

Costs of dairy product manufacturing study
Productivity Commission
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Dear Madam/Sir

Accord is pleased to provide the following initial comments to the Productivity Commission's (PC) Issues Paper on the *Relative Costs of doing Business in Australia: Dairy Products Manufacturing*.

Accord Australasia, represents the manufacturers and suppliers of formulated products, including: hygiene, cosmetics and specialty products, sunscreens, food contact sanitisers, household pesticides, disinfectants and specialty commercial products. These products help safeguard public health and enhance our quality of life.

The formulated hygiene, cosmetic and specialty products industry is a significant industry sector contributing to a prosperous Australian economy. Our industry's products include household and commercial cleaning agents; disinfectants; make-up and beauty products; toiletries and personal care products; hair-care products; skincare products, including sunscreens; oral hygiene; fragrances and perfumes, feminine hygiene products; industrial and agricultural sanitisers; household pest control; and adhesives and sealants.

Sector products play a vital role in:

- Safeguarding public health: Maintaining essential standards of hygiene and sanitation in institutions, hospitality, manufacturing and agriculture.
- Promoting personal well-being: Helping people keep clean, healthy and shielded from harmful effects of the environment.
- Maintaining comfortable homes: Enabling people to keep their everyday surroundings clean and inviting.
- Enhancing quality of life: Giving people greater personal freedom through time- and effort-saving technologies.
- Boosting confidence and emotional wellbeing: Providing opportunities for self-expression, individuality and pampering.
- Keeping the wheels of commerce and industry turning: Fulfilling specialised uses in industry, institutions and agriculture.

Accord has around 100 member companies which range from smaller Australian-owned family businesses to the local operations of large consumer brand multinationals (a full membership list is provided at Attachment 1).

Headline features and statistics for our industry's economic footprint include:

- Estimated annual retail-level sales of industry products nudging the \$10 billion mark.
- Accord member companies directly contribute more than 12,000 full-time equivalent jobs.
- Nationally more than 180 offices and more than 66 manufacturing sites are operated by Accord member companies.

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Products for healthy living and a quality lifestyle

In essence there are three distinct product segments for our industry, each with distinct supply chains through to the product end user:

- Industrial and Institutional products (e.g. commercial cleaning products, agricultural sanitisers) which are mainly sold on a business-to-business or business-to-government basis or through agricultural product resellers.
- Fast-moving consumer goods (e.g. household cleaners, laundry detergents, toothpaste, shampoo, soap) which are sold to consumers primarily via either: grocery retailers, pharmacies, mass-market retailers, direct selling and hardware chains.
- Cosmetic and beauty industry products (e.g. make-up, skincare, sunscreens, fragrances, hair dyes) which are sold to consumers primarily via either: department stores, specialty retailers, grocery retailers, pharmacies, mass-market retailers, direct selling, hair salons, beauty salons, spas and on-line.

Accord's members have a specific and direct interest in dairy products manufacturing. Approximately 40% of Accord members have an interaction with the Australian Pesticides and Veterinary Medicines Authority (APVMA), as the agvet regulator, which also includes responsibility for the regulation of e.g. dairy cleaning products and agricultural sanitisers.

The majority of Accord members which deal with the APVMA are small to medium enterprises operating in low margin businesses that are susceptible to input cost-pressures. The majority of products are either fast moving low risk consumer goods or low risk, well characterised products which represent a low regulatory burden on the agvet sector and are not the core focus of the APVMA's regulatory activities

Ours is a heavily regulated industry, as recognised by the PC in its 2008 report into chemicals and plastics regulation. Accord supports independent, science-based regulation where warranted for legitimate public health and environmental risks but, consistent with the PC report recommendations, believes Australia's overly complex and fragmented regulatory system for chemicals management and the costs associated with this regulation needs urgent and significant overhauling.

Governments have recognised the complexity of the regulatory system and the chemicals and plastics sector has been the focus of reform efforts following the PC study. Unfortunately, this has resulted in little by way of real outcomes having been achieved for our sector, but has resulted in increased costs due to the nature of cost recovery and a general tendency towards more unique Australian requirements rather than a move towards harmonisation of regulatory practices with that of our major trading partners.

At the Commonwealth level, Accord members are primarily regulated by three cost recovered agencies the Therapeutic Goods Administration (TGA), the APVMA and National Industrial Chemicals Notification & Assessment Scheme (NICNAS). In addition, member companies with consumer products are also regulated by the Australian Competition and Consumer Commission (ACCC) with particular regard to ingredient labelling, product safety, mandatory reporting and misleading and deceptive conduct. The ACCC is not cost recovered, yet is seen as a far more efficient and effective regulator than the TGA, APVMA or NICNAS.

Accord members have seen costs for regulatory services continually rising with a commensurate decrease in the quality and quantity of services provided. For Accord members, any proposed cost increases are not seen in isolation, but as an aggregate of the total cost of doing business in Australia which is much higher than elsewhere. This is not only through compliance with unique Australian requirements, but the additional costs imposed through cost recovered agencies and lost opportunity costs through an inefficient and complex regulatory regime. The growing impost on industry is not sustainable.

