



Productivity Commission
4 National Circuit
Barton ACT 2600

15 September 2025

RE: Five pillars of productivity inquiries

Thank you for the opportunity to respond to the Commission's interim reports on promoting productivity growth in Australia.

The AFGC is the leading national organisation representing Australia's \$172.7 billion food and grocery manufacturing sector – the nation's largest manufacturing sector. The industry has a clear objective, outlined in [Sustaining Australia: Food and Grocery Manufacturing 2030](#), of cementing its role in domestic manufacturing, jobs growth, higher exports and enhancing the sovereign capability of the entire sector. Consequently, the sector has a strong interest in improving Australia's productivity performance to ensure greater economic outcomes for the nation.

The AFGC has been consulting our membership on practical recommendations to improve the sector's productivity outcomes. Our industry faces high upfront capital costs, long depreciation schedules and frequent regulatory and approval bottlenecks that can delay new investments. A lower tax burden, more flexible depreciation rules, and faster, more predictable approval processes would reduce the risk and cost of investment. This would allow firms to modernise production facilities, adopt advanced technologies and expand capacity in ways that benefit both industry and consumers.

Our recommendations are included in an attached copy of our *Productivity Playbook*, many of which have direct relevance to the five pillars inquiries. However, due to their potential significant implications for the sector, we consider it important to give direct responses to two specific recommendations from the Commission's interim reports.

Introduce a net cashflow tax of 5%

A modern and competitive tax framework has the potential to strengthen the foundations of our economy by making it easier for businesses to invest, grow and create jobs. Lower headline tax rates combined with a cash-flow approach can significantly improve firms' net cash available for capital expenditure and hiring. This is especially important for small and medium-sized enterprises and fast-growing firms that reinvest a high share of their earnings. By easing financial constraints and reducing the cost of capital, these reforms should, in principle, support greater capital formation, which in turn will drive higher productivity and stronger long-term economic growth.

However, for companies with turnover above the proposed \$1b threshold, the proposed measure represents an additional tax with no corresponding reduction in the company tax rate. With Australia's company tax rate already high by international standards, the prospect of an additional tax will disincentivise investment in Australia. The implications of this require careful consideration. The current proposal risks creating a two-tiered framework that could add administrative complexity into the tax system and make Australia a less attractive destination for investment among those companies best positioned to make substantial investments.

Careful arrangements would also be needed to avoid harmful short-term effects, particularly for firms with existing investments made under the current system. Without well-designed transitional rules, companies may face unnecessary compliance costs or uncertainty that could delay investment decisions.



The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved

The AFGC is compelled to flag industry concerns regarding the potential impact of lowering the Safeguard Mechanism threshold. For background, the food and grocery sector is the third-largest industrial energy user in Australia. It has made significant strides towards reducing its emissions, including through energy efficiency measures and onsite energy generation. However, despite the industry's progress, it faces significant financial and technological barriers to further emissions reduction.

Given the sector's large footprint across Australia, a lowering of the threshold would likely implicate a substantial number of food and grocery manufacturing facilities. The associated exposure to compliance measures, including obligations to purchase credits or invest in offsets when the emissions baseline is exceeded, would represent a major additional cost of doing business in Australia. It could effectively constitute an additional 'tax' that would need to be borne across the food supply chain.

The proposed measure would be in addition to other potential increases in the compliance costs of regulations from the Commonwealth Government, including Climate Disclosure Requirements, a recycling packaging scheme and Modern Slavery Act audits. The cumulative impact of such proposed measures is significantly increased costs, ultimately with negative implications for consumer prices and industry margins.

The AFGC is ultimately concerned about these specific measures disincentivising production in Australia, and the ongoing competitiveness of the nation's largest manufacturing sector. If implemented the proposed measures would likely add to Australia's already high-cost base with little offset in terms of productivity.

The AFGC would welcome a further discussion on these important issues. If this is of interest to the Commission, please contact Rick Umback, Manager Industry Policy and Engagement, at

[REDACTED]

Yours sincerely,

Scott McGrath
Director - Stakeholders, Engagement and Policy
Australian Food and Grocery Council



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL



Productivity Playbook: Accelerating Growth in Australia's Food and Grocery Manufacturing Sector

August 2025

PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, beverage and grocery manufacturing sector.

With an annual turnover in the 2022-23 financial year of \$162 billion, Australia's food and grocery manufacturing sector makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity. Each business in the sector has contributed towards an industry-wide \$4.2 billion capital investment in 2022-23.

