Take Away Take-Away

The Self-Induced Destruction of the Australian Food Manufacturing Industry

INTRODUCTION

The Australian food-manufacturing industry is in trouble. Despite its potential, food companies are disinvesting and shifting production facilities offshore. Exports are declining. Productivity is low. The sharemarket performance of most leading firms has been simply terrible. The industry is shedding labour. And there is evidence that the process of decline is locked in and will be difficult to reverse.

Given that the food-manufacturing sector is the main market for many agricultural products and increasingly the main vehicle for the export of commodities, a declining food-manufacturing sector augurs poorly for the rural sector as a whole. All Australians are losing.

While there are many causes, the key problem is a complacent and often destructive workplace culture that pervades the industry.

This report attempts to highlight the cultural problems facing the industry.

THE MACROECONOMIC PICTURE

Overview

The food-processing industry has long been seen as the great hope of the Australian manufacturing sector. Food-processing is easily our largest manufacturing sector. In 1997–98, it employed 168,000 people and had a turnover of $47 billion. Both domestically and internationally, the industry has experienced quite rapid growth in demand—some 50 per cent higher than manufacturing as a whole.[1]

On paper, the food-processing industry has most of the essential fundamentals in place—something that cannot be said for many areas of manufacturing. It enjoys a relatively large and affluent domestic market—one of the largest in the Asian region. It enjoys a diverse range of low-priced, high-quality food inputs. As a country, Australia has an excellent reputation around the world as a grower of food. We sit on the edge of the fastest-growing market for processed food in the world—Asia. And the Australian industry already includes most of the world's major food multinationals.

Aside from a large domestic market, Australia offers multinational firms a pleasant and competitive base for exporting to Asia. Australia offers a far more attractive place to live for European and US expatriates than almost any country in the Asian region. Moreover, Australia has experienced excellent economic fundamentals for the better part of a decade and, in particular, in recent years, has had a super-competitive exchange rate.

Despite its potential, the food-manufacturing industry has long been a disappointment. Although some sections of the industry, such as wine, have prospered, indeed boomed, many sections of the industry have failed to live up to their potential.

That disappointment is now turning into despair. The industry is not just failing to meet expectations, but is in decline. Indeed, there are signs that the industry may have missed the windows of opportunity through which they could attract processing plants geared to the regional Asian markets. As a result, Australia is now not only facing the loss of export opportunities, but divestment in plants serving the domestic market as well.

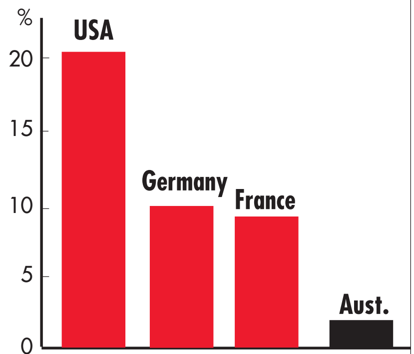
Poor Export Performance

Aside from processed minerals, the food-processing sector has long been seen as the most impressive prospective manufacturing sector in terms of exports. Over the 10 years to 1996, world trade in processed food more than doubled to US $464 billion, with the fastest growth, in terms of consumption, being in our region

Accordingly, the food-processing industry has been a prime target of State and Federal governments' attempts to induce higher exports, which has entailed hundreds of millions of dollars in expenditure. The industry has been given high prominence in Australia not only because of its inherent potential but also because of its link to our large and often struggling rural sector. Trade in processed food is increasingly becoming a necessary means for exporting agricultural products and thereby sustaining the agricultural industry. Processed food now makes up 75 per cent of total global agricultural trade, compared to 50 per cent in 1985.[2] Value-adding not only assists in circumventing the many protective barriers that inhibit commodity trade but creates new markets and products as well.

The export potential and related government assistance has not paid off. The Australian food-processing industry export performance has been poor. During the mid-to-late 1990s

Figure 1: Growth in Processed Food Exports, 1994–98



Source: UNCTAD/WTO, 1998, Cited in Instate, *op. cit.*, 2000.