Australia is the only advanced economy which operates on a full cost recovery basis for industrial chemicals, therapeutic goods and agricultural and veterinary products. We believe that full cost recovery is a break on innovation, a barrier to trade and stifles competition. The introduction of cost recovery has not led to improved efficiency and effectiveness of the three major regulators with which Accord members deal; rather it has led to increased costs and reduced outcomes.

Accord is making preliminary comments in response to the Issues Paper for the PC's consideration.

We are highlighting an area where we believe a reduction in regulatory compliance costs and policy action and implementation through the adoption of a deregulatory approach to on-farm dairy cleansers and sanitisers will deliver benefits to Accord members operating in this area. This action will complement the recommendations of the National Commission of Audit to streamline the activities of regulatory agencies with a focus on high risk products and removing low risk, well-categorised products from the jurisdiction of agvet chemicals regulation.

Time and money are the costs associated with registering on-farm dairy cleansers for use as hard surface cleansers. For example something as simple as a label change can take up to four months to complete. Registrants are unable to quickly respond to market conditions, for example, there has been a concerted push by the dairy industry to have quaternary ammonium compounds removed from cleaning and sanitising products due to residue issues in finished dairy products (mainly infant formulae) in some European markets. An Accord member advised that it was unable to meet a customer's need within a timely manner to repack a product for farmers to use which is "qac free" to meet the new demands placed on them not from regulatory agencies, but upstream dairy manufacturers. Off-farm cleansers are not subjected to the same regulatory requirements and hence manufacturers of these products better placed to meet changing market demands and/or regulatory conditions. Accord members supply into the both markets, i.e. on and off-farm with similar products but which have very different regulatory requirements.

The PC is seeking information as to what extent these costs are amenable to policy action. A policy decision was taken in 2010 to develop a less regulated approach within the APVMA which involved either reduced data or a template approach. Industry has been working with the APVMA since 2010 to develop an acceptable model with no success, due primarily to the risk averse nature of the regulator. Given the government's focus on a deregulatory agenda we believe that a new policy decision is required to exclude these products from the APVMA's jurisdiction altogether and have the same regulatory treatment as for off-farm products.

Attachment 2 provides an outline of the current requirements along with a proposal which was put to the APVMA for a lighter regulatory touch. The approach is basically a self-assessment process against agreed-to standards. This approach is based on a successful New Zealand model for the management of products with a similar hazard profile but this has been rejected by the APVMA. We have included this as an example to demonstrate how industry was prepared to constructively work within the current agvet system to satisfy the APVMA that its regulatory requirements could be met through a lighter touch approach.

As mentioned, Accord has been in discussions with the APVMA since 2010 to accept a regulatory model for low risk dairy cleansers and sanitisers such that their regulatory treatment by the APVMA is comparable to that of their regulatory treatment by FSANZ. Despite years of work there has been little progress because the APVMA as a risk averse organisation has been unable to adequately distinguish between high, medium and low risk and apply the appropriate categorisation and controls.

Accord has presented a model based on a New Zealand system of recognising the control of hazards within a generic framework. However, we now believe that the time has come for this class of products to be excluded from APVMA registration altogether rather than pursue reform within the APVMA itself.

We note that in the APVMA Commonwealth Gazette of 25 February 2014, product sales for dairy cleanser for the 2012-13 financial year were approximately \$11M and disinfectants and sanitisers were approximately \$9M. Removing these low risk product categories from the APVMA would result in approximate savings of \$142,697 in levy fees with a further \$79,200 from annual registration

requirements. Further savings to industry would accrue as no registration applications would be required, no levies imposed, nor delays to market endured.

Of key concern to Accord members is the development of an appropriate risk management framework which recognises products of low regulatory concern and provide the appropriate controls to manage those risks. Any reform to the agvet regulatory environment must be done within a proper risk management control framework. However, the risk continuum for regulators differs considerably to that of industry. It has been Accord's experience that regulatory agencies have had limited success in implementing reform measures targeting the lower risk spectrum. This was also identified by the PC report which cited examples of failed reform measures as well as noting that Australian regulatory agencies are inherently conservative.

Clearly there is a need to develop a comprehensive regulatory approach to dealing with low risk products so that the APVMA can deal with more pressing issues.

A number of examples of a lighter regulatory approach have been provided to the APVMA and the Department of Agriculture in past submissions on reform priorities. We provide these to the PC in Attachment 3 by way of example of the number of options adopted internationally for reducing the costs on industry which can be adopted in the regulatory management of dairy cleansers and sanitisers should they remain with the APVMA's jurisdiction.

Notwithstanding, given that our suggested approaches have been ignored on numerous occasions and the APVMA has shown little inclination to adopt a low regulatory approach we put to the PC study our suggestion that these products be excluded from the scope of the APVMA altogether.

Accord looks forward to the next stage of the PC study. Should you have any questions in relation to Accord's submission please do not hesitate to contact me on 02 9282 2322, 0422569222 or by email at dsabic@accord.asn.au.

Yours sincerely

Authorised for electronic submission

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