Food, beverage and grocery manufacturing together forms Australia's largest manufacturing sector, representing over 32 per cent of total manufacturing turnover in Australia. The industry makes a large contribution to rural and regional Australia economies, with almost 40 per cent of its 281,000 employees being in rural and regional Australia.

It is essential to the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

The industry has a clear view, outlined in *Sustaining Australia: Food and Grocery Manufacturing 2030*, of its role in the expansion of domestic manufacturing, jobs growth, higher exports and enhancing the sovereign capability of the entire sector.

This submission has been prepared by the AFGC and reflects the collective views of the membership.

The food and grocery manufacturing sector is essential to Australia's economy. As the largest manufacturing sector in the country, it directly employs close to 300,000 people and supports many more through its extended supply chain. The sector is particularly significant in regional areas, where food and grocery manufacturers are an anchor of economic activity for many communities.

However, the success of the sector is not guaranteed. In recent years rising input costs, regulatory complexity, workforce shortages and other structural challenges have eroded its competitiveness and profitability. If these structural challenges persist, the sector risks entering a downward spiral of low profitability, underinvestment, and declining productivity, threatening its long-term viability.

Productivity gains in the sector matter, as even modest improvements can deliver broad benefits across the value chain. They enhance competitiveness and strengthen Australia's food sovereignty – especially important in today's complex geopolitical landscape.

The AFGC has identified seven pillars of productivity, where changes in government policy can enhance the sector's productivity and unlock its full potential.

With the right policy settings, government can enable the sector to improve its competitiveness, support jobs, growth and innovation, while building a more resilient and self-reliant national food system.

For further information or to discuss, please contact media@afgc.org.au.

PILLARS OF PRODUCTIVITY

1. Relieve the regulatory burden
2. Strengthen supply chain and transport infrastructure
3. Ensure a reliable energy supply
4. Secure skills and regional employment
5. Standardise sustainability measures
6. Provide tax incentives for investment
7. Support innovation

1. RELIEVE THE REGULATORY BURDEN

Considerable gains in productivity for the food and grocery manufacturing sector could be achieved through reforms to relieve the sector's regulatory burden.

One notable example is through the at-times cumbersome process for gaining permissions or modifications to requirements under the Australia New Zealand Food Standards Code. The cost to industry to prepare an application to Food Standards Australia New Zealand (FSANZ), as well as delay costs for approvals under the current system, are major regulatory barriers. This reduces the competitiveness of Australian food industry by restricting access to innovative ingredients and products, and stifles productivity because of delays in bringing new products to market.

The maintenance of high food safety standards is an unimpeachable priority of all stakeholders within the sector. Yet the Australian approval process often duplicates assessments – such as risk assessments – that have already been undertaken in comparable international jurisdictions. Because such assessments are conducted in an internationally standardised manner, there is significant opportunity to reduce regulatory burden through more streamlined, risk-based approval pathways for 'low-risk' products (e.g. processing aids, new foods, some food additives) already approved by recognised overseas authorities.

Another prime opportunity to find regulatory efficiencies lies in the mismatch of jurisdictional responsibilities. While FSANZ sets national standards for food, enforcement is currently devolved to subnational jurisdictions. In practice, the division of responsibilities has led to a disharmonised application of standards across different jurisdictions. Expanding FSANZ's remit to include the enforcement, as well as setting, of food standards at a national level, in particular composition and labelling requirements, would improve consistency of application, and certainty for food producers.

Policy priorities:

- **Streamline low-risk approvals:** Reform the FSANZ Act to streamline approvals for low-risk products, principally those already approved by comparable jurisdictions internationally.
- **National enforcement for efficient outcomes:** Expand FSANZ's remit to include enforcement of national food labelling and compositional standards, to ensure efficiency and consistency.

2. STRENGTHEN SUPPLY CHAIN AND TRANSPORT INFRASTRUCTURE

Australia's supply chains are vital to the country's economic prosperity. Our roads, rail lines, airports and ports connect people and businesses and are essential for moving, storing and delivering products across the nation.

Much of this infrastructure however, is ageing and was not designed to withstand the increasing frequency and severity of climate-disruptions. As a result, natural disasters remain a growing risk to the reliability and efficiency of supply chains.

In recent years the frequency an impact of unprecedented natural disasters has grown, creating uncertainty and higher costs for the economy. According to the Australian Local Government Association, between 2019 and 2023, 434 out of 537 local councils were impacted by natural disasters costing \$38 billion dollars per year to the economy. These costs are expected to rise to \$73 billion by 2060.