(see Figure 1), while world trade in processed food was growing in excess of 10 per cent per year, Australia's exports grew by a mere 1.8 per cent per annum. Some areas did exceedingly well—in particular, beverages. Wine exports grew by 85 per cent and dairy exports recorded export growth of 30 per cent over this period. The rest of the food-processing industry had stagnant or declining exports and a shrinking share of the world market.

Australia's performance was poor, not only relative to its own potential but also relative to other high-cost, mature economies such as the US, Germany and France.

Declining Investment and Lost Opportunities

The 1990s should have been a decade of growth for the Australian food-manufacturing sector. Globalization of the industry offered the potential for Australia to attract the new generation of plants focused on supplying the Asia–Pacific region. Along with export decline, however, the industry appears to have missed the potential investment boom.

After the Second World War, the world food-manufacturing industry was structured to satisfy national markets from a large number of relatively small plants producing a plethora of local brands. Most food manufacturers owned and operated their own plants. Over the last 15 years this has begun to change. In response to global forces, multinational firms have secured a greater share of the world processed-food markets—though in recent years they have started to struggle. Generally, their global strategies are to cut the number of brands they manage, and to focus on building and strengthening this smaller number of global brands. They are also closing ageing plants and replacing them with large, sometimes massive state-of-the-art plants which focus on regional rather than national markets. There has also been a trend towards contracting-out the manufacture of niche products where the volumes are too small for large plants.

These—as with most global forces—present both an opportunity and a threat to Australia. The opportunity, which on any academic analysis looks very prospective, is that Australia stands a chance to attract new investment, particularly targeting the Asia–Pacific region. The risk is that if we fail to attract the new investment, we could lose existing national plants as they reach the end of their technological lives.

On the evidence, risks have outweighed opportunities.

There is a number of examples where world-class food firms have not just looked at, but invested in, Australia for the regional markets, particularly in the early-to-mid-1990s. For example, Campbell's bought Arnott's in the early 1990s specifically to develop biscuit markets and to export to Asia. Nestlé expanded its operations in Australia for the Asian and local markets. Indeed, quite a number of local manufacturers expanded capacity with an eye on the export market.

While there are some success stories, these are swamped by tales of disappointment.

In Victoria—which accounts for 32 per cent of the national food industry—15 significant food-processing plants have closed over the 14 months from April 2000 to August 2001, with a loss of over 2,000 jobs (see Table 1). Victoria is merely the starkest example of a national trend.

Some of the closed operations are simply shifting to other Australian locations, such as the Qantas Food Centre and part of the Heinz operations. Some of the changes are the outcome of productivity improvements that will enhance competitiveness. Nonetheless, many of the closures represent firms

Table 1: Food Manufacturing in Victoria
Lost Investment—Lost Jobs
Major business closures and lost investments since April 2000

Company	Location	Date	Jobs Lost
Bonlac	Drouin	April 2000	150
	Camperdown	April 2000	35
	Toora	April 2000	65
Kraft Foods	Leitchville	May 2000	86
Nestlé	Warrnambool	June 2000	122
Heinz	Dandenong	July 2000	192
Goodman Fielder	Ballarat	October 2000	70
Qantas Food Centre	Lost to Queensland	November 2000	130
Bonlac—Spring Valley	Cheltenham	November 2000	170
		December 2000	35
Arnott's	Burwood	May 2001	600
Southcorp	Melbourne	May 2001	220
Nulty's Bakery	Ballarat	May 2001	30
Unilever	Mulgrave	August 2001	160
Berri	Reservoir	August 2001	50
Nestlé	Maryborough	August 2001	140
Total			**2255**

leaving Australia. Indeed, it is not just the production facilities that are leaving, but head office operations, as has happened with Campbell's and Nestlé going to New Zealand.

