

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

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GLOSSARY OF TERMS AND ACRONYMS

CIE	Centre for International Economics
COAG	Council of Australian Governments
Code	<i>Australia New Zealand Food Standards Code</i>
Codex	Codex Alimentarius Commission
CoOL	Country of Origin Labelling
EU	European Union
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 (a single product variant with its own unique label distinguished, for example, by flavour or size)
TPA	<i>Trade Practices Act 1974</i>

EXECUTIVE SUMMARY

The Direction

In October 2005, Food Standards Australia New Zealand (FSANZ) received a Direction from the Australian Government to examine the feasibility, benefits and costs 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.

Objective

The principal objective of the proposed extension of CoOL is the provision of adequate information relating to food to enable consumers to make informed choices. This fits within the objectives of FSANZ that are set out in section 10 of the FSANZ Act and are as follows:

- the protection of public health and safety;
- the provision of adequate information relating to food to enable consumers to make informed choices; and
- the prevention of misleading or deceptive conduct.

FSANZ's approach

The feasibility study involved five major components:

- an economic, benefit-cost analysis undertaken by the Centre for International Economics (CIE);
- an analysis of compliance costs utilising the Office of Small Business Costing Tool;
- a review of research regarding consumer perceptions of CoOL;
- extensive consultation with stakeholders including two rounds of public comment on documents detailing the key issues; and
- an assessment of the extension to CoOL against the Council of Australian Government (COAG) Principles of Good Regulation.

Following is a summary of FSANZ's overall findings regarding the feasibility of the proposed extension of CoOL, along with the outcomes of each of these assessments.

Key findings

Results of the study clearly show that the costs outweigh the benefits, and:

- There would be significant costs associated with the proposed extension to CoOL.
 - The extension to CoOL would have an adverse impact on Australian industry.
 - All consumers would pay more for a small, incremental increase in information that would be used by only a small proportion of consumers in making purchases.
 - No evidence has been found to suggest that consumers would be prepared to pay more for the incremental increase in CoOL that is proposed.
- The analysis also indicated that the proposed extension of CoOL is potentially inconsistent with a number of the COAG Principles of Good Regulation. For example, the extension to CoOL does not represent the minimum regulation required to achieve the desirable outcomes and would be likely to adversely impact on competition.
 - The study found no evidence of systemic market or information failure that justifies regulatory action. CoOL information is already provided and additional CoOL is also provided where the market deems it economical to do so (and this is highly prevalent already). It may be premature to extend CoOL when the impact of the recently gazetted CoOL Standard (December 2005) has yet to be assessed.

More detailed assessment

Following is some more detailed information regarding the outcomes of each of the separate assessments undertaken by FSANZ.

Outcome of benefit-cost analysis

The CIE concluded that the weight of evidence suggests that:

- the public costs of the proposed extension to CoOL would exceed the public benefits;
- 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 small increment in information of value to a small number of consumers; and

- the domestic industry would be harmed in favour of imports of finished products.

CIE also concluded that:

- 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. This 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;
 - increase imports of finished processed horticultural products;
 - decrease imports of horticultural ingredients for processing; and
 - 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;
- 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; and
- consumer research suggests that perhaps only 10 per cent of consumers¹ value CoOL information as highly important. 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 by using it when making purchases. Based on consumer research, this seems highly unlikely and it would be severely inequitable imposing costs on all consumers to benefit a select few.

For more information regarding the CIE analysis, please refer to Chapter 3.

¹ Consumer studies show a range of 3%-19% of consumers place high importance on CoOL information in making purchase decisions. A value of 10% was used in the benefit cost analysis calculations.

Outcome of analysis incorporating Office of Small Business Costing Tool

This Costing Tool was used by CIE, along with other detailed analytical results, 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, CIE considered that these figures underestimate the true cost to industry as they do not take into account all impacts.

For more information regarding the analysis using the Office of Small Business Costing Tool, please refer to Chapter 4.

Outcome of review of consumer research

A review of relevant Australian and international research has been undertaken by FSANZ.

Where data on CoOL exists, it is typically about the desirability of CoOL generally (assuming the absence of any existing CoOL) or incidental to the original purpose of the study. The studies are therefore limited in their application to this proposed extension of CoOL. However;

- there are no studies on consumer perceptions of the proposed extension to CoOL; and
- there are no studies regarding the amount that consumers value any increase in CoOL in the manner proposed (i.e. their willingness to pay for the proposed extension of CoOL).

On the basis of the studies examined, the following general findings may be drawn:

- while awareness and recognition of country of origin information is high among food purchasers, price and quality are the most frequently used characteristics in making food purchases;
- up to 50 per cent of consumers use CoOL information in food purchases, and studies show that 3 per cent to 19 per cent place a high level of importance on that information in making purchasing decisions; and
- only a very small proportion of consumers consider country of origin information the most important in purchasing decisions.

These findings need to be interpreted within the current context in Australia and the fact that there is already considerable CoOL information provided on many processed horticultural products. For more information regarding the consumer research, please refer to Chapter 5.

Outcome of consultation with stakeholders

In total, FSANZ received 59 written submissions (24 in response to an initial notification and 35 in response to the subsequent Discussion Paper).

Overall, the majority of stakeholders did not support the proposed extension of CoOL. The major reasons given for opposing the proposed extension were:

- significant additional costs (of the magnitude estimated by CIE);
- the absence of any demonstrated benefit to consumers and the risk of disadvantage to consumers as the proposed extension of CoOL would be likely to confuse consumers;
- the limited evidence of consumer demand for extending mandatory CoOL in the manner proposed;
- the absence of any market failure that justifies regulatory action;
- the potential detriment to local horticultural suppliers if manufacturers source overseas ingredients to minimise supply disruption and avoid costs associated with changes to labelling to accommodate local ingredient supplies;
- concerns regarding enforcement. It was suggested that not only would the proposed extension of CoOL be unenforceable for imported foods, there would be significant cost to jurisdictional enforcement agencies and AQIS for inspections and other compliance activities;
- concern that the extension to CoOL is contrary to the policy guidelines on CoOL set out by the Ministerial Council, the spirit of the new Standard and the general principle of minimum effective regulation; and
- concern that the extension to CoOL puts Australian industry at a disadvantage internationally and that the measures could:
 - be interpreted as protectionist by trading partners;
 - potentially harm important export market relationships; and
 - be in conflict with trade obligations.

A minority of submitters supported the option. The main reasons given were as follows:

- fulfilling the consumers' right to know;
- increasing consumer awareness of where their food is coming from;
- assisting consumers to exercise preferences by enabling them to purchase products from a particular country or avoid products from a certain country;

- addressing some of 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;
- potentially benefiting regional communities (if consumers purchase more Australian produce as a result of the labelling change); and
- greater benefit than cost. A number of submitters suggested that the costs detailed in the CIE analysis were inflated and that the costs would in fact be minimal. For example, 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 and existing technology for packaging enables changes to be readily done in a short time period.

For more information regarding the views of submitters, please refer to Chapter 6.

Outcome of assessment of the option against the COAG Principles of Good Regulation

FSANZ considers that the proposed extension of CoOL is potentially inconsistent with a number of the COAG Principles of Good Regulation. In particular, the extension to CoOL:

- does not represent the minimum regulation required to achieve the pre-determined and desirable outcomes;
- would be likely to adversely impact on competition as the cost increases would disproportionately affect small firms and product lines and reduce the competitiveness of Australian industry;
- would not be consistent with international practice (FSANZ is not aware of any other country that requires CoOL of the type proposed);
- may inadvertently impact on international trade; and
- may result in uncertainty for business. As changes were made to the CoOL Standard as recently as December 2005 (and the new requirements are still in the process of being implemented) it could be argued that extending CoOL may be premature and increases regulatory uncertainty.

For more information regarding the assessment of the option against the COAG Principles, please refer to Chapter 7.

CHAPTER 1: PROBLEM AND OBJECTIVE

A. What is the potential problem being addressed?

Consistent with good regulatory practice, FSANZ examined 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 from 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); and
- the extent to which manufacturers provide this information on their labels, on the defined range of products.

Taking into account the CIE analysis discussed in Chapter 3, the review of consumer research discussed in Chapter 5 and the advice provided by submitters (Chapter 6), FSANZ considers that:

- the proportion of consumers that value the incremental increase in CoOL that is proposed is not known, but is likely to be small (refer discussion in Chapters 3 and 5);
- there is no evidence regarding the extent to which the small number of consumers that value this information are willing to pay for it;

- there is evidence that CoOL information is already provided in many cases. A logical interpretation of this is that incentives already exist for the market to provide optimum amounts of information on CoOL for individual consumers.

This analysis indicates that there is no systemic market or information failure that justifies regulatory action.

B. What are the objectives?

The principal objective of the proposed extension of CoOL is the provision of adequate information relating to food to enable consumers to make informed choices. This fits within the objectives of FSANZ which are set out in section 10 of the FSANZ Act and are as follows:

- the protection of public health and safety;
- the provision of adequate information relating to food to enable consumers to make informed choices; and
- the prevention of misleading or deceptive conduct.

CHAPTER 2: OPTIONS UNDER CONSIDERATION (SCOPE)

A. Status quo

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.

This is the *status quo* (against which the proposed extension of CoOL is being assessed).

B. Proposed extension of CoOL

Consistent with the direction 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 principal whole food components (i.e. 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 ingredients². 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.

²Whether an ingredient is incidental is determined by its function in the food, rather than the ingredient *per se*.

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);
- non-alcoholic beverages (other than juice); or
- alcoholic beverages.

In terms of the labelling requirements, the proposed extension of CoOL 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.

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.

Number of products likely to be affected

- Approximately 37 per cent of canned and frozen fruit and vegetable stock-keeping units (SKUs) would require label changes and that 63 per cent would already be compliant.
- Approximately 70 per cent of fruit juices would be affected by the extension to CoOL.

Nature of the affected industries

- Approximately 16 per cent of the food ingredients used by Australian fruit and vegetable processors are imported directly. 84 per cent is sourced from domestic horticultural growers.
- 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.
- Processed fruit and vegetable products are also imported directly. These amount to approximately 16 per cent 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.
- 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 per cent of processed fruit and vegetables are sold directly to consumers.

CHAPTER 3: OUTCOME OF CIE BENEFIT-COST ANALYSIS

As part of this feasibility study FSANZ commissioned CIE to undertake a benefit-cost analysis of the proposed extension to CoOL. The outcomes of this analysis are detailed below.

The Australian Bureau of Agriculture and Resource Economics reviewed the report by CIE and concluded that, given the assumptions regarding consumer response to CoOL, 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 and economic 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;

- 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 possibility that changes in industry practices might effectively avoid the proposed extension;
- 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).

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; and
- 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;
 - 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:

- 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 precompliant.
- 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.

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.

C. Summary of submitter comments on CIE benefit-cost analysis

On the whole, submitters supported the CIE analysis and considered that it was realistic and appropriate.

Some technical issues were raised by submitters regarding issues that were, or were not, taken into account in the CIE costing model. A description of the issues raised, and CIE's response, is included in Attachment C.

One of the main issues that was raised by the few submitters that did not support the CIE analysis, was the suggestion that costs had been over-estimated and benefits underestimated.

In response to this concern, it should be noted that the CIE conducted considerable sensitivity testing to assess the robustness of the findings and conclusions. The CIE systematically assessed what would happen if each cost driver were over-estimated by 50 per cent.

While the estimates of value change, the overall conclusions remain the same:

- the cost of compliance would be borne by Australian consumers who would pay more for their processed fruit and vegetables and by Australian horticultural producers who would not be able to sell as much horticultural output for processing as they now;
- imports of finished processed horticultural products would increase while imports of horticultural ingredients would decline;
- the blending of Australian and imported horticultural ingredients by Australian processors would decline in favour of imports of finished processed products; and
- competitiveness and exports would decline.

CHAPTER 4: OUTCOME OF ANALYSIS USING OFFICE OF SMALL BUSINESS COSTING TOOL

A. Description of Office of Small Business Costing Tool

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

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.

B. Results of use of Costing Tool

This Costing Tool was used by CIE, along with other detailed analytical CIE findings, 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 noted by CIE, these figures underestimate the true cost to industry as they do not take into account all impacts. For example, the CIE financial model includes additional elements such as costs associated with firms having to buy the international differentiated product and the additional probability cost of a product recall due to mislabelling.

C. Submitter comments on the use of the Costing Tool

A number of submitters questioned the appropriateness of using the Costing Tool for assessing the costs of the proposed extension of CoOL.

FSANZ notes that:

- as part of the Direction to FSANZ, FSANZ was requested to utilise the Costing Tool; and
- the CIE analysis did not rely only on the Costing Tool. As noted above, the CIE analysis was more broadly based.

CHAPTER 5: OUTCOME OF REVIEW OF CONSUMER RESEARCH

A. Description of analysis undertaken by FSANZ

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

In summary, 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).

It should be noted that 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:

- 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;

- the studies use self-reported data, thus stated behaviours are behavioural intents and are not behaviours that are actually exhibited by individuals; and
- surveys on the topic of CoOL, where national interest can be expressed, are likely to lead to responses biased by social desirability. Therefore the importance of CoOL may potentially be overstated.

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

B. Results of analysis

Where data on CoOL exists, it is typically incidental to the original purpose of the study and thus limited in its application to this proposed extension of CoOL. However, the following general conclusions can be drawn from the studies examined:

- awareness and recognition of country of origin information is high among food purchasers, and up to 50 per cent of consumers use CoOL information in food purchases. Studies show that 3 per cent to 19 per cent 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;
- 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.

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 per cent of respondents considered it important that Australian consumers are given accurate information about the country in which food products are grown (AUSVEG 2005).

- 80 per cent of respondents recognised the ‘Country of Origin’ element on product labels when prompted, though only 17 per cent 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.

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 per cent of respondents stated they used, including ‘even if just occasionally’, the country of origin label element (FSANZ 2003).
- 19 per cent of respondents stated the country of origin label element was one of the 3 label elements they used most (FSANZ 2003).
- 68 per cent of respondents stated the Date Mark label element was one of the 3 label elements they used most, 52 per cent the Nutrition Information Panel and 49 per cent 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 19 per cent 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 drop.

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 per cent of respondents actively looked for origin information when food shopping;
- 77 per cent of respondents actively looked for sell-by-date when food shopping, 75 per cent the price and 38 per cent weight/size information;

- when asked about making fruit and vegetable purchases specifically, food origin information was the most important piece of information for 3 per cent of the respondents;
- when asked about making processed food purchases specifically, food origin information was the most important piece of information for 1 per cent of the respondents; and
- an additional 14 per cent used origin information in making fruit and vegetable choices, but placed a lower level of importance upon it, thus a total of 17 per cent 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 drop.

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

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

Consumer choices

Consumer food choices are complex and are 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' is used by individuals to evaluate a product's quality (Grunert 2002). For fruit and vegetables, price was considered the most important piece of information in making choices by 42 per cent of the respondents, while sell-by-date, a 'quality cue', was considered the most important by 28 per cent of respondents (IGD 2003).

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

cent would be willing to pay more to buy British food. 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). As a consequence the level of reported intentions is likely to be an overestimation of actual behaviours.

CoOL may act as a 'quality cue' for some specific food products (e.g. Italian tomatoes, Greek feta 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. 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

Consumers' purchasing decisions are influenced by many factors. These 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 will be more relevant to CoOL-influenced purchasing than others, and for the majority the lack of evidence limits any conclusions. However the following can be drawn from the studies considered:

- individuals with higher levels of formal education have greater awareness of country 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. Submitter comments on the consumer research analysis

In summary, a number of submitters:

- confirmed that they were unaware of any other relevant studies that had not already been considered by FSANZ;
- noted that one of the challenges in terms of the FSANZ analysis is that there is no research regarding Australian consumer's willingness to pay more for additional CoOL information of the type proposed; and
- considered that generic consumer studies are not relevant since they do not look at the specific increment of information that would be provided as part of this particular extension to CoOL.

FSANZ acknowledges these points and notes that one of the few conclusions that can be drawn, in the absence of studies on this specific issue, is that the number of consumers interested in the additional CoOL information would be no greater than the number interested in the generic CoOL information.

For more information regarding FSANZ responses to specific issues raised in relation to the consumer research, please refer to Attachment D.

CHAPTER 6: OUTCOME OF STAKEHOLDER CONSULTATION

A. Number and distribution of submissions received

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	Total
Government	2	1	0	3
Industry	17	0	2	19
Consumer, private	1	1	0	2
Grand Total	20	2	2	24

- 35 submissions in response to the Discussion Paper. The distribution of the responses was as follows:

Type	Australia	New Zealand	Trans-Tasman	Total
Government	5	1		6
Industry	22		2	24
Consumer, private	4			4
Consumer, organisation	1			1
Grand Total	32	1	2	35

B. Issues raised by submitters

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;
- 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.

It is noted that the scope was described in the Ministerial direction to FSANZ and it is this issue that has been investigated by FSANZ, as requested.

Benefits and costs to consumers

The majority of submitters to both the initial notification and to the Discussion Paper 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; and
- the complexity of the option may confuse consumers and make it more difficult to make informed choices. As the proposed extension 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;

- 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).

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

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 majority of submitters. Further, as demonstrated by the CIE benefit-cost analysis, it is more likely that there would be reduced returns to growers and that local horticultural suppliers would be disadvantaged if manufacturers source overseas ingredients (instead of local product) to minimise supply disruption and avoid costs associated with changes to labelling.

Benefits and costs to Australian manufacturers

Most submitters agreed that the proposed extension of CoOL would increase costs to Australian manufacturers and that the CIE cost-benefit analysis accurately reflected these costs.

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; and

- costs associated with, for example, changes in IT requirements, changes to labelling, production lost due to changeover, reduced flexibility and productivity, increased compliance costs, increased supply management costs etc

A minority of submitters suggested that the potential costs would be minimal and that the CIE benefit-cost analysis had over-estimated the costs. Specific concerns that were raised regarding the CIE analysis have been addressed in Attachment C.

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 and implementation would impose significant costs on importers and users of imported fruits and vegetables.

It was noted that:

- 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
- 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.

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 extension to CoOL would not be enforceable at the retail level. In this context it was noted that there are no known analytical methods that could verify the country of origin 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.

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 extension of CoOL 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 extension to CoOL is contrary to the general principle of minimum effective regulation, does not conform to good regulatory practice and adds unnecessary complexity to labelling. One submitter noted that the recent COAG agreement to reduce the regulatory burden on industry should be a key factor in deciding whether to proceed; and
- the lack of a coherent framework within which to take regulatory decisions would in time undermine the regulatory system as a whole.

Alternative suggestions

A number of submitters suggested alternatives to the option under consideration. For example, it was suggested that:

- a review of the TPA should proceed before extending the mandatory CoOL requirements in the manner proposed. It was noted that concerns

regarding the terms 'Made in Australia' and 'Product of Australia' (or equivalent), should be resolved through the TPA and not through the Food Standards Code;

- a change to the TPA to increase the percentage required to make a 'made in' claim would address any concerns regarding use of ingredients and would be easier to understand than the option under consideration;
- 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 and 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
- the top three ingredients by volume should be on the label and the exact country of origin of those ingredients should be stated as well as the percentage of ingredients in the total mix.

CHAPTER 7: OUTCOME OF ASSESSMENT OF THE OPTION AGAINST COAG PRINCIPLES OF GOOD REGULATION

In June 2004, the COAG issued revised Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies. This document included 'Principles of Good Regulation'.

These 'Principles of Good Regulation' have been summarised below. The assessment of the CoOL extension, against the Principles, is based on:

- the views of stakeholders – the Principles were described in the Discussion Paper that was circulated to stakeholders and a number of submitters gave their views regarding the extent to which the option under consideration does, or does not, meet the requirements;
- the benefit-cost analysis;
- international precedent; and
- the nature of the regulation proposed.

A. Minimising the impact of regulation

Objective: Regulatory measures and instruments should be the minimum required to achieve the pre-determined and desirable outcomes.

Analysis: Desired outcomes

The principal 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.

An issue of contention in the submissions made to FSANZ was whether there is currently adequate information in relation to CoOL. For example, various submitters suggested that:

- both the current Standard for CoOL and the requirement of the TPA, demand that consumers be provided with accurate information about the country of origin of the food and that this mandatory requirement is adequate for permitting consumers to make informed choices;
- the information that is currently available is not adequate and that consumers have a right to more information including information about the origin of individual components of packaged foods; and

- one of the outcomes to be achieved should be to encourage consumers to buy Australian produce. Another submitter noted that while this objective may be desirable, it was not an objective of food regulation.

Minimum regulation required to achieve outcomes

Although not unanimous, the weight of views expressed by submitters is that the current Standard meets the needs of consumers and industry and that therefore no further regulation is required.

On the other hand, if it is accepted that consumers currently have inadequate information regarding CoOL, it could be argued that the extension of mandatory CoOL does not address this objective because it is likely to confuse consumers because of the arbitrary nature of the products that will be captured.

B. Minimising the impact on competition

Objective: 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.

Analysis: Based on the CIE analysis the cost increases would:

- disproportionately affect small firms and small product lines (negatively impacting on their competitiveness relative to others);
- raise the price of domestically produced processed horticultural products relative to imports and exports (reducing the competitiveness of Australian industry); and
- 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.

Submitters have also suggested that there may be adverse impacts on competition because:

- New Zealand has not adopted the existing CoOL and any extension to COOL would further significantly disadvantage Australian manufacturers; and

- products that are subject to the extended CoOL requirements would be at a competitive disadvantage compared to products that are not (for example, products with only 2 fruit and vegetable ingredients would be at a competitive disadvantage compared to products with 3 fruit and vegetable components that would not be subject to the extended CoOL requirements and resultant increase in costs).

C. Predictability of outcomes

Objective: 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.

Analysis: Some submitters are of the view that the horticultural industry would benefit from further prescription by encouraging Australian consumers to choose product with Australian content. The economic modelling indicates the reverse with a number of negative effects – increased product costs to consumers, reduction in horticultural production and increases in horticultural imports.

Submitters also noted that there were inconsistencies in interpretation of the direction as it was applied to fruit and vegetable products and that manufacturers could circumvent the requirements by adding additional vegetables or fruits to a product.

D. International standards and practices

Objective: 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.

Analysis: There are no international standards in relation to CoOL and there is considerable variation in the requirements of individual countries, making direct comparison difficult. However, to the knowledge of FSANZ, none of the regulatory regimes of other countries require extensive labelling of components or individual ingredients of foods. A number of submitters noted that Australia currently has the most stringent CoOL requirements and that any further extension of CoOL would put Australian industry at a disadvantage internationally. The extended requirements would extend beyond CODEX guidance regarding CoOL.

E. Regulations should not restrict international trade

Objective: 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.

Analysis: The extension to CoOL may inadvertently impact on international trade. A number of submitters suggested that the proposed measures:

- could be interpreted as protectionist by trading partners;
- could potentially harm important export market relationships and be in conflict with trade obligations; and
- may advantage New Zealand compared to other countries. A number of submitters noted that if New Zealand did not participate in the extension to CoOL requirements, New Zealand manufacturers would not be subject to the extended CoOL while all other countries would be.

F. Regular review of regulation

Objective: Regulation should be reviewed periodically. Review should take place at intervals of no more than 10 years.

Analysis: Should the proposed extension of CoOL be implemented, it would be possible to review the regulation at regular intervals. In response to the Discussion Paper, a number of submitters suggested that extension of CoOL should not be considered until there has been time to implement and review the CoOL requirements, which were introduced late in 2005 and are still being implemented.

G. Flexibility of standards and regulations

Objective: 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.

Analysis: As noted above, changes were made to the CoOL Standard as recently as December 2005 and the new requirements are still in

the process of being implemented. It could be argued that extending CoOL at this time may be premature and create unnecessary regulatory uncertainty.

H. The exercise of bureaucratic discretion

Objective: 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.

Analysis: The proposed extension of CoOL would not rely on bureaucratic discretion (as the requirements would be detailed in a Standard in the Code and would apply equally to all manufacturers).

CHAPTER 8: FSANZ FINDINGS

In preparing this report, FSANZ has considered the benefit-cost analysis, consumer research data, comments from all submitters and COAG requirements.

As a result of this analysis, FSANZ makes the following general findings regarding the proposed extension to CoOL.

- **The costs outweigh the benefits.**
- **There would be significant costs associated with the extension.**
 - 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.
 - 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.
- **The extension to CoOL would have an adverse impact on Australian industry.**
 - The extension of CoOL in the manner proposed would be likely to: raise the price of domestically produced processed horticultural products relative to imports and exports; reduce processed horticultural 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.
- **All consumers would pay more for a small, incremental increase in information that would be used by only a small proportion of consumers in making purchases.**
 - 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.
 - Consumer research suggests that perhaps only 10 per cent³ of consumers value CoOL information as highly important. To justify the costs imposed on all consumers, the value of processed horticultural

³ Consumer studies show a range of 3%-19% of consumers place high importance on CoOL information in making purchase decisions. A value of 10% was used in the benefit cost analysis calculations

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.

- **No evidence has been found to suggest that consumers would be prepared to pay more for the incremental increase in CoOL that is proposed.**
 - While awareness and recognition of country of origin information is high among food purchasers, price and quality are the most frequently used characteristics in making food purchases. No evidence has been found to suggest that consumers would be prepared to pay more for the incremental increase in CoOL that is proposed.
- **The proposed extension of CoOL would be potentially inconsistent with a number of the COAG Principles of Good Regulation.**
 - For example, the extension to CoOL would not represent the minimum regulation required to achieve the pre-determined and desirable outcomes and would be likely to adversely impact on competition.
- **The study found no evidence of systemic market or information failure that justifies regulatory action.**
 - CoOL information is already provided and additional CoOL is also provided where the market deems it economical to do so (and this is highly prevalent already).
 - It may be premature to extend CoOL when the impact of the extension of the CoOL Standard in December 2005 is yet to be assessed.

ATTACHMENT A:

EXAMPLES OF THE TYPES OF FOODS WITHIN SCOPE

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.

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

ATTACHMENT B:

CURRENT REQUIREMENTS AND INTERNATIONAL CONTEXT

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 also 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 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.

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 per cent 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.

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. 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.

ATTACHMENT C:

SUBMITTER COMMENTS ON, AND CIE RESPONSES TO, THE BENEFIT-COST ANALYSIS

As noted in Chapter 3, on the whole, submitters supported the CIE analysis and considered that it was realistic and appropriate. Some technical issues were also raised by submitters regarding issues that were, or were not, taken into account in the CIE costing model.

Following is a summary of the main issues raised and the CIE responses.

Issue: Use of the ORANI model was inappropriate as this model is outdated and there have been changes in the size of the agriculture sector relative to the rest of Australia since then.

Response: The disaggregated version of the ORANI model is based on the 1996/97 ABS Australian Input Output table.

It is correct that there have been changes in the size of the agriculture sector relative to the rest of Australia since then. However, there has not been a fundamental change in the way costs are passed up and down the horticulture value chain from this time. Therefore the results from simulations undertaken as part of the analysis still correctly identify the direction of change for key variables as well as the broad magnitude of that change. Were the horticultural sectors within the ORANI model to be re-scaled to be in-line with their current relative contribution to national income, the simulations results would still make the same important point - that is, horticultural production falls, horticultural incomes fall, national income falls, exports fall and imports rise.

Issue: The benefits were underestimated – for example, the analysis did not consider possible benefits from CoOL shifting demand from products that are produced in accordance with, for example, poor environmental standards and creating pressure for reform in offending countries.

Response: The CIE considered the possibility of shifts in demand toward domestic ingredients and away from foreign ingredients where consumers might perceive the possibility of inappropriate production techniques (indeed there is a strong preference for domestic products relative to imports built into the CIE horticultural model), but the consumer and market evidence suggests:

- the market is already providing CoOL information to consumers who producers judge will value that information, hence the high level of pre-compliance. Therefore consumers who want to change their purchasing behaviour on the basis of CoOL information already have opportunities to do so;
- only a small proportion of consumers value CoOL information highly enough for it to change their purchasing patterns; and
- only in about 9 per cent of affected manufactured products would there be large increments in CoOL information under the proposed extension to CoOL that is likely to lead to a change in purchasing behaviour.

Issue: No dollar value was attributed to the benefits consumers derive from market information.

Response: Although no exact dollar value was attributed to the benefits, it was possible to calculate how big the benefits would need to be to overcome the cost threshold. This is formally known as a threshold analysis. Based on the evidence about the small proportion of the market likely to derive a benefit, and the relatively small proportion of consumers in that segment likely to value the information, it was possible for the CIE to conclude:

‘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’

Even without an exact dollar figure it is possible to make a strong quantitative conclusion that the costs exceed the benefits because the costs are highly quantifiable and the very small size of the market segment and proportion of consumers likely to value it is readily quantifiable – these quantitative parameters alone define the conclusion that benefits would be small and unable to exceed costs.

Issue: There was insufficient analysis of the potential future impact of technological change.

Response: Future technological change was considered and in particular laser, ink-jet technology was assessed. This technology is regarded as efficient for date stamping but it has several major disadvantages for more complex label changes. Slower

production line speeds and lower productivity would result, set up costs are high and quality of labelling, and hence the integrity of the label and brand image, is degraded - a major concern for professional marketers.

Issue: Long term cost minimisation was not considered in the analysis.

Response: In building the Financial Model, the CIE obtained specific information from firms on their likely production responses to the possible change in CoOL requirements.

One known possible alternative to the labelling process is to use ink-jet technology to print on the country of origin information. The CIE put this to industry as part of the consultation round. However, industry indicated that they would continue to maintain their current production systems for both cost minimisation and quality of brand reasons. Specifically, ink-jetting would:

- reduce line speed by up to 2 per cent;
- require specific improvements in technology and additional capital expenditure to improve the resolution of the printing as well as ensure that the ink-jetted information is aligned correctly on the label; and
- reduce label and associated brand quality.

Predicting future technological advancements is a difficult process and it could be that firms adopt new, as yet unknown processes, in response to CoOL. Were this to happen, CoOL would still be considered to have placed an additional burden on the firm. That is, the additional cost of researching and developing the technology would either have been incurred when it was not needed, or the implementation brought forward, increasing the present value of the cost increase.

Cost minimisation was also considered within the ORANI simulations. Inherent within the ORANI structure, firms are assumed to minimise costs for a given level of output. Thus, under the simulations, the food processing sector when faced with a 1.4 per cent cost increase, reorganises its inputs to most efficiently produce output.

In addition, the CIE's conservative assumptions about costs also implicitly take account of the possibility for cost minimisation. In all cases the CIE used only the lowest of all cost estimates provided during the consultation phase.

ATTACHMENT D:

FURTHER INFORMATION IN RELATION TO CONSUMER RESEARