

Discussion Paper

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

**DEADLINE FOR PUBLIC SUBMISSIONS: 6pm (Canberra time)
Wednesday 8 March 2006**

**SUBMISSIONS RECEIVED AFTER THIS DEADLINE
WILL NOT BE CONSIDERED**

(See 'Invitation for Public Submissions' for details)

INVITATION FOR PUBLIC SUBMISSIONS ON THE FEASIBILITY STUDY

Submissions must be made in writing and should clearly be marked with the word 'Submission', quoting 'Country or Origin Feasibility Study'. Submissions may be sent to the Standards Management Officer at one of the following addresses:

Food Standards Australia New Zealand PO Box 7186 Canberra BC ACT 2610 AUSTRALIA Tel +61 2 6271 2222 www.foodstandards.gov.au	Food Standards Australia New Zealand PO Box 10559 The Terrace WELLINGTON 6036 NEW ZEALAND Tel +64 4 473 9942 www.foodstandards.govt.nz
---	--

Submissions need to be received by FSANZ by 6pm Wednesday 8 March 2006.

Submissions received after this date will not be considered, unless agreement for an extension has been given prior to this closing date. Agreement to an extension of time will only be given if extraordinary circumstances warrant an extension to the submission period. Any agreed extension will be notified on the FSANZ Website and will apply to all submitters.

While FSANZ accepts submissions in hard copy to our offices, it is more convenient and quicker to receive submissions electronically through the FSANZ website using the Standards Development tab and then through Documents for Public Comment.

Questions relating to making submissions can be directed to the Standards Management Officer at the above address or by emailing slo@foodstandards.gov.au.

Important Note

This feasibility study into extending country of origin labelling is being undertaken by FSANZ at the request of the Australian Government.

FSANZ has received a Direction from the Australian Government to examine the feasibility and cost/benefits of extending country or origin labelling to each of the two (or less) principal whole fruit or vegetable produce packaged together, including where other incidental ingredients are part of such a product. In addition it was requested that fruit and vegetable juices and soya milks be within the scope of the report.

This Discussion Paper provides you with an opportunity to inform this study and to contribute your views and ideas. We will carefully consider any submissions you may care to make prior to finalising this work. The Food Regulation Ministerial Council will then consider our final Report on the feasibility of extending country of origin labelling.

TABLE OF CONTENTS

GLOSSARY OF TERMS AND ACRONYMS	5
PART 1: BACKGROUND AND PURPOSE OF THIS DISCUSSION PAPER....	6
PART 2: SCOPE – MATTER UNDER CONSIDERATION	8
PART 3: PROBLEM AND OBJECTIVE	13
PART 4: CONTEXT.....	16
PART 5: CIE IMPACT ANALYSIS.....	23
PART 6: CONSUMER RECOGNITION AND USE OF CoOL	33
PART 7: SUBMITTERS’ VIEWS.....	39
PART 8: SUMMARY OF ISSUES ON WHICH FSANZ SEEKS YOUR ADVICE.....	47
ATTACHMENT A: REFERENCES IN RELATION TO CONSUMER PERCEPTIONS OF COOL	48
ATTACHMENT B: FURTHER INFORMATION REGARDING CONSUMER SURVEYS.....	49

GLOSSARY OF TERMS AND ACRONYMS

CIE	Centre for International Economics
Code	<i>Australia New Zealand Food Standards Code</i>
Codex	Codex Alimentarius Commission
CoOL	Country of Origin Labelling
EU	European Union
FDFC	Fair Dinkum Food Campaign
FSANZ	Food Standards Australia New Zealand
Ministerial Council	Australia and New Zealand Food Regulation Ministerial Council
OSB	Office of Small Business
SKU	Stock Keeping Unit
TPA	<i>Trade Practices Act 1974</i>

PART 1: BACKGROUND AND PURPOSE OF THIS DISCUSSION PAPER

Food Standards Australia New Zealand (FSANZ) has received a Direction from the Australian Government to examine the feasibility and cost/benefits of extending country of origin labelling (CoOL) to each of the two (or less) principal whole fruit or vegetable produce packaged together, including where other incidental ingredients are part of such a product. In addition it was requested that fruit and vegetable juices and soya milks be within the scope of the report

The FSANZ Report on this matter will include the regulatory impact, a cost benefit analysis, an estimation of compliance costs to industry and the outcome of consultation with stakeholders in regards to further extending mandatory CoOL of packaged fruit and vegetables, fruit and vegetable juices and soya milks. Consistent with the request of the Australian Government, FSANZ intends to finalise its report by the end of March 2006.

In order to inform its advice to the Ministerial Council, FSANZ:

- has commissioned a comprehensive benefit cost analysis by the Centre for International Economics (CIE). Industry compliance costs have been estimated including through use of an econometric model and the 'Costing Tool' recently developed by the Australian Government (Office of Small Business); and
- will be undertaking ongoing consultation to identify potential impacts of extending CoOL as requested by the Australian Government.

As part of the consultation process that will inform FSANZ's Report, FSANZ has prepared this Discussion Paper. The purpose of this Discussion Paper is to seek comments on the major 'inputs' into FSANZ's feasibility study. For example, input is sought on:

- the proposed problem being addressed and objectives sought to be achieved (refer Part 3 of this Discussion Paper);
- the results of the benefit cost analysis that has been undertaken by CIE (the results are summarised in Part 5 of this Discussion Paper and the full CIE analysis is available from the FSANZ website);
- the summary of research on consumer and stakeholder attitudes towards CoOL (refer Part 6 of this Discussion Paper); and

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- issues raised in response to the FSANZ Notification and call for submissions in December 2005 (refer Part 7 of this Discussion Paper).

Please note that submissions must be received by FSANZ by 6pm Wednesday 8 March 2006. Submitters are also advised that this is not a Standards Development process but rather a feasibility study being undertaken by FSANZ at the request of the Australian Government.

PART 2: SCOPE – MATTER UNDER CONSIDERATION

Proposed extension of CoOL

On 8 December 2005, FSANZ gazetted a new Country of Origin Food Labelling Standard for Australia. The Standard will come into full force for unpackaged fruit, vegetables, nuts and seafood products on 8 June 2006, for unpackaged fresh and preserved pork products (such as bacon and ham) on 8 December 2006 and for packaged goods on 8 December 2007.

The matter currently under consideration is an extension of this new country of origin Standard.

Consistent with the request of the Australian Government, FSANZ is examining the following extension of CoOL:

- If a packaged food contains two or less fruits and/or vegetables (and no other major ingredient), then the individual fruits and/or vegetables must be labelled with the actual country of origin.

This would include:

- some foods that contain two or less fruits and/or vegetables;
- whole, shelled, peeled, chopped or diced fruits and/or vegetables, with or without any incidental ingredients¹. Incidental ingredients include preserving agents, ingredients used in small quantities for flavouring, salt, sugar, colourings and thickeners;
- preserved, dehydrated or frozen fruits or vegetables;
- packaged fresh fruits and vegetables;
- some fruit juices and soya milks (as requested by Ministers);
- where the fruit and/or vegetable is mixed with added water; and
- nuts, seeds, herbs and spices (as part of the definition of fruit and vegetable) unless they are used as an incidental ingredient in which case they would not require labelling.

¹Whether an ingredient is incidental is determined by its function in the food, rather than the ingredient *per se*.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

This would not include:

- most foods (including juices) that contain more than two fruit and/or vegetables;
- deconstructed fruits and or vegetables (for example, pureed, ground or minced fruits or vegetables or vegetable oils) other than juice and soya milk; foods that contain other major ingredients (for example, fruits and/or vegetables mixed with meat, dairy foods, fish, cereals, eggs);
- foods that contain other major ingredients (e.g. fruits and/or vegetables mixed with meat, dairy foods, fish, cereals, eggs);
- non-alcoholic beverages (other than juice); or
- alcoholic beverages.