There are also examples of major global firms, such as Barry Callebaut—one of the world's largest and most successful chocolate manufacturers—coming to Australia to investigate building a plant to service the regional market, but leaving in frustration. [See Case Study 2 below.]

There is also evidence that the investment made in the 1990s, to take advantage of growth in export markets, has met with disappointment. A recent survey of food manufacturers found that capacity utilization in the local industry was low, significantly below 60 per cent.[3] Although there were several reasons given for the excess capacity, a common reply was 'misjudgments about the likely rapidity of growth of domestic and export markets'.

There is powerful evidence that we have missed the window of opportunity that existed in the 1990s, and that the worst, in terms of disinvestments, is coming. As the CEO of a major listed Australian manufacturer stated:

> I'm very worried about the future of our firm, say in two to three years' time. The Asia meltdown weakened Asia, but the rebound is already starting and that's what I'm worried about. For example, new equipment will be installed in Asia. If we don't act fast, we will miss the opportunity. The multinationals who have invested in Asia are 40–70 per cent cheaper than us. I worry about how we are going to compete.[4]

Poor Stock Market Results

The overall stock market performance of Australian food manufacturers has been dismal (see Table 2). Of the 15 large food manufacturers listed on the Australian Stock Exchange (excluding fish and grain processors), only four beat the market over the last two years. Indeed, only four stocks achieved an improvement in value. Most experienced large double-digit declines in share value. Indeed, the market index for the food-processing sector has declined by around 25 per cent in absolute terms and by nearly 50 per cent against the overall market (the All Ordinaries).

While the stock market is volatile, the track record of the food-processing sector indicates major and pervasive problems with value creation. The problem of profitability is not restricted to a few firms, but rather is persistent throughout the industry. The listed firms that have achieved growth in market value have done so to a great extent by way of mergers and acquisitions rather than through organic growth. Moreover, the problems cannot be put down to a slow domestic market, as the Australian economy exhibited solid overall growth as well as good growth in food sales over this period.

The reasons for the poor performance are clear: namely, in Australia there is little competitiveness in value-adding. As reported in a recent study:

> During interviews with very senior and experienced managers in large companies, they said that in Australia, value-adding …was unlikely to confer competitiveness and often diminished it.[5]

Low Levels of Productivity

The underlying reason for the failure to live up to expectations—whether in terms of export, investment or profits—is low levels of productivity.

There has been a number of studies of the industry in recent years, and all of them identified unrealized potential and an urgent need to address issues. While these studies are inordinately delicate in their use of terminology, and coy when talking about workplace relations, their concerns come through.

Arguably, the best study was undertaken by McKinsey & Company under contract to the Australian Manufacturing Council—a tripartite body that has now been disbanded. It found that Australian food-processing plants were, on average, just 68 per cent as productive as similar plants in the US, and some 39 per cent behind their competitors in Denmark.[6]

The key factors identified by McKinsey for Australia's weak performance were low capital investment, the small size of most Australian plants, weak commitment to innovation and poor labour relations.

Other reports have confirmed these findings and, importantly, have found little change in the subsequent six years.

Although the studies tend to focus on solutions aimed at other factors—most commonly investment and innovations—labour relations is clearly the key issue.

As McKinsey & Company stated: 'poor labour relations [in the industry]… retarded rationalization, investment, and process modernization'. In other words, poor workplace relations

Table 2: Australian Listed Food Manufacturers
Change in share value, 3 July 1998 to 26 November 2001

Manufacturer	Nominal Change
Australian Pure	-58%
Buderim Ginger	-38%
Con Foods	-62%
Chiquita S.P.Ltd.	-51%
Farm Pride Foods	-32%
FFI Holdings	9%
Green Foods	-16%
Goodman Fielder	-40%
King Island	70%
National Foods	-4%
Network Foods	-32%
Snack Foods	213%
So Natural	-50%
SPC Ltd	71%
George Weston	-30%

Source: ASX

have undermined competitiveness directly, as well as indirectly, by inhibiting capital investment, plant rationalization and innovations.