The country has made strong progress in disaster preparedness and response thanks to the National Emergency Management Agency. However, there is a clear opportunity to improve coordination and cooperation across all levels of government to enable faster and more agile responses.

Beyond disaster response, inconsistent regulations across states, territories and local government, like planning, zoning, heavy vehicle access and licensing rules, create major challenges. These inconsistencies slow down recovery actions after a disaster, but also drive up costs, and lead to misaligned infrastructure planning and investment in normal times.

To build resilience, reduce risk and lift productivity Australia needs a whole-of-government approach to supply chain and infrastructure. That means aligning regulation, planning and investment across all levels of government using shared data, skills and resources more strategically to support infrastructure resilience, and to better prepare for, manage and reduce the impact of disruptions and disasters.

Policy priorities:

- **National coordination to improve resilience and lift productivity:** Release and implement the findings of the National Freight and Supply Chain Strategy Review to improve coordination across all levels of government, and align infrastructure planning, investment and disaster preparedness efforts.
- **Regulatory harmonisation:** introduce intergovernmental agreements to require state and local governments to align their freight logistics policies and regulations with national objectives as outlined in the National Freight and Supply Chain Strategy Review.

3. ENSURE A RELIABLE ENERGY SUPPLY

Energy has emerged as a major ‘pain point’ for food and grocery manufacturers, best illustrated by the rapid increase in energy costs since 2020. The rise in energy costs – along with other inputs – has been a significant contributor to the increased price of food and groceries in Australia in recent years.

Ultimately, elevated energy prices are reducing the price competitiveness of Australian food and grocery products. However, a potentially more significant threat to the sector’s productivity is looming with regard to the security of energy supply.

Security and continuity of energy supply is vital due to the nature of modern manufacturing. Because manufacturing processes are intricate, interdependent and finely-tuned, any interruptions in energy supply – such as in a load shedding scenario – have a large impact on operations and represent a considerable risk to productivity.

Maintaining the stability of the grid is therefore a priority of the food and grocery manufacturing sector. It is vital that arrangements are put in place to manage the scheduled retirement of major thermal generation assets in coming years, so as to ensure the continued stability of the electricity grid.

The sector also has a particular interest in the continuity of gas supply. Gas comprises around 40 per cent of the food and grocery sector’s current energy mix. It is indispensable for certain industrial processes. Some food and grocery manufacturers are replacing gas with electrified alternatives, but in many cases their ability to do so is limited by high upfront costs or a lack of viable alternative technologies. Unless and until these limitations are addressed, the sector will continue to remain reliant on gas for its energy needs.

Given these circumstances, the ACCC’s warnings of looming east coast gas shortfalls are of concern due to the disruptive impact of gas shortages on the sector’s operations. The AFGC therefore welcomes the federal government highlighting the importance of long-term access to affordable gas.

Policy priorities:

Grid stability: Expedite the Australian Energy Market Operator’s development of an updated Transition Plan to detail measures to maintain system security, in anticipation of the retirement of major thermal generation assets.

Gas supply: Ensure a sufficient supply of affordable gas for commercial and industrial users, such as through an east coast reservation scheme, or measures to disincentivise exports of uncontracted gas.

4. SECURE SKILLS AND REGIONAL EMPLOYMENT

AFGC members regularly cite challenges relating to workforce skills and regional employment as significant productivity barriers.

There is a recognised skills shortage across the food and grocery value chain, putting pressure on the sector's ability to maintain productivity and drive innovation. A common challenge companies face is a scarcity of skilled applicants and a lack of experienced candidates, resulting in a small pool of highly skilled workers. This limited pool is subject to intense competition both within the food and beverage sector and from other industries.

In 2025, Jobs and Skills Australia released *The Essential Ingredient: The Food Supply Chain Workforce*, a valuable first step in exploring the complexities and workforce challenges facing the industry. Building on this, there is now a clear opportunity to partner with industry, to perform an in-depth skills audit. This would help identify gaps, support better planning, and ensure training and education programs are aligned with real-life industry needs.

The skills challenge is particularly acute in regional Australia, where nearly 40 per cent of the sector's workforce is based. Many food and grocery manufacturers serve as anchor employers in their local communities, yet they struggle to attract and retain skilled workers due to factors including a lack of affordable housing, limited essential services and poor transport and connectivity.