In terms of the labelling requirements, it is proposed that this option would require that:

- the actual country of origin must be labelled (that is, where the fruit or vegetable has actually been grown); and
- where there is one fruit or vegetable that has been sourced from a number of different countries then each of these countries need to be separately identified.

Based on the direction given on the types of food that would be included in the scope of the project, it is difficult to draw clear demarcations between those foods that are within and outside the study scope. However, following are some examples of foods that FSANZ considers are within and outside the scope of the study.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

Table 1: Examples of products that are and are not included in the scope of the feasibility study (not exhaustive)

<i>Key label</i>	<i>Key components</i>	<i>In/Out</i>
Tomato products		
Peeled tomatoes	Tomatoes, tomato juice	In
Chopped tomatoes	Chopped tomatoes, tomato juice	In
Diced tomatoes	Tomatoes, tomato juice	In
Crushed tomatoes	Tomatoes (deconstructed)	Out
Tomato supreme	Tomatoes (diced, reconstituted, paste) (deconstructed)	Out
Tomato puree	Reconstituted tomato (deconstructed)	Out
Tomato paste	Tomatoes (deconstructed)	Out
Pasta sauce	Tomato juice, diced tomatoes	In
Tomato juice	Reconstituted tomato juice (deconstructed but juice)	In
Tomato juice, pepper, Worcestershire	One juice, incidental component	In
Condensed soup	Concentrated tomatoes (deconstructed)	Out
Cup a soup	Tomato (when reconstituted) (deconstructed)	Out
Tomato sauce (condiment)	Tomato paste (deconstructed)	Out
Sun dried tomatoes in oil	Sun dried tomatoes	In
Taco sauce	Tomato paste, crushed tomato	Out
Other products		
Apple and pear juice	Apple juice, pear juice	In
Canned apricot and peach	Apricots, peaches	In
Canned chickpeas	Chickpeas	In
Canned corn in brine	Fresh corn	In
Canned tomatoes with basil	Tomatoes, basil	In
Dried apricots	Apricots	In
Dried oregano	Oregano	In
Frozen peas and corn	Peas, corn	In
Orange juice and concentrate, including frozen	Orange juice, orange concentrate	In
Orange and mango juice	No more than two juices	In
Apple and strawberry juice	No more than two juices	In
Health Juice, orange, pineapple, wheat grass, Echinacea	No more than two juices and incidental components	In
Super Juice Immune	More than two (apple, pineapple and guava)	Out
Packaged fresh mixed lettuce	Lettuce (<i>Latuca sativa</i>), rocket (<i>Eruca sativa</i> , <i>Diplotaxis</i> spp)	In
Soya milk	Soy beans	In
Creamed corn	Deconstructed corn	Out
Flavoured mineral water	Deconstructed ingredients (also excluded)	Out
Frozen mix of four vegetables	More than two major vegetable ingredients	Out
Fruit flavoured ice-cream	Dairy	Out
Fruit sticks roll-ups	Deconstructed fruit, dairy	Out
Fruit yoghurts	Dairy	Out
Juice with more than two fruits and/or vegetables	More than two major vegetables components	Out
V8 juice	More than two ingredients	Out
Meat and vegetable curry	Meat	Out
Pureed bottled baby food	Deconstructed fruit, vegetables	Out
Vegetable pies	Cereals	Out

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

The requirements would have the following practical impacts:

- in the case of products that qualify as ‘product of country X’ there will be no change relative to that already gazetted because there is no ambiguity about its country of origin;
- for products that meet the ‘safe harbour’ TPA standard for ‘made in’ which previously required no declaration of the imported component, the country of origin for the principal components would need to be declared under the proposed extension only if there were two or fewer principal components;
- for products that would not meet the ‘safe harbour’ *Trade Practices Act 1974* (TPA) standard for ‘made in’ without a qualifier declaring ‘from local and imported ingredients’ (or similar), under the gazetted standard:
 - the country (or countries) of origin for each of the principal components would need to be declared under the proposed extension if there were two or fewer fruit and /or vegetable components; and
 - ‘from local and imported ingredients’ (or similar) would need to continue to be declared under the proposed extension if there were more than two principal components.

Other approaches

In response to the notification that FSANZ circulated in November 2005, a number of alternative approaches were canvassed by submitters.

Two of these alternative approaches (those submitted by AusVeg and by the Fair Dinkum Food Campaign) have been considered as part of this feasibility study.

The Fair Dinkum Food Campaign suggested that if there are 2 or fewer principal components then the actual country of origin should be provided for the major source by weight of each fruit/vegetable component. In addition it was suggested that:

- In relation to products labelled ‘Made in Australia from local ingredients’, the word ‘local’ should be replaced with ‘Australian’;
- In relation to products labelled ‘local and imported’, with one whole food from multiple sources, where the majority source is consistently Australia then the word ‘local’ should be replaced with ‘Australia’;
- In relation to products labelled ‘imported and local’, with one whole food from multiple sources, where the majority source is consistently country X, the word ‘imported’ should be replaced with ‘country X’; and

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- recurrent changes required for products where the major source of a whole food component changes frequently.

AusVeg suggested that the top three ingredients by volume should be on the label and that the exact country of origin of those ingredients should be stated as well as the percentage of ingredients in the total mix.

PART 3: PROBLEM AND OBJECTIVE

A. What is the potential problem being addressed?

As part of its feasibility study (and consistent with good regulatory practice), FSANZ will be examining whether there is an underlying problem that requires addressing and whether the matter under examination is an appropriate and feasible means by which to address any problem that may exist.

In principle, some consumers will value more detailed information than is currently required under the *Australia New Zealand Food Standards Code* (the Code) around country of origin labelling of packaged food products, for the defined range of packaged foods that is the subject of this feasibility study.

For this defined range of foods, some consumers will appreciate knowing not only that a food contains imported components (that is a requirement of the Code), but also the specific countries where these components have been grown (this extra information is not required under the Code).

Where food manufacturers do not voluntarily provide this information on their product labels, on the defined range of products, an information asymmetry may exist between manufacturers and consumers because the manufacturers may know the source of the food components but consumers could not deduce this information from the observable characteristics of the food.

The extent of the problem is related to:

- the proportion of consumers that value the more detailed information;
- how valuable this information is to these consumers (indicated, for example, by the extent that they are willing to pay for it);
- the proportion of these consumers' food budgets expended on the defined range of food products; and
- the extent to which manufacturers provide this information on their labels, on the defined range of products.

These issues are being examined by FSANZ as part of this feasibility study and are discussed in more detail in the subsequent parts of this Discussion Paper.

In terms of feedback on the problem to be addressed, a very wide range of views has been expressed by submitters who responded to the FSANZ Notification that was issued in December 2005.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

Some submitters suggested that some consumers may not be able to exercise their true purchasing preferences because they are unable to identify the exact source of imported products. One submitter suggested that inadequate information 'is resulting in market failure and distorted signals from consumers to producers'.

Other submitters suggested that there is no failure or other problem that justifies extending the requirements for mandatory CoOL. Submitters suggested that:

- there has been no identified regulatory failure in the marketplace indicating that consumers are being misled or deceived as to the true nature of the country of origin of the foods; and
- there is no demonstrated demand by consumers and the broader community for additional CoOL information; and
- the real problem to be addressed is the confusion created regarding use of the terms 'Made in Australia' and 'Product of Australia'. It has been suggested that this problem can only be comprehensively addressed through review of the relevant provisions of the *Trade Practices Act 1974* and assessment of their utility in the context of food labelling.

Your advice is sought

Do you consider that there is an underlying problem that requires addressing?

If so, what is the evidence of the problem?

B. What are the objectives?

While protection of public health and safety is the primary objective of FSANZ this is not an objective of extending mandatory CoOL.

The principle objective of FSANZ (in relation to this particular matter) is the provision of adequate information relating to food to enable consumers to make informed choices.

A wide range of views were expressed by people who responded to the FSANZ Notification regarding the objectives sought to be achieved through the extension of mandatory CoOL.