The conclusion from the studies is to focus on workplace issues. After all, policies that focus on the easier, less contentious issues, such as investment and innovation, are likely to yield little value if they are going to be undermined—as McKinsey found—by poor labour relations.

What is Wrong with the Workplace Culture in the Food Industry?

No report has ever sought to look closely at the labour relations issue as it plays out 'on the ground'. To address this, the IPA has assembled a number of case studies which bring out both the nature and the extent of the problem.

Case Study Number One:
A story of a business that is in Australia, had a disaster, scaled back and divested overseas!

Heinz and Its Former Dandenong Plant

Were you one of those Aussie kids who loved slurping through a bowl of Heinz Alphabet Spaghetti soup, spooning for your favourite noodle letter? Or are you a Big Red tomato soup lover? These are just two of nearly 350 food products that used to be made at the Heinz plant at Dandenong in outer Melbourne, which closed in July 2000, and which are now made overseas, often using Australian-grown produce.

The sequence of events that culminated in the Dandenong plant's closure point to one thing: that persistent, intractable labour strife, particularly during vital, yearly production periods, was the reason that the plant closed. The process of labour trouble and plant closure stretched out over at least 15 years. Up to 500 jobs have disappeared and millions of dollars in import costs are now borne by Australians each year. In fact, the jobs should still be in Australia earning export income.

The story of the Heinz Dandenong plant closure sets the scene for understanding how Australia's insular, cultural approach to labour relations is destroying our potential in food manufacturing, and killing jobs.

Heinz is one of the world's largest food conglomerates. Founded in the USA in 1869, in 2001 Heinz has sales approaching $US10 billion, with 45,000 people working in 50 companies on 6 continents, and marketing, producing and distributing more than 5,700 products. Some of the recognizable Australian brands include Watties, John West, Greenseas and Weight Watchers. Since the closure of the Dandenong plant, New Zealand has become Heinz's regional production base, supplying Australia, Japan, the Asia–Pacific region and to some extent North America.

The Dandenong plant was established after the Second World War and produced soups, spaghetti, canned beans and, in the 1990s, microwave and snack-pack type products. It was sited on a sprawling industrial plot well clear of residential areas but close to a good urban workforce and on a major rail route that delivered Latrobe Valley briquettes for its furnaces. It had plenty of room to expand, had minimal environmental issues to manage, and huge infrastructure in terms of equipment, warehousing and administration.

The key to understanding the Heinz business that was at Dandenong, is tomato paste. Tomato paste is used as the base ingredient for a vast array of food products. (Have a look at the labelled ingredients on processed food in your pantry and tomato paste will feature in a significant number.) The Shepparton/Echuca area in central Victoria is the tomato-growing centre of Australia. The growing season is from mid-January to May. Fresh tomatoes have a 'bin' life of perhaps a week, and degrade quickly.

During the growing season, tomatoes were trucked from Shepparton/Echuca to Dandenong to be evaporative-reduced into tomato paste. Approximately 10 bins of tomatoes would reduce into 1 'slab' of paste that was airtight-sealed and preserved naturally in this form for years. During the 1980s and 1990s each paste slab was worth about $A3,000. Paste would be reconstituted as required during the year for use as the base ingredient for products from Dandenong. Paste was also exported. The only drawback in this production process was the comparatively high cost of transport of tomatoes (which are 90 per cent water) from Shepparton/Echuca to Dandenong.

What killed the Dandenong plant, the jobs and the export income was the almost religious way in which labour disruption would be observed every year—particularly during the critical tomato-growing and processing periods. During the late 1970s, 1980s and 1990s, not one year passed without a strike or industrial action that sabotaged production and saw valuable tomatoes rotting in the bins. One year witnessed a six-week strike during harvest time.