Addressing workforce challenges also depends on making regional communities more attractive places to live and work. This requires coordinated investment in housing, transport, connectivity and essential services. Improving the liveability of the region can help attract and retain skilled workers, and over time, increasing population density can create a stronger business case for further investment and economic development. In the short term, this transition can be supported by targeted programs helping companies relocating skilled workers to the regions.

Policy priorities:

- **Skills audit:** Partner with the sector to perform a skills audit, with the objective of identifying key skill gaps.
- **Regional employment grant:** Develop a federal grant program that companies can access to incentivise skilled workers' relocation to regional areas in order to plug key skills gaps.

5. STANDARDISE SUSTAINABILITY MEASURES

Improvements to productivity could be attained by the standardisation and refinement of sustainability measures.

Australia's transition to a circular economy for packaging is being hindered by fragmented policies, inconsistent regulation across jurisdictions, and an uneven distribution of responsibility across the supply chain. These inconsistencies drive up compliance costs, limit traceability, and deter investment in sustainable packaging innovation.

Regulatory uncertainty is a major barrier. Businesses cannot commit to multimillion-dollar capital upgrades to packaging lines, testing, machinery, and material sourcing without clarity and consistency in packaging design standards, recyclability criteria and regulatory timelines. Without certainty, industry risks delaying or forgoing necessary investments, impacting productivity and reducing Australia's ability to meet circularity ambitions.

In addition, the impending mandatory Scope 3 emissions reporting under the Climate-related Financial Disclosures regime is placing an unsustainable cost and resource burden across the food and grocery value chain, particularly on small and medium enterprises (SMEs). Fragmented reporting frameworks and inconsistent data requests from customers increase the risk of inaccurate disclosures, delay action to reduce emissions, and divert resources from collaborative efforts aimed at reducing emissions across the value chain.

A collaborative, value-chain-wide approach is critical to reducing duplication (double counting), and enabling transparent, actionable emissions reporting and reduction across Australia's largest manufacturing sector – lowering the productivity impact of meeting Australia's net zero ambitions.

Policy priorities:

- **Circular economy standardisation:** Establish a national regulatory framework that includes uniform standards for packaging design, kerbside collection, recycling infrastructure, and mandatory value chain traceability.
- **Scope 3 reporting standardisation:** Partner with industry to develop an interoperable Scope 3 reporting methodology.

6. PROVIDE TAX INCENTIVES FOR INVESTMENT

The AFGC advocates for a recalibration of tax settings that will promote productivity gains through spurring capital investment.

Investment is the key to opening up productivity growth. One of the most effective ways to promote productivity within the Australian food and grocery manufacturing sector would be to adjust tax settings to incentivise investment in productive assets.

The Temporary Full Expensing regime that was in place 2020-2023 had the effect of stimulating investment across the sector. This represents investment in assets that may not have occurred in the absence of favourable incentives.

It would not be necessary to resurrect Temporary Full Expensing to reap substantial benefits for investment and productivity. Much could be gained by a combination of reintroducing the Instant Asset Write-Off and a scheme of accelerated depreciation.

Comparable nations, such as New Zealand and the United States, have recently introduced measures to stimulate investment in productive assets, such as a new scheme of bonus depreciation (US), and accelerated depreciation (NZ). Recent legislative changes in the United States provide for immediate deductions for capital investment, to further incentivise investment in productive capacity. These are nations against which Australia competes for investment capital, and changes in tax settings in these jurisdictions make Australia a comparatively less attractive investment destination.

Additionally, eligibility for such measures should be sufficiently broad to incentivise investment from the companies best positioned to invest in Australia.

Policy priorities:

- **Instant Asset Write-Off:** Reintroduce the Instant Asset Write-Off to incentivise companies with turnover up to \$150m to invest in productivity-enhancing assets with a value up to \$150,000.
- **Accelerated depreciation:** Introduce a scheme of accelerated depreciation for business assets with a value in excess of \$150,000.

7. SUPPORT INNOVATION

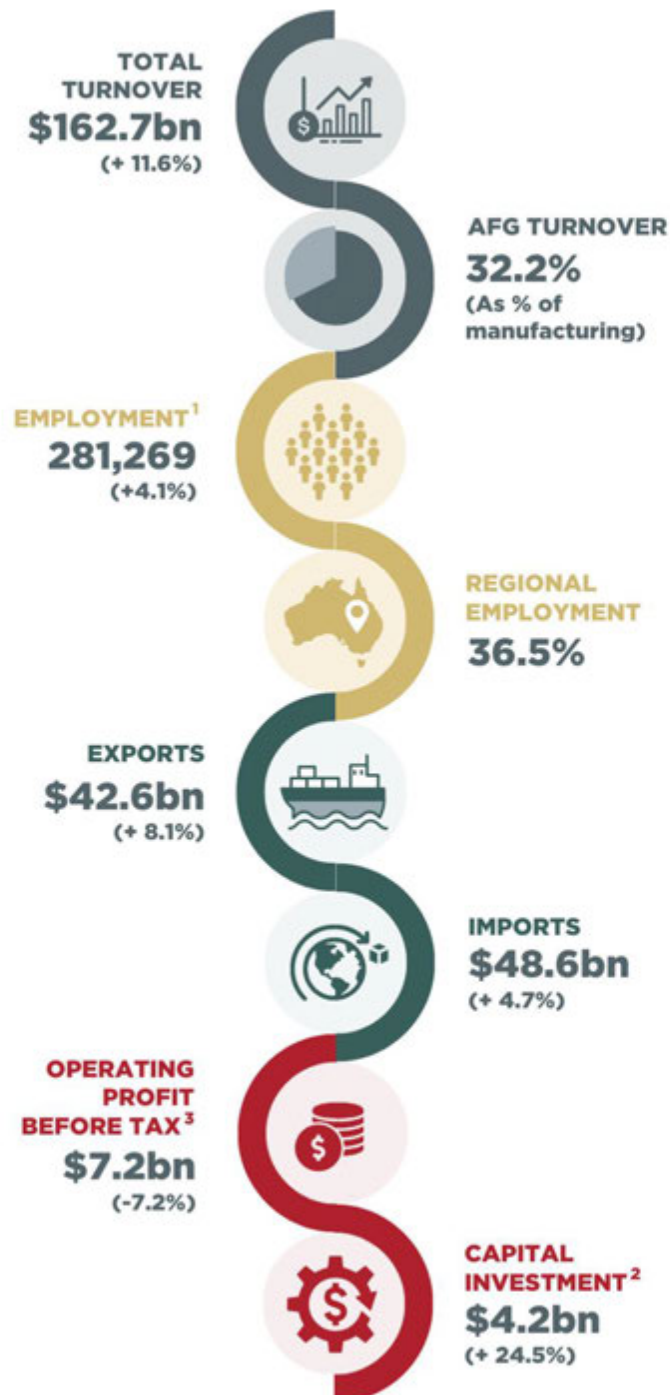
Australian productivity could also be improved through improving national innovation policy settings. For while Australia possesses some of the world's premiere research institutions, linkages between them and the commercial sector are not as well developed as they could be. This requires bridging the gap between scientific expertise and industry needs, which is a key inhibitor to R&D growth. Without dedicated mechanisms and skilled intermediaries, groundbreaking scientific discoveries remain trapped in laboratories, failing to translate into tangible, market-ready solutions. This 'translation gap' is a major impediment to progress. AFGC members have reported greater success collaborating with research institutions and universities internationally, citing greater linkages between fundamental research and its practical applications. This provides a clearer focus on leveraging research breakthroughs to yield commercial value and practical results. AFGC member feedback identified great potential for Australian adoption of successful international models of collaboration: with the Netherlands' 'triple helix' model – bringing together the private sector, government and academia – frequently cited as an example to emulate.

Considerable productivity improvements could also be achieved through expanding the tax relief available to companies pioneering innovation in Australia. This could be done, at a relatively low cost, by a modest extension of the existing Research and Development Tax Incentive to cover implementation costs for advanced manufacturing process innovations. This would help drive the rapid adoption of AI and robotic automation, particularly for SMEs. There is a strong element of the unknown and risk associated with such implementation projects and often also a lack of internal capability. Being able to claim implementation costs for these projects against the Research and Development Tax Incentive would encourage faster adoption, and unlock considerable productivity gains.

Policy priorities:

- **Learn from the Netherlands' success:** Examine the Dutch 'triple helix' approach to fostering public-private partnerships in innovation, to identify how Australia could adopt a similar framework.
- **Expand innovation tax incentives:** Expand the existing Research and Development Tax Incentive to cover the implementation of innovative process improvements.

State of Industry 2022-23



The figures on this page exclude the fresh food sector and are based on 2022-23 ABS data.

¹ This is total number of employees, head count basis and does not include seasonal employees.

² Gross fixed capital formation for food, beverage and tobacco manufacturing subsector is taken as indicator of capital investment.

³ For food, beverage and tobacco product manufacturing subsector.