party storage.

This will be an ongoing cost and the administration will be more onerous than a once off change. We would recommend that the estimate be recalculated based on the additional costs identified above.

Further to this we do not recommend that country of origin labelling should be controlled and managed by the Imported Food Inspection Scheme. This scheme is specifically in place to ensure that imported food is safe and meets the requirements of the Food Standards Code. Any issues with country or origin labelling of imported foods should be handled in the same manner as domestic supply into our retail market.

20. This question is unclear.

What is the role for digital information?

21 (a, b). We currently do not use digital solutions and whilst this would be a positive way to share information with consumers there will be considerable cost to businesses to set up and maintain this information.

By providing digital information we are also at risk of disclosing confidential information (eg formulations) to consumers and to competitors.

22 (a, b, c). No comment.

Education and awareness raising.

23. Scalzo Food Industries firmly believes that it is the Government's responsibility to target an education campaign on the current country of origin labelling framework. As stated in the overview section of this submission paper are the consumers concerns still current or was it largely topical as a result of the Patties berry recall? Further consultation with consumers is required as it is likely that additional training on the current framework may be all that is required to satisfy consumers concerns.

Further to this the costs associated with training consumers on the current country of origin labelling framework would be approximately **\$3m** and ongoing costs of \$100,000/year as opposed to **\$37.4m (greater flexibility)** or **\$51.6m (lower flexibility system)**. Making the former the preferred option.

The proposed response.

24 (a, b). We believe that there are other ways to express the proportion of Australian ingredients that are simple, clear and not confusing for consumers nor are overly burdensome for business. By stating the proportion of Australian ingredients in the country of origin statement we believe that it meets the consumer brief e.g. Processed in Australia form **Australian ingredients (70%)** and Imported ingredients. This would result in cost savings associated with administration, plate changes, colours etc.

25 (a, b, c). We do not support the use of a bar chart. However if this were to be enforced the quartile "at least 25 percent" option would be the preferred option. **However managing seasonality will mean potential increased costs to businesses as label updates may need to be completed more often.**

26 (a, b). The products that we supply are seasonal and this is taken into consideration when we develop the labels to ensure that we always meet what is stated.

27. No comment. We do not export retail product.

28. We do not support the use of bar charts for domestic production or for imported foods. The issue remains that it is costly for businesses and the label space is limited.

Safe Harbour

29, 30, 31. No comment

Digital solutions

32. Yes the government should be helping to prepare consumers and business for more innovative technological solutions to country of origin labelling.

33, 34. Whilst moving to a digital solution is a positive way to share information with consumers, there will be a cost to business in the set up and on going maintenance. We do not believe that there will be sufficient take up of a digital solution despite the positive aspects; once again this comes down to the set up costs and the ongoing costs to ensure that the information remains relevant and up to date.

Education campaign

35. If there was a change to the country of origin labelling framework then yes an education campaign is crucial for consumers and for the food industry. However we believe that there is more benefit in providing an education campaign for the current country of origin labelling framework, we believe that providing more clarity around the existing framework may work to ease the consumers concerns around country of origin labelling.

Implementation

36, 37, 38. Implementing a flat transition (24 months) would be more achievable than a phased transition, if the phased transition were in place it would be impossible for a business of our size to be compliant. However 410 SKU's in 24 months may still be difficult to implement with current resources. Costs would increase significantly if we were forced to bring in additional resources to meet the implementation date.

A flat transition is the preferred option, ideally 24 months plus the stock in trade.

39 (a, b). Labels are ordered in advance.

40 (a, b). No. Please define "unusual factors".

41. No comment

42. As an importer we believe that the flat transition would be the best approach over 36 months.

43. We would be compliant with the requirements, how we would go about this is yet to be determined. It depends on the final outcome of the draft documents.

Compliance

44, 45, 46. Most businesses are audited to a standard where label reviews are required to be conducted and checked against the specifications and products purchased. Any additional auditing above this would prove to be very costly and unnecessary as it would be a double up. Food manufacturers that are not currently being audited to a GFSI standard should be audited to ensure compliance.

Final Summary

Scalzo Food Industries does not support the proposed Country of Origin Labelling Framework. Should this proposal go forward it will cost the food industry billions of dollars of which can not be supported by the Australian Food Manufacturers. There are more beneficial ways of achieving the desired outcome stated previously in our submission paper.

It is our recommendation that the Government review the work conducted by Colmar Brunton where it stated that 2 out of the 5 (40%) consumer groups were purely motivated by convenience and budget and where country of origin was a low priority for these groups.

At present there are no restrictions to provide the percentage of Australian ingredients on the label, we believe that this should be mandated to provide the key information that consumers are after. The use of a logo and bar chart will only add confusion, costs and limited space on the labels.