From the narrow perspective of negotiations, this industrial terrorism had its own logic. By hitting the company when it was at it is commercially most vulnerable, the unions could extract the greatest short-term concessions. These tactics, however, were overplayed and eventually sent a message to Heinz that Dandenong could never operate at peak potential and that the losses suffered through degraded tomatoes and poor production would be ongoing. Industrial relations problems persisted in a strategic manner through the year, typified by black-banning of the operation of strategic machines at critical times.

The plant management structure came to reflect this industrial relations dynamic. Dandenong management was top-heavy, with a local industrial relations department. Normally, production plants of comparable size would not have such a section. The outcome was that production supervisors and foremen had no capacity to manage their sectors, as even minor issues were always referred to the industrial relations department. Instead of issues being fixed, they expanded into processes of endless negotiations with opposing sides looking to justify their existence by achieving 'trade-offs'. To counter this negativity, every management fad was tried to improve staff relations. Group-bonding sessions, 'fun' times, formalized heartfelt exchanges all featured—and were all dropped. Human resources managers came and went, with few lasting more than two years. There was no long-term strategy directed to achieving a harmonious fix, and the destructive under-performance persisted to the end.

Heinz never officially declared that it intended to close the plant, until the very end. But in retrospect, the process of closing Dandenong evolved over about ten years, as Heinz quietly and strategically developed alternative production infrastructure.

In about 1989, Heinz investigated building a new tomato-paste extraction plant near Shepparton. The key to its investigation was an assessment of the attitude of potential workers in the area. In the local rural community they found attitudes of independence and 'get up and go', and a keenness for the plant. A new high-tech plant was built and, during the early 1990s, tomato-paste extraction was progressively transferred from Dandenong to Shepparton.

Retrenchments quietly began at Dandenong in the early 1990s. Plant upgrades that could have been done, weren't done. For example, Dandenong was largely clad in 1950s' asbestos sheeting, which was safe while left untouched, but needed to be replaced if the plant was to stay. The sheeting remained. Land around the plant was sold by Heinz for residential development, thereby constricting its physical buffer zone. In the late 1990s, the plant's administration was shifted from Dandenong to the Melbourne suburb of Caulfield. In July 2000, the plant closed, but by then only 190 people were left on site.

Heinz now sources and reduces its tomatoes in Shepparton/Echuca, and exports the paste to New Zealand for processing into finished products.

Heinz has learnt some valuable lessons about doing its business in Australia. Australia is a great place to purchase fresh produce, can be innovative in marketing and new ideas, but it's a very dangerous place in which to try to add value.

PRODUCED IN AUSTRALIA PRODUCT ELSEWHERE

Case Study Number Two:
A story of a business that wanted to come to Australia, had a good look, saw a disaster and went somewhere else!

PRODUCED IN AUSTRALIA PRODUCT ELSEWHERE

Barry Callebaut and Its Non-plant

Barry Callebaut is one of the world's largest and most successful chocolate-manufacturing and marketing companies. Consolidated sales in the current six-month period (2001) rose 18.8 per cent to $3 billion. This vertically integrated company, listed on the Swiss stock exchange, produces approximately one-third of the world's bulk chocolate, processes 14 per cent of the world's cocoa production and 14 per cent of the world's cocoa beans. It operates a global network of 24 state-of-the art production plants in Europe, Africa, North America, South America and Asia.

Like other global food manufacturers, Barry Callebaut seeks to position itself to service the emerging Asia–Pacific markets now and into the long-term future. Australia is an important, developed regional market for their products. In 1995, the company undertook an extensive due diligence exercise on the prospect of siting its first Asia–Pacific plant in Australia.

Australia was not chosen, and instead a plant was built in comparatively high-cost Singapore. The $80 million high-tech Singapore plant employs about 45 well-paid people. Many of the raw ingredients are sourced in Australia, processed, valued-added and sold back to Australia and to other Asia–Pacific markets.

A key factor in not choosing Australia was the problem of poor and seemingly insoluble labour issues. The conclusion in 1995 was that because of persistent, negative labour issues, a plant could not confidently be built within the budget or timeframes required, or operated at the levels of productivity necessary to warrant the investment.

Barry Callebaut stays abreast of the Australian scene, and if requirements ever warranted, Australia could possibly be included in a further due diligence exercise for a second Asia–Pacific plant along with other regional options. Barry Callebauts's position as a purchaser of Australian raw products and seller of value-added products to Australia, means that the company has good, up-to-date working knowledge of the state of the Australian work culture. Their contact with Australian food manufacturers is extensive. Their knowledge of the problems that Australian food manufacturers have on labour issues reinforces its 1995 decision not to locate in Australia. Future reconsideration of Australia as a prospective site for a plant would require clear evidence of a significant and positive shift in the Australian working culture.

The implications of the Barry Callebaut story are not just the direct loss of investment, jobs, cost of imports and loss of export revenue, but also of Australia's reputation as an investment option. As a world leader in the global food chain, Barry Callebaut has contacts with other major food producers, particularly in Europe, and with global fund managers. The 'word of mouth' message for potential investors that the Barry Callebaut story delivers, is that Australia is not a viable option in the food-manufacturing sector. The message is as clear for Australian investors as it is for global ones.

Case Study Number Three:

A business that tried to come to Australia, experienced a disaster, won't stay here but probably wouldn't say so

Saizeriya and Its Vacant Block of Land

Saizeriya is one of Japan's modern innovative success stories and defies the gloom pervading that country. Go to any major Japanese city and you are bound to find one of Saizeriya's authentic Italian restaurants, with imported Italian chianti and pasta, a true Italian atmosphere and prices that are way below those of their rivals. It is this combination that created a profitable food giant with an ambition to have 800 outlets by 2010.

A key to Saizeriya's success is the supply-chain possibilities offered by the new global economy. Fresh produce is sourced in Italy and washed, chopped and diced before being flown direct to Japan. The extensive food preparation completed at the source of growing avoids the high labour costs involved in traditional Japanese restaurants and delivers higher quality control.

Australia was to be a beneficiary of this global economic dynamic. Saizeriya has been courted by the progressive City of Melton, in outer Melbourne, to set up a food-processing facility in its municipality. All the elements existed for success. High-quality, fresh produce is being grown in the city surrounds and could easily expand. The road–air link infrastructure is of world-class standard. Melbourne is a city of significant Italian heritage and has extensive local expertise in Italian cuisine. An educated, eager workforce is at hand, and the Victorian Government has keenly supported the project with free land. Saizeriya took the big step and committed to constructing the first phase of what should have been a $A400 million investment. These investments were to be a key to a $1 billion industrial zone being planned by the Shire of Melton, which has put together an integrated industry development package to attract significant interest from likely businesses.

However, someone forgot to factor in the unwritten rules of the Australian approach to controlling work. Unwittingly, Saizeriya broke those rules, and that breach has probably killed the project.

The problem is simple. In doing its operational planning, Saizeriya cast around to construct an enterprise agreement to cover labour issues. They entered discussions with the National Union of Workers (NUW) and reached an agreement that was signed off in the Industrial Relations Commission (IRC). Then the turf war broke out. The Australian Metals Workers Union (AMWU) claimed rights to operational coverage of the plant. In pursuit of its claim, the AMWU banned the delivery of building materials to the construction site to try and blackmail Saizeriya into giving the AMWU operational coverage. In doing this, the metal fabrication company Alfasi, whose workers are AMWU members, stopped the supply of metal to the site, under pressure from the AMWU and in defiance of IRC and Federal Court orders. If Saizeriya were to somehow circumvent Alfasi's ban, the AMWU could easily impose another ban on other critical building materials.

This tragic case reflects the uniquely Australian approach to regulating work, where nothing is ever what it seems. The formal rules are irrelevant to the true game that only becomes apparent when exposed. The subtext of mafiosi-like control of work sets the real rules at which the formal legal system is a neutered bystander. The controllers of this mafia/union game use the banner of workers' rights to mask their own self-interest. That Australian workers will never know these lost jobs is not of concern to the AMWU. The only job the AMWU will accept is an AMWU job.

Currently, the factory site is an empty shell and is more that 12 months behind schedule. Saizeriya has people to feed in its restaurants and cannot wait. It is having to move on.

One can already see the scenario in Japan when Saizeriya holds a luncheon for any of its willing institutional investors. Instead of Australian beef stock being one of the possibilities on the lunch menu, Australia as a laughing stock will feature on the discussion menu.

Case Study Number Four:

A company which purchased an Australian icon brand, has had real problems and is trying to sort it out

Arnott's at Burwood, the Neutering of Management, and Time to Close

Arnott's is one of Australia's great business success stories, with more than 3,000 local staff. Founded in Australia more than 130 years ago, Arnott's is a brand-name icon for quality in biscuits. Chocolate-biscuit lovers will know Tim Tams and most Australians recognize the brand image of the colourful parrot eating a biscuit held in one claw. To the shock of many Australians, Arnott's was purchased by the giant Campbell's Soup company of Canada during the 1990s.

Campbell's has global sales approaching $Can 6.7billion, specializing in soups, biscuits and confectionery. Arnott's is recognized by Campbell's as a product with 'powerful brand potential in the Pacific markets'. The acquisition of Arnott's was a key move by Campbell's in its global strategy to develop and supply biscuit markets. This is highlighted by the Campbell's reported 2 per cent growth in biscuit (and confectionery) sales in 2000, which made an important contribution to profitability 'primarily due to the performance of the core cracker business of Arnott's in Australia....' Within this strategy, Campbell's has a commitment to improving gross margins through 'continued productivity gains in manufacturing facilities'.

In 2001, Arnott's announced the closure of its principal manufacturing plant in the Melbourne residential suburb of Burwood, and the relocation of the Australian manufacturing and warehousing facilities to Queensland. 550 jobs are to be eliminated. The reaction from the unions at Burwood and from the Victorian Government was one of wild condemnation. Total Campbell's' budgeted cost for the 'reconfiguration' exceeds $Can30 million.

In 1994, Campbell's purchased the New Zealand 'Koki' biscuit brand and business with the associated New Zealand-based manufacturing facilities.

Campbell's has said little about the reasons for the closure of the Burwood plant. Ageing equipment and proximity to residential dwellings have been offered as two factors; however, a study of the labour situation reveals a pervasive problem.

The Burwood plant has not suffered from excessive strike action, but rather low-profile and persistent labour–management problems. This is best comprehended by understanding the site-specific Enterprise Agreement covering Burwood. The key feature of the Agreement is the requirement for a 'Joint Improvement Committee' which was 'charged with the responsibility for the implementation of the contents of the agreement...' The Committee has 15 members with only six appointed by management. The Committee meets every two weeks with a formal agenda circulated beforehand. The Committee can create sub-committees that have to have employee dominance. Before the Committee can make operational recommendations, matters have to be referred to the Single Bargaining Unit of the more than four unions on site.

The matters over which the Committee has authority include, but are not limited to:

- Planning processes for quality control.
- Stipulation of human resource management planning.
- Systems of employee payments and timekeeping.
- Employee attendance levels and management of absent employees.
- Shift times relating to sales movements.
- Production and delivery rosters.
- Career paths and training.
- Engagement and pay rates of casual and/or contract employees.
- The insurance broker company to provide site services.
- The provision of mobile phones.

In effect, Arnott's had signed an Agreement that destroyed the ability of the Burwood site managers to manage, and where control of the plant was assigned to the employee collective under the authority of the Committee and the Bargaining Unit. The outcome was a management system that was highly formal, bureaucratic, slow and ineffectual. The misnamed 'managers', in effect, acted as lobbyists to the Committee and as promoters of their preferred employees for election to the Committee. 'Managers' on salaries of $70,000 a year took their instructions from junior employees. To have any impact on how the site was to operate, 'managers' had to be deft at the manipulation of employee and union site politics. This management system clearly could not have delivered the levels of continuous productivity improvement that Campbell's apply as a benchmark to their global operations. Closing the site fixes the management problem.

The shift of the manufacturing facilities to Queensland does not guarantee that Arnott's production will remain in Australia. Campbell's owns the Koki biscuit-manufacturing facilities in New Zealand. It has a stated commitment to use Arnott's brand-name power to develop the Asia–Pacific ►

biscuit market. The physical location for manufacturing need only be within the Asia–Pacific region to satisfy the business development strategy, and Campbell's has long-term location options. To remain viable, the Queensland plant will need to prove that it can meet the continuous, productivity improvements in line with Campbell's global standards.

Case Study Number Five:
A business that is here, had a disaster, found a better way and is establishing alternative facilities

Nestlé at Campbellfield and When Will it Close?

Nestlé prides itself on being the world's largest food company. Headquartered in Vevey, Switzerland, Nestlé had global sales in 2000 of \$A83.2 billion, with \$A2.2 billion drawn from the Oceania region.

Nestlé was established in Australia in 1908 and has up to a dozen major Australian manufacturing plants, located principally in and around Sydney and Melbourne. Well-known consumer brands include Nescafé, International Roast, Milo, Carnation, Kit Kat, Smarties, Minties, Life Savers, Lean Cuisine, Maggi, Peters Ice Cream, Go Cat, Lucky Dog and Friskies. In addition, extensive hospitality and industrial food products are supplied to the Australian market as well as a full range of products to the Pacific Islands.

In the last 10 years or so, Nestlé has experienced increased difficulties with labour issues at key Australian production plants.

In the mid-1990s, a seminal dispute occurred at the Kit Kat production plant in Campbellfield, Melbourne, which resulted in a six-week lockout. To ensure continuity of supply to the Australian market, Nestlé imported Kit Kat from its York plant in the UK. It has been reported that the landed UK Kit Kat was up to 10 per cent cheaper than the locally produced product. This is understood to have initiated reassessment of the Australian production facilities. Local regulations concerning vegetable oil content in chocolate were a factor in the price differential, but with recent food regulation reforms designed to meet international standards, the local Kit Kat product is now truly global. Nestlé recently developed a hybrid of the well known Kit Kat called Kit Kat Chunky, which has proved highly successful and which is, in part, imported from Malaysia.

In 2001, the company had a three-week lockout of employees at a major yoghurt-making plant in Echuca, Victoria, following six weeks of industrial action at the plant over disputes in enterprise negotiations. At the time of the dispute, it became known that Nestlé was in exploratory discussions with other State Governments.

In mid-2001, Nestlé announced plans to close its Maryborough confectionery-manufacturing plant in central Victoria, and to move its regional confectionery business headquarters to Auckland.

CONCLUSION

In summary, the trend is clear. We are witnessing a collapse of the food-manufacturing industry, with major food production plants being stripped from Australia.

There are several causes for this, but the key issue from which we hide is that our workplace culture is failing us. We do not, as a society, offer certainty to major food players that we, collectively, want to join them in their global business strategies. Without this desire, we cannot succeed.

We have a sickness that only we can fix. If we do not act soon, the case will become terminal. The first task must be to identify and accept that we are our own problem. The IPA's intent is to disclose this truth.

A more detailed IPA commentary on this research can be read at our Website: www.ipa.org.au.

NOTES

1 Instate Pty Ltd, 'Exporting Australian Processed Foods: Are We Competitive?', 2000, page 15.
2 Charlebois, P., and Schimdhuber, J., 'Agricultural Trends and Issues to 2001', *The OECD Observer*, No. 205, April/May 1996.
3 Instate Pty Ltd, *op. cit*., page 31.
4 *Ibid*., page 45.
5 *Ibid*., page 23.
6 Lewis, W.W. *et al*., 'What ails Australia?', *McKinsey Quarterly*, 1996, No.1, pages 90–103.