Some suggested that the objectives to be achieved are:

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- to provide accurate information to consumers about the country of origin of the main components in packaged fruit and vegetable based foods;
- to provide information that enables consumers to maximise the utility they receive from their purchase of product by aligning those purchases with their true preference;
- to assist consumers to select Australian origin products; and
- to enable consumers to make decisions with as much information as possible.

Others have suggested that many of the objectives detailed above are already being achieved through existing mandatory CoOL and that the extension of mandatory CoOL in the manner suggested does not achieve the objective of providing adequate information to enable consumers to make informed choices. Some have suggested that the proposed extension of mandatory CoOL may in fact lead to increased consumer confusion.

Your advice is sought

What do you consider are the outcomes or goals of extending mandatory CoOL to two or less fruit and/or vegetable components?

PART 4: CONTEXT

Before examining the likely costs and benefits of extending CoOL in the manner proposed, it is useful to examine some of the underlying information and context including:

- the current CoOL requirements (under both the Code) and under the *Trade Practices Act 1974*);
- the number of products that are likely to be affected;
- the nature of the industry likely to be affected;
- the international context; and
- government requirements for good regulatory practice.

In submissions made to FSANZ, a number of submitters noted that further clarification on these issues was required in order for them to make informed comment about the likely impacts (both costs and benefits) of the extension of CoOL.

A. Current requirements

Code requirements - Standard 1.2.11

All foods produced or imported for sale in Australia and New Zealand are required by law to comply with the Code.

In most circumstances foods for retail sale or for catering purposes are required to bear a label setting out all the information prescribed in the Code. Chapter 1 of the Code specifies the general labelling requirements for foods.

Standard 1.2.11 (Australia only) sets out the requirements for country of origin labelling of packaged and certain fresh and processed unpackaged fish, fruit and vegetables, and pork. It applies to food sold to catering establishments in catering packs, but not to food sold to the public by restaurants, canteens, schools, caterers or self-catering institutions where the food is offered for immediate consumption.

The Standard requires businesses to:

- label packaged foods with a statement on the package that clearly identifies where the food was made or produced, or

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- include a statement on the package that identifies the country where the food was made, manufactured or packaged for retail sale and to the effect that the food is constituted from imported ingredients or from local and imported ingredients;
- label unpackaged fresh and preserved fish with the country or countries of origin of the fish, or
- include a statement indicating that the fish is a mix of local and/or imported foods as the case may be;
- label unpackaged fresh pork with the country or countries of origin of the pork, or
- include a statement indicating that the pork is a mix of local and/or imported foods as the case may be;
- label unpackaged preserved pork that has not been mixed with food not regulated by country of origin labelling of unpackaged foods with the country or countries of origin of the pork, or
- include a statement indicating that the pork is a mix of local and/or imported foods as the case may be;
- label unpackaged fresh vegetables or fruits with the country or countries of origin of the vegetables or fruits, or
- include a statement indicating that the vegetables or fruits are a mix of local and/or imported foods as the case may be;
- label unpackaged preserved vegetables or fruits that have not been mixed with food not regulated by country of origin labelling of unpackaged foods with the country or countries of origin of the vegetables and fruits, or
- include a statement indicating that the vegetables or fruits are a mix of local and/or imported foods as the case may be; and
- in connection with the display of unpackaged fish, pork, and fruit and vegetables provide a label that is legible and in size of type of at least 9 mm.

Statements must be consistent with trade practices law e.g. 'product of country X...'; and 'made in country X...' or qualified claims such as 'made in country X from local and imported ingredients...' where foods may contain ingredients from more than one country.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

Trade Practices Act requirements

Any requirement in the Code to list the country of origin of fruit/vegetable components must not be misleading or deceptive under the TPA.

In particular, the TPA prohibits false or misleading representations concerning the place of origin of goods. Country of origin statements are a sub-set of place of origin. Suppliers, therefore, are advised to exercise caution in their country of origin declarations, and ensure that the representations that are made are not compromised by conflicting information. A claim may be technically compliant with the Code but still offend the TPA.

In Australia, sections 65AA-AN of the TPA govern statements as to the country of origin of goods. There are requirements for the use of 'product of' representations and other statements as to country of origin, such as 'made in' or 'manufactured in' or other like statements.

If it is not possible for a 'Made in' claim to be made, manufacturers may make a qualified claim. This may be necessary due to uncertainty around the question of substantial transformation (and whether 50% of the costs of production have been incurred in the country referenced in the claim) or to adjust to seasonal changes in availability of individual ingredients,

Common examples of a qualified claim are 'Made in Australia from imported ingredients' or 'Packaged in Australia from local and imported ingredients'.

According to the ACCC, a qualified claim should reflect the percentage of ingredients, i.e. if a greater proportion of the ingredients were imported the claim should state 'Made in Australia from imported and local ingredients. If a greater proportion of ingredients were local, then the claim should state 'Made in Australia from local and imported ingredients'.

Further, the ACCC states that country of origin statements that do not qualify for a 'Made in' or 'Product of' claim (safe harbour defence) are assessed on their merits. This means that manufacturers run the risk of potential legal action by the ACCC or any private person.

Any proposed requirement of the Code to list the country of origin of a component of a product must not be misleading or deceptive under the Act. For suppliers to avoid offending the Act, they would be required to disclose more information on the country of origin of individual components to ensure that the labels are not misleading or deceptive to consumers.

In practice, this means that when suppliers take into account the requirements of the Act, in many cases they will need to provide more specific country of origin information, and frequent label changes might be necessary to do so.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

Further information on country of origin claims may be found in 'Food and Beverage Industry – country of origin guidelines to the Trade Practices Act' available on the ACCC website.

Other laws

Any proposed CoOL must also be consistent with other applicable laws such as the State and Territory Fair Trading Acts and Food Acts. These Acts contain provisions governing misleading and deceptive conduct in the supply of food in trade and commerce and representations about food that are misleading or deceptive.

B. Number of products likely to be affected

It is estimated by CIE that:

- approximately 37% of canned and frozen fruit and vegetable SKUs would require label changes and that 63% of Stock Keeping Units (SKUs) would already be compliant; and
- approximately 47% of fruit juices would be affected by the proposal.

C. Nature of the affected industries

- Among horticultural products targeted by the proposed extension, fruit juices will be the most affected category. Fruit juices represent nearly a third of the value of all processed horticultural output.
- Fruit juice values are around 5 to 6 times larger than the next largest categories which include canned fruit, jams, tomato-based products and frozen vegetables with each category representing only 5 per cent of the market.
- Approximately 16% of the food ingredients used by Australian fruit and vegetable processors are imported directly. Most, 84%, is sourced from domestic horticultural growers.
- Processed fruit and vegetable products are also imported directly. These amount to approximately 16% of the total Australian market for processed fruit and vegetables. The main countries of origin of imported finished goods are the European Union, New Zealand and the United States (with Asia as an emerging supplier). Many of these products would already meet the requirements of the approach under consideration.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- Of the directly imported fruit and vegetable ingredients, most come from New Zealand, Brazil and the United States (and increasingly Asia).
- As well as being the largest single product of the fruit and vegetable processing sector, fruit juice concentrates are one of the single biggest imported ingredients.
- 62% of processed fruit and vegetables are sold directly to consumers.

D. International context

A number of Australia's trading partners have CoOL requirements for foods, but there is considerable variation in the requirements of individual countries, making direct comparison difficult. However, none of the existing regimes requires extensive labelling of components or individual ingredients of foods.

- Codex requires that the country of origin should be declared if its omission would mislead or deceive the consumer. When a food undergoes processing in a second country, which changes its nature, the country in which the processing is performed is considered to be the country of origin for the purposes of labelling. The current CoOL standard of the Code substantially exceeds the CoOL requirements of Codex. Further, Codex does not require the CoOL of food ingredients, or of individual components of pre-packaged food;
- the CoOL requirements of the United Kingdom and the EU reflect, in general, the provisions of Codex, i.e. labelling of ingredients or components is not a requirement in most circumstances;
- in the USA, CoOL is only mandatory for imported foods. New legislation requires mandatory CoOL for beef, pork, fish, perishable agriculture commodities and peanut products produced in the USA. The mandatory CoOL requirements do not extend to ingredients in processed food. Any retail item that has undergone a physical or chemical change causing the character to be different from the unprocessed product is deemed to be a processed food item and therefore does not require labelling. The implementation of the requirements has been delayed until September 2008 (although mandatory CoOL on seafood took effect in April 2005); and
- the Canadian system of CoOL is broadly similar in structure to the EU/UK model, and labelling of individual ingredients or components is not required. CoOL is mandatory for some products on a commodity basis, i.e., a 'vertical' standard.

E. Good regulatory practice

In June 2004, the Council of Australian Governments issued revised Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies. The document sets out a number of Principles of Good Regulation. The principles include:

- Minimising the impact of regulation - The guidelines note that regulatory measures and instruments should be the minimum required to achieve the pre-determined and desirable outcomes.
- Minimising the impact on competition - Regulation should be designed to have minimal impact on competition and regulation should avoid imposing barriers to entry, exit or innovation. Regulation should not restrict competition unless it can be demonstrated that: the benefits to the community from a restriction on competition outweigh the costs; and that the objectives of regulation can only be achieved by restricting competition.
- Predictability of outcomes - Regulation should have clearly identifiable outcomes and ideally should include performance-based requirements that specify outcomes rather than inputs or other prescriptive requirements should be used.
- International standards and practices - Wherever possible, regulatory measures or standards should be compatible with relevant international or internationally accepted standards or practices in order to minimise the impediments to trade.
- Regulations should not restrict international trade - There should be no discrimination in the way regulatory measures, mandatory standards or conformity procedures are applied between domestic products or imported products, nor between imports from different supplying countries. Regulations should not be applied in a way that creates unnecessary obstacles to international trade.
- Regular review of regulation - Regulation should be reviewed periodically. Review should take place at intervals of no more than 10 years.
- Flexibility of standards and regulations - Specified outcomes of standards and regulatory measures should be capable of revision to enable them to be adjusted and updated as circumstances change. Amendments to regulatory measures and instruments should not result in undue uncertainty in business operations and in so doing, impose excessive costs on that sector.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- The exercise of bureaucratic discretion - Good regulation should attempt to standardise the exercise of bureaucratic discretion, so as to reduce discrepancies between government regulators, reduce uncertainty and lower compliance costs.

In developing the feasibility Report for the Ministerial Council, FSANZ will assess the extent to which the proposal meets the requirements of COAG in relation to good regulation. Advice will also be sought from the Office of Regulation Review (ORR).

PART 5: CIE IMPACT ANALYSIS

As part of this feasibility study FSANZ commissioned CIE to undertake a benefit cost analysis of the proposed extension to CoOL. The results of the benefit cost analysis, along with other information such as stakeholder's feedback to this Discussion Paper, will provide a basis for the final report on the feasibility of extending CoOL to be provided by FSANZ to the Ministerial Council.

The Australian Bureau of Agriculture and Resource Economics (ABARE) reviewed the report by CIE and concluded that, given the assumptions regarding consumer response to country of origin labelling, the methodology was sound.

A. Summary of CIE approach

CIE advised that the following approach was adopted.

To understand and quantify the costs and benefits of the proposed extension has required:

- industry-wide consultation to:
 - systematically collect reliable, verifiable cost data to empirically estimate effects on manufacturers' costs,
 - understand the scope of the change and the number and proportion of products likely to be affected;
- building a comprehensive financial model of how the proposed extension might affect manufacturers' costs of compliance, encompassing:
 - the cost components of Office of Small Business Costing Tool,
 - other cost components affected,
 - output and size effects on firms,
 - opportunity costs to firms;
- running the financial model to conduct sensitivity tests on the potential extent and scope of costs changes;
- analysing how changes in financial costs will impact the wider economy using CIE's specialised horticultural based model of the Australian economy to quantify effects on:
 - food manufacturers' output and income,
 - imports and exports of horticultural products,
 - horticulturalists' output and income,
 - consumer prices and income,
 - net benefits or costs to the Australian economy;

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- using the economy-wide estimates of the impact on costs to the economy to measure the threshold economic benefit required for the proposed extension to deliver a net benefit;
- identifying and assessing the scope and extent of private and public (spillover) benefits potentially arising from the proposed extension by reviewing:
 - available empirical indicators in the market place,
 - the economic rationale of arguments for and against possible spillover benefits,
 - available market research on consumer valuations of CoOL,
 - the scope to avoid the proposed extension by changing behaviour to avoid it;
- identifying and assessing the scope and extent of public (spillover) costs potentially arising from the proposed extension and assessing to what extent these might off-set any spillover benefits; and
- assessing the strength of evidence as to whether potential benefits could exceed the quantified threshold costs of the proposed extension.

The consultation phase involved meeting and consulting with several major food manufacturers and juicing companies, the major retailers, various food processing and retailing industry associations, producer representatives, horticultural industry associations, consumer associations, importers and affected government departments.

B. Summary of CIE conclusions

CIE concluded that the evidence presented in their study makes a strong case that the costs of the proposed extension to country of origin labelling (CoOL) would exceed the benefits from its implementation.

Following is the Executive Summary from their Report.

SUMMARY

The evidence presented in this study makes a strong case that the costs of the proposed extension to country of origin labelling (CoOL) would exceed the benefits from its implementation.

The study examines the feasibility of a proposed extension of the current food standard concerning CoOL (gazetted in December 2005) that was specified in a Ministerial Direction to Food Standards Australia and New Zealand (the Ministerial Direction).

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

The extension would require that all countries of origin be specified for each major component of packaged food products containing two (or fewer) fruits or vegetables.

The primary concern here is with the proposal as described above, but two other proposals are also analysed. These are the Fair Dinkum Food Campaign and AusVeg proposals. The benefits and costs of the Ministerial Direction fall in the middle of the two alternative proposals.

To estimate the benefits and costs of the proposed extension, we used a comprehensive quantitative approach involving:

- wide consultation with industry to collect real-world data:
 - manufacturing data on input usage;
 - cost data on affected inputs
 - market data on affected products;
- development and use of a detailed financial model of consulted firms;
- use of the Office of Small Business Costing Tool and CIE financial model;
- use of CIE's economy-wide model with horticultural industry detail;
- sensitivity analysis and conservative assumptions;
- market segmentation analysis and identification of maximum potential benefits to consumers by major market segments;
- identification of any spillover, public benefits and costs.

PRIVATE COSTS TO INDIVIDUALS ARE SIGNIFICANT

The costs to Australian food manufacturers to comply with the proposed extension would vary widely among products and firms. On average, cost increases are estimated to be significant at around 1.4 per cent. Worst affected would be small firms and small product lines with cost increases of up to 14 per cent.

An average 1.4 per cent cost impost on the processing sector would:

- raise the price of domestically produced processed horticultural products relative to imports and exports, imposing costs on Australian consumers (up to \$70 million a year);
- reduce processed horticultural output by up to 5.0 per cent (\$212 million a year) due to reduced global competitiveness domestically and on export markets; which would:
 - decrease processor demand and prices for fresh Australian horticultural products for processing;
 - decrease output of horticultural products for processing;

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- decrease incomes of horticultural producers, workers and processors (horticultural value added) by up to \$72 million a year due to reduced output;
- increase imports of finished processed horticultural products;
- decrease imports of horticultural ingredients for processing;
- decrease exports of processed products and raise exports of fresh horticulture with less value added.

Taking account of all income effects, national income would be reduced by at least \$80 million and up to \$160 million a year, or around \$120 million a year as a mid-point estimate.

PRIVATE BENEFITS TO INDIVIDUALS ARE MARGINAL

The potential private benefits arising from the proposed extension to CoOL will depend on how highly consumers value that extra and more specific information that will arise from it. For consumers to value the extra information more highly than the estimated \$120 million loss of national welfare, they would need to be willing to pay 2.7 per cent extra on average to purchase the processed horticultural products than now. However, only a small proportion of the market will value the extra information.

Concentrated benefits would need to be huge relative to dispersed costs

Consumer research suggests that perhaps only 10 per cent of consumers value CoOL information as highly important. The interest by consumers in CoOL information to product hotlines is even less at about 10 in every 100 000 inquiries. Further, only 47 per cent of processed horticultural products would be affected by the proposed extension to CoOL and only 63 per cent of products are sold directly to Australian consumers.

Taking these proportions in to account, to justify the costs imposed on all consumers, the value of processed horticultural products affected by the extension would need to rise by at least 94 per cent for the 10 per cent of consumers who might value the extra information provided. Based on consumer research this seems highly unlikely and it would be severely inequitable imposing costs on all consumers to benefit a select few.

Besides, the market is already catering for consumers who are sensitive to CoOL

Moreover, where the benefits to consumers of specific CoOL information exceed the costs of providing it, manufacturers have already segmented the market to provide the products and information to those who value them. Typically, specific CoOL information:

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- is provided where the labelling task is simple, involving one country of origin; and
- is **not** provided when there are more than one country or ingredient, as the cost to do so is high.

Besides, in a highly segmented market, if consumers want them they can choose the already CoOL-compliant products at relatively low or no extra cost instead. Essentially, there is no information failure in the market now.

- For 50+ per cent of processed horticultural products, the increment in information from an extension to CoOL is zero. They are pre-compliant.
- For about 40 per cent the increment in information would be marginal. Consumers can already read on the label that the product contains imported ingredients and they can phone manufacturers to find out more specific CoOL information, although virtually none do. The increment would be to learn the specific country of origin, but it is difficult to see this changing purchasing patterns materially.
- For less than 10 per cent of products, the increment in information would inform some consumers, who do not currently know, that the product has imported content. This may change purchasing patterns, suggesting CoOL has some value. But the private benefit of this information would appear to be tiny given:
 - the smallness of this market segment;
 - the reality that if the information were valued more highly than the costs of providing it, the market would have catered to it already;
 - the small proportion of consumers concerned about CoOL.

PUBLIC BENEFITS AND COSTS

That the market is already supplying CoOL information where the private benefits exceed the private costs leads to the following conclusions:

- the proposed extension of CoOL is highly unlikely to provide additional net private benefits;
- the proposed extension to CoOL is only likely to be justified if benefits over and above private benefits (public benefits) can be achieved by the proposed extension; and
- should such public benefits exist, they would need to be significant to cover the additional private compliance costs of 1.4 per cent and any additional public costs of extra CoOL information.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

There is *no* strong evidence that public benefits are large

- Health and food safety will not be improved. More efficient systems already exist to deal with such issues. More specific CoOL information would not in any practical sense help in dealing with health and safety issues compared with existing system.
- The integrity of the labelling system will not improve. 13 per cent of consumers reportedly are not sure whether to trust CoOL information now. But consumers do not trust more specific label information on other attributes any more highly, despite hefty penalties for breaches of label standards. Therefore it is difficult to see that also making CoOL information more specific would reduce mistrust that currently exists among a minority group of consumers.
- Information to satisfy the community's 'right to know' would be of low value. There are currently so few inquiries to manufacturers for specific CoOL information that it is difficult to see how it could possibly be valued highly enough by the broad community to justify the costs likely to be imposed on all consumers.

But public costs could be significant

- Because the proposed extension is perceived as being arbitrary and potentially protectionist by food processors and as a manipulation of the food standards system by special interests, this could lead to a loss of credibility and support for the system and a compromise of food safety objectives.
- The arbitrary coverage proposed under the extension could lead to increased confusion in the minds of consumers.
- The measures could be interpreted as technical barriers to trade that put Australia in conflict with its WTO obligations and bilateral trading agreements, causing:
 - potential loss of credibility in world trade forums harming Australia's effectiveness to obtain high payoff improvements in trading conditions for much larger sectors of the Australian economy (including agriculture and horticulture); and
 - potential loss of flexibility to negotiate through the WTO against technical barriers of other countries.
- Administration and enforcement costs to AQIS, state government authorities, FSANZ and ACCC could run into more than \$10 million if fully funded, or compromise food safety priorities if not fully funded.

CONCLUSION: COSTS EXCEED BENEFITS

As with private costs and benefits, the weight of evidence suggests that the public costs of the proposed extension to CoOL would exceed the public benefits. Indeed, the weight of evidence suggests that implementation of the proposed extension of CoOL would not be in the overall interest of Australia. It would harm the horticultural industry, the horticultural processing industry and exports. Consumers would have to pay more for a tiny increment in information of little extra value to them.

Interestingly, although food processors in their submissions expressed concern that the proposed extension to CoOL as protectionist, based on the evidence presented here, it turns out to protect no group in the domestic supply chain. Ironically, instead of potentially protecting the domestic industry, it harms it in favour of imports of finished products.

Your advice is sought

Do you have any comments on the CIE benefit and cost analysis?
(please note that the full report is available from the FSANZ website)

Do you consider that the increased costs will translate into consumer value?

C. Office of Small Business Costing Tool

As requested by the Australian Government, the CIE analysis utilised the Office of Small Business (OSB) Costing Tool.

The Office of Small Business Costing Tool (the Costing Tool) was developed to assist Local Government Authorities to cost the reduction in regulatory burden on small and home-based businesses. The Costing Tool classifies costs into one of nine different cost categories: notification, education, permission, purchase costs, record keeping, enforcement, publication and documentation, procedural, or other.

This Costing Tool was used by CIE to calculate the overall impact of the proposed extension to CoOL. This framework estimated overall costs increase of 0.81 per cent for a generalised manufacturing firm and 1.94 per cent for a generalised juicing firm. However, as notes by CIE, these figures underestimate the true cost to industry.

For more information regarding the OSB Costing Tool please refer to the CIE report available on the FSANZ website.

D. Alternative approaches

As noted in Part 2, alternative approaches were suggested by the Fair Dinkum Food Campaign (FDFC) and AusVeg. CIE also costed these alternative approaches. Following are the results of this costing.

FDFC

The FDFC approach requires that the country of origin of only the major source fruit and/or vegetable component be specified, and not details of every source country. The key difference between the FDFC proposal and that proposed under the Ministerial Direction relates to the number of labels required. Under the FDFC proposal, one label per source country would be required for a one ingredient product.

Following is a summary of the main conclusions drawn by CIE in relation to the FDFC proposal (for more information please refer to the full CIE Report available on the FSANZ website):

- the proposal would have only minor public benefits while still imposing a number of large public costs. As with private costs and benefits, the weight of evidence suggests that the public costs of the proposed extension to CoOL would exceed the public benefits;

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- the FDFC proposal would reduce Australian economic welfare by \$80 million a year. There would need to be a 62 per cent increase in the private benefit to the minority of consumers who may value the extra CoOL information. This is a measure of the threshold private benefit required to justify the FDFC proposal. It is unlikely that the FDFC proposed extension to CoOL would exceed this threshold and result in a net benefit.

AusVeg

In AusVeg's submission in response to the FSANZ invitation for public comment relating to extending CoOL, AusVeg supported extending the requirements further to include all products with three or less principal ingredients. They also supported requiring labels to provide the exact percentage mix (by volume) of each source country.

Following is a summary of the main conclusions drawn by CIE in relation to the AusVeg proposal (for more information please refer to the full CIE Report available on the FSANZ website):

- the AusVeg proposal would be more costly than those proposed by the Ministerial Direction and the FDFC. Specification of the percentages would require more labels adding further to costs;
- determining the source country percentage content of products would be especially costly. For a number of products the percentages would have to be determined regularly. As sources change and the formula is readjusted to keep the taste constant, firms would be required to re-calculate the percentages and report them. A formula may change on a batch basis, and may even be factory specific;
- even for those products for which the percentage contents are consistent across the year, the AusVeg proposal would impose higher labelling requirements than the Ministerial Direction and the FDFC proposal, due to the inclusion of an additional ingredient;
- for those products with changing country content, the cost burden of the AusVeg proposal would far exceed the Ministerial Direction and FDFC proposal;
- the proposal would impose costs on the sector that would significantly exceed the cost impost of 1.4 per cent from the Ministerial Direction and the 0.97 per cent from the FDFC proposal;

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- the impost upon the Australian economy is likely to far exceed the estimated \$120 million a year cost imposed by the Ministerial Direction. The required increase in value of the product from the extra information provided to consumers who valued it, would have to exceed the 94 per cent required under the Ministerial Direction; and
- the AusVeg proposal would have the same level of public costs and public benefits as under the Ministerial Direction and FDFC proposal.

PART 6: CONSUMER RECOGNITION AND USE OF CoOL

As part of this feasibility study, FSANZ has examined relevant consumer research and likely responses to the possible extension of CoOL to selected packaged fruit or vegetable whole food produce.

There is limited research available on the consumer response to CoOL and this section reviews the most relevant national and international data as a basis for making observations about the likely response of consumers to the proposed extension.

On the basis of the examination of the literature it appears that there is a high level of CoOL recognition among consumers though fewer than 50% use the information in food purchases, and fewer than 20% place a high level of importance on that information in purchasing decisions.

Price and quality are the most frequently used characteristics in making food purchases.

A. Survey results

As noted there have been very few studies on the consumer response to CoOL (Priestley 2005), and no existing studies could be located regarding consumer responses to CoOL for the products covered by the proposed extension.

The findings below are drawn from the following studies:

- AUSVEG (2005): covering awareness, understanding and options for labelling with country of origin information (sample: representative sample of 406 Australian adult consumers);
- FSANZ (2003): covering awareness, understanding and use of food label elements (sample: representative sample of 1940 Australian and New Zealand adult consumers); and
- IGD (2003, 2004): covering importance of information in food purchase decisions (sample: representative sample of 1000 British adult consumers).

There are limitations to the applicability of each of these studies to the extension of CoOL.

The studies measure perceptions and/or use of country of origin information to varying extents. For example:

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- the AUSVEG study measures awareness, understanding and options for labelling;
- the FSANZ and IGD studies also measure use of country of origin information in decisions;
- in measuring use, the FSANZ study is restricted to select label elements while the IGD studies assess country of origin information in a context that seeks to approximate a purchasing environment. The IGD studies require consumers to assess the importance of country of origin information relative to other product information such as prices and quality;
- neither the AUSVEG nor the FSANZ studies seek to compare the relative importance of country of origin information with other information consumers use in making a purchase decision; and
- the studies use self-reported data, thus stated behaviours are behavioural intents and given the nature of the issue are likely to be overestimates.

For more detailed information regarding the study designs please refer to Attachment B.

Recognition of CoOL

Recent Australian studies have highlighted a great deal of interest in CoOL (AUSVEG 2005; FSANZ 2003). The majority of respondents recognised the 'Country of Origin' element on product labels and placed importance on the accuracy of that information.

- 97% of respondents considered it important that Australian consumers are given accurate information about the country in which food products are grown (AUSVEG 2005).
- 80% of respondents recognised the 'Country of Origin' element on product labels when prompted, though only 17% of respondents recognised the element unprompted (FSANZ 2003).

The level of recognition was not constant across all demographic groups. There was a general trend of increasing recognition with higher levels of formal education and income.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

Use of CoOL

Consumer food decisions are complex with aspects of the product (e.g. price, quality) and the consumer (e.g. age, religious beliefs) both influencing the ultimate outcome of a decision-making process to purchase.

Awareness and recognition of CoOL are a necessary precursor to the use of that information in decision-making.

- 49% of respondents stated they used, including 'even if just occasionally', the country of origin label element (FSANZ 2003).
- 19% of respondents stated the country of origin label element was one of the 3 label elements they used most (FSANZ 2003).
- 68% of respondents stated the Date Mark label element was one of the 3 label elements they used most, 52% the Nutrition Information Panel and 49% the Ingredients List (FSANZ 2003).
- There was a trend of increasing use of the country of origin element with increasing age (FSANZ 2003).

The FSANZ (2003) study highlights that for about one fifth of respondents country of origin was one of the three label elements they used most. The study focussed solely on labelling elements and as such did not consider other product information that consumers use in making a purchase decision (e.g. price, brand, quality). When additional product information is considered, the level of use and importance of country of origin information in reported purchasing intentions may change.

A survey of British consumers (IGD 2003) that explored the role of country of origin information using a broader set of information than that included in the study discussed above found:

- 30% of respondents actively looked for origin information when food shopping;
- 77% of respondents actively looked for sell-by-date when food shopping, 75% the price and 38% weight/size information;
- when asked about making fruit and vegetable purchases specifically, food origin information was the most important piece of information for 3% of the respondents;

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- when asked about making processed food purchases specifically, food origin information was the most important piece of information for 1% of the respondents; and
- an additional 14% used origin information in making fruit and vegetable choices, but placed a lower level of importance upon it, thus a total of 17% used country of origin information when making fruit and vegetable choices (IGD 2003).

The IGD (2003) study focussed on what could be termed tangible and largely objective characteristics of the food, those that are readily discerned from the product itself or from labelling information. When country of origin information is included within a broader set of information, including subjective evaluations of the product (e.g. taste), the level of use and importance of country of origin information in reported purchasing intentions may change.

A survey of British consumers that incorporated a number of subjective evaluations (e.g. taste, appearance of packing) found:

- 4% of respondents reported that 'Knowing which country the food has come from' was their primary driver of food choice; and
- an additional 10% used origin information in making food choices, but placed a lower level of importance upon it (IGD 2003).

B. Consumer choices

Consumer food choices are complex and will be influenced by the nature of the product (e.g. price, quality) and the purchaser (e.g. age, socio-economic status).

The product

While research findings differ in their specifics the key characteristics of food products that influence purchasing behaviour tend to be price and quality. A range of 'quality cues' are used by individuals to evaluate a product's quality (Grunnert 2002). For fruit and vegetables, price was considered the most important piece of information in making choices by 42% of the respondents, while sell-by-date, a 'quality cue', was considered the most important by 28% of respondents (IGD 2003).

In a subsequent study the IGD (2004) explored the impact of price and quality on the desire of Britains to buy British food. They found 44% do not consider buying British food important, 30% would be prepared to buy British food providing there was no sacrifice in price or quality, while 26% would be willing to pay more to buy British food.

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

The survey did not ask how much more they would be prepared to pay. In survey research questions like this are subject to a 'social desirability' bias where respondents are more likely to give answers they believe others will find more acceptable (de Vaus 1995).

CoOL may act as a 'quality cue' for some specific food products (e.g. Italian tomatoes, Greek fetta and Australian lamb) and consumers may seek such products out preferentially. In these cases CoOL may be important to potential purchasers. Where a geographic indicator denotes a product of superior quality it may command a premium (CIE 2006; Krissoff et al. 2004).

Conversely, CoOL may act as a 'quality cue' to assist in the avoidance of products from some locations for health and safety reasons (e.g. English beef). While CoOL may assist in these circumstances CIE (2006) note that health and safety concerns should be managed through an appropriate health and safety system, rather than through a *de facto* mechanism.

The purchaser

Numerous aspects of individuals may potentially influence the purchasing decisions they make. These will include: demographic characteristics such as stage of life, gender, education and race; geographic characteristics such as attachments to particular places and location of residence; socio-economic characteristics such as affluence, income and nature of employment; and psychological characteristics such as values and attitudes.

Broader still, purchasers may be influenced by traditions, social norms and cultures. Some of these aspects will be more relevant to purchasing behaviour related to CoOL than others, and for the majority the lack of evidence limits any conclusions. However the following can be from the studies considered:

- individuals with higher levels of formal education have greater awareness of county of origin (FSANZ 2003);
- older individuals are more likely to use Country of Origin information (FSANZ 2003; IGD 2003); and
- more affluent individuals are more likely to use country of origin information (FSANZ 2003; IGD 2003).

C. Summary

There are few studies on consumer perceptions and their potential behaviour in response to CoOL in food.

Where data on CoOL does exist it is typically incidental to the original purpose of the study and thus limited in its application to this proposed extension of CoOL.

The following conclusions can be drawn from the studies examined:

- awareness and recognition of country of origin information is high among food purchasers;
- reported use of country of origin information in food purchase decisions varies with the type of food being purchased;
- the level of importance given to country of origin information by purchasers varies; and
- only a very small proportion of consumers consider country of origin information the most important in purchase decisions.

For a list of references used in this Part, please refer to Attachment B.

Your advice is sought

Do you have any comments on the consumer research?
Is there any other relevant research that FSANZ should consider?
Do you consider that consumers desire more country of origin information and if so do you consider that their preference for CoOL would be reflected in their purchasing behaviours?

PART 7: SUBMITTERS' VIEWS

FSANZ received 24 written submissions in response to FSANZ seeking early input from stakeholders through the initial notification.

The distribution of the responses was as follows:

Type	Australia	New Zealand	Trans-Tasman	Grand Total
Consumer, Individual	1	1	0	2
Government	2	1	0	3
Industry	17	0	2	19
Grand Total	20	2	2	24

Following is a summary of the main views expressed by submitters about the feasibility of the proposed extension of CoOL labelling and the possible benefits and costs to various sectors.

A. Submitters' views on scope

A number of submitters expressed concern regarding the proposed scope of the CoOL. For example, it was suggested that:

- the rationale for inclusion of the types of food that are in scope is unclear (a number of submitters held this view);
- juice and soya milk are not whole foods and should be treated the same as other products;
- any extension of CoOL of packaged foods should logically apply across product categories. It was noted that it does not appear logical to limit the requirement to 2 or less fruit and vegetables (and not apply the requirement to extend to packages of 3 or more fruits and vegetables); and
- the scope proposed is too narrow and that the proposed changes do not go far enough to allow significant benefit to consumers or industry. By contrast others suggested that the scope is too wide and that labelling should only be required for the major source by weight of each fruit and vegetable component, not all sources.

B. Submitters' views on potential benefits and costs to consumers

The majority of submitters suggested that extending CoOL in the manner proposed would not provide any benefit to consumers and could in fact disadvantage consumers. For example, it was suggested that:

- there is no evidence of consumer demand for extending mandatory CoOL and there has been no market failure that justifies regulatory action;
- there is no evidence that the proposed regime would result in an increase in the use of Australian produce in preference to cheaper imported produce;
- extending mandatory CoOL will result in increased prices and/or reduced availability;
- consumers would not be prepared to pay the premium for CoOL of the type under consideration;
- the extension of CoOL in the manner proposed could confuse consumers;
- the proposal could reinforce the false public impression that the mere fact that a food is sourced from overseas makes it inferior; and
- the complexity of the proposal may confuse consumers and make it more difficult to make informed choices. It was suggested that a simple label or statement on the front of the packet was more informative to the consumer than the complex labelling regime proposed. Further, as the proposal under consideration would result in frequent label changes, this would send mixed messages to consumers and require consumers to check labels more frequently.

A small number of submitters supported extending the CoOL requirements and noted that the provision of the additional information would:

- encourage consumer trust in the food system as a result of information disclosure;
- fulfil the consumers' right to know;
- increase consumer awareness of where their food is coming from;
- assist consumers to exercise preferences by, for example, enabling them to purchase products from a particular country or avoid products from a certain country;

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- in part, address the problems currently caused through use of the phrase 'made from local and imported ingredients' by providing more information to consumers about the source of certain fruits and vegetables in packaged food; and
- potentially benefit regional communities (if consumers purchase more Australian produce as a result of the labelling change).

One submitter noted that a survey by Auspoll indicated that 94% of consumers would support a regulation for compulsory labelling for packaged food indicating the country the food was grown in.

While supporters of extending CoOL conceded that there is a cost attached to changing labels, they strongly felt that the benefits outweigh the costs.

C. Submitters' views on potential benefits and costs to Australian producers

Some submitters suggested that an extension of CoOL would enable consumers to preferentially purchase Australian produced goods (with flow on benefits to Australia producers). It was also suggested that:

- there may be an advantage to Australian producers of sought after ingredients provided the Australian product could be consistently sourced by manufacturers; and
- in order to minimise compliance costs, some manufacturer's who currently use very little imported ingredients may consider using solely Australian origin product. This could therefore have benefits for Australian producers.

However, this position did not seem to be supported by the manufacturer's who made submissions. They suggested that it was more likely that:

- the additional costs to manufacturers as a result of complying with the extended CoOL requirements may result in reduced returns to growers; and
- stricter labelling requirements may be detrimental to local suppliers if manufacturers source overseas ingredients to minimise supply disruption and avoid costs associated with changes to labelling.

D. Submitters' views on potential benefits and costs to Australian manufacturers

Most submitters agreed that the proposed extension of CoOL would increase costs to Australian manufacturers.

In particular, some submitters were of the opinion that:

- the proposed regime would negatively affect local manufacture industries. Small and medium businesses could be disproportionately affected and local manufacturers that source locally might become less competitive; and
- the increased costs might result in some manufacturing plants shifting off shore.

Some of the particular issues faced by manufacturers were identified as follows:

- seasonality of supply and market forces mean that foods are sourced from around the world – this makes it difficult for manufacturers to have the correct labelling in advance;
- given the fact that continuous supply from the same source cannot be guaranteed for many products, the proposed extended CoOL would mean that companies have to make regular changes to their labels;
- costs associated with:
 - additional auditing, both internal and external
 - changes in IT requirements (hardware and software)
 - changing existing voluntary labelling schemes
 - printing and carrying stock of a variety of labels to account for different countries of origin, including multiple labels where there is more than one source for a food component
 - production lost due to changeover
 - provisions that need to be made where ingredients can not be sourced as planned
 - reduced flexibility and productivity (opportunity costs)
 - sourcing only ingredients where the country of origin can be traced
 - tracking and control measures for individual batches of food
 - understanding and implementing a very complex standard
 - cost impost for printing labels at short notice
 - deleting obsolete labels when source changes
 - developing new analytical methods to verify country of origin of components
 - discarding of remnants

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- increased compliance costs
- increased need for storage or redesigning storage facilities
- increased number of (unnecessary) recalls of mislabelled products
- management of ingredients and their matching labels
- more expensive, shorter label runs to avoid carrying excess stock

Most submitters suggested that the cost associated with these changes would be significant. A minority of submitters suggested that the potential costs would be minimal because:

- the TPA already requires manufacturers to change their labels when the composition of the food changes and if the proposed changes coincide with the changes required for introduction of the new CoOL and Health Claims standards, cost could be reduced;
- many products would not need to change labels, or require one-off changes only. Recurrent changes would only apply to a very small number of products. This would reduce compliance costs as would appropriate lead-in times; and
- existing technology for packaging enables changes to be readily done in a short time period.

For more information on the order of the costs please refer to the CIE analysis discussed in Part 4 of this Discussion Paper.

E. Submitters' views on potential benefits and costs to importers

While few submitters commented on the impact on importers, those that did suggested that:

- the scheme may appear to be protectionist;
- implementation would impose significant costs on importers and users of imported fruits and vegetables and this may hinder trade;
- where the importer does not own the brand of the imported product, exports to Australia would comprise a very small proportion of total production, and the label would be used on products for a number of countries. Not only would affected imports have to be relabelled specifically for the Australian market but the overseas producer would have to develop a record-keeping infrastructure to maintain audit trails and the importer would have to develop an enhanced quality assurance program; and

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- where the importer owns the brand of the imported product, the costs would be similar to those incurred by Australian manufacturers and would include costs associated with record-keeping infrastructure, costs of holding alternative labels and systems to ensure that the correct label was applied; and opportunity cost from not being able to switch easily from one ingredient source to another in the case of shortfall.

F. Submitters' views on potential benefits and cost to government (particularly regarding enforcement and compliance)

One of the key issues raised by submitters was concern regarding monitoring and enforcement. There was broad consensus in the submissions that the proposed extension of CoOL would lead to an increased need for enforcement activity and conversely that lack of enforcement could limit the effectiveness of the extension.

Submitters cautioned that:

- there would be significant cost to jurisdictional enforcement agencies and AQIS for compliance and inspections;
- any increased enforcement action by government would increase costs to business;
- given the lack of traceability and certification from many exporting countries, the proposed regime would not be enforceable for imported foods, and in some cases information on where sub-components of a batch of imported components would not be available to industry or enforcement officers;
- the proposal would not be enforceable at the retail level. In this context it was pointed out that there are no known analytical methods that could verify the CoO of components, and new methods would be required to meet this demand; and
- manufacturers might rather incur legal costs than comply.

A number of submitters also noted that adding a third component to the food could easily circumvent the requirements.

G. Other issues raised by submitters

Consistency with existing policies and regulatory principles

A number of submissions expressed concern that the extension of CoOL to food components is in conflict with the policy guidelines on CoOL set out by the Ministerial Council and also inconsistent with the spirit of the new standard.

One submitter considered that the new proposal does align with the Ministerial Council guidelines.

Still others suggested that:

- there is no evidence that the new standard will not satisfy consumer interest and it is therefore premature to be considering any extension of CoOL;
- the proposal is contrary to the general principle of minimum effective regulation, does not conform to good regulatory practice and adds unnecessary complexity to labelling; and
- the lack of a coherent framework within which to take regulatory decisions would in time undermine the regulatory system as a whole.

Review of TPA

Some submitters stated that the proposed review of the TPA should proceed before extending the mandatory CoOL requirements in the manner proposed. Some argued that if the Code cannot resolve consumer's expectations as to what the terms 'Made in Australia' and 'Product of Australia' (or equivalent) mean, this should be resolved through the TPA.

It was further suggested by one submitter that a change to the TPA to increase the % required to make a 'made in' claim would address any concerns regarding use of ingredients and would be much easier to understand than the CoOL requirements under consideration.

International implications

On the issue of international consistency and international implications, a range of views were put including the following:

- Australia currently has the most stringent CoOL requirements. This proposal therefore puts Australian industry at a disadvantage internationally;

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- attempts to introduce similar measures in the USA have met with strong resistance; and
- the proposed measures could be interpreted as protectionist by trading partners and could potentially harm important export market relationships and be in conflict with trade obligations. Many submitters were strongly of the view that any CoOL regime must give due regard to international trade obligations.

A number of submitters noted that if New Zealand did not participate in the extension to CoOL requirements (and there is no suggestion that they would), New Zealand manufacturers would not be subject to the extended CoOL and Australian importers may utilise this.

It was further noted that this would pose enormous enforcement difficulties as enforcement agencies would have to check each time whether the food had been imported from New Zealand (and confirm whether the product is in fact compliant despite not bearing the Australian CoOL information).

Your advice is sought

Do you consider that there are any other issues that FSANZ should consider in the context of developing the feasibility study?

PART 8: SUMMARY OF ISSUES ON WHICH FSANZ SEEKS YOUR ADVICE

Issues for your consideration

Throughout this Discussion Paper a number of questions have been included that have been designed to prompt stakeholder responses to issues raised:

- Do you consider that there is an underlying problem that requires addressing?
- If so, what evidence is there of the problem?
- What do you consider are the outcomes or goals of extending mandatory CoOL?
- Do you have any comments on the CIE benefit and cost analysis?
- Do you consider that the increased costs will translate into consumer value?
- Do you have any comments on the consumer research?
- Is there any other relevant research that FSANZ should consider?
- Do you consider that consumers desire more country of origin information and if so, do you consider that their preference for CoOL would be reflected in their purchasing behaviours?
- Do you consider that there are any other issues that FSANZ should consider in the context of developing the feasibility study?

Stakeholders' advice on the above issues (or any other issues that stakeholders consider are relevant to FSANZ's assessment of the feasibility of the proposed extension of CoOL requirements) will be greatly appreciated by FSANZ.

FSANZ highly values the opinions of all stakeholders. To enhance the impact of stakeholder views, we urge stakeholders to provide evidence where possible to support their opinions.

How to make a submission

FSANZ welcomes further comment on the issues outlined in this Discussion Paper. The Discussion Paper has been placed on the FSANZ website and is available from <http://www.foodstandards.gov.au/>. Individuals and organisations intending to make a submission will find information for Submitters at www.foodstandards.gov.au/standardsdevelopment/. Submissions must be received by: **6pm (Canberra time), Wednesday 8 March 2006.**

ATTACHMENT A:

REFERENCES IN RELATION TO CONSUMER PERCEPTIONS OF COOL

- FSANZ (2003) Quantitative research with consumers. Evaluation Report Series No.4.
<http://www.foodstandards.gov.au/mediareleasespublications/publications/foodlabellingissuesquantitativerearchconsumersjune2003/index.cfm>
- Grunert, K. (2002) Current issues in the understanding of consumer food choice. *Trends in Food Science and Technology*, 13: 275-285.
- IGD (2003) *Consumer Watch: Communication, September*. Institute of Grocery Distribution, UK.
- IGD (2004) *Consumer Watch: The Consumer Tracker, February*. Institute of Grocery Distribution, UK.
- Krissoff, B. Kuchler, F., Nelson, K., Perry, J., Somwaru, A., (2004) *Country-of-origin labelling: Theory and Observations*. Economic Research Service, United States Department of Agriculture.
- Priestley, M. (2005) Country of origin labelling: Are consumers willing to pay more for Australian products? *Parliamentary Library, Research Note*, 5 September 2005, No. 8.

ATTACHMENT B:

FURTHER INFORMATION REGARDING CONSUMER SURVEYS

General information about the nature of surveys

Social surveys are a standard technique to collect information from consumers regarding issues of relevance. Surveys can be differentiated in terms of the amount of structure (highly structured through to limited structure) and the method of collecting information (e.g. mail-out, telephone, Internet, interviews). Most of the data used in this section were drawn from highly structured surveys with face-to-face interviews as the method of data collection. In interpreting the data from these surveys the following aspects of methodology are relevant:

- in face-to-face interviews there is a greater likelihood that individuals will respond in a manner they believe is expected (a social desirability bias) (de Vaus 1995); and
- data collected refers to reported rather than actual behaviour, as a consequence of the social desirability bias it is likely that reported behaviour, such as food choice, are over-estimates.

AUSVEG (2005): Country of Origin Labelling Survey

A telephone poll of 406 Australian adult consumers to assess their perceptions of various country of origin label options. The poll included questions regarding:

- the importance of providing accurate labelling information;
- understanding of wording options for country or origin information; and
- level of support for the options.

FSANZ (2003): Food labeling issues: Quantitative Research with consumers

A survey of Australian and New Zealand consumers to assess the impact of the changed labelling provisions featured in the new joint *Australia New Zealand Food Standards Code*.

This entailed the analysis of:

- consumer awareness of label elements;

A FEASIBILITY STUDY INTO EXTENDING COUNTRY OF ORIGIN LABELLING

- the level of consumer understanding of label elements; and
- the role of labels in making informed choices about food products.

The survey was conducted through 1940 door-to-door interviews in metropolitan cities in Australia and New Zealand. The survey was only focussed on label elements and their role in decision making. As such the study does not include all influences on purchasing behaviour.

IGD (2003, 2004): Consumer Watch

A survey of British consumers repeated on a yearly basis to monitor changes in consumers' attitudes and behaviour. A range of publications and research products are then derived from the collected data. Data are collected from a representative sample of British consumers through an omnibus survey vehicle.

Information collected from consumers include:

- store choice;
- food choice;
- diet and exercise;
- food production; and
- British Food.

The information collected from respondents regarding food choice incorporates a greater range of information than the FSANZ (2003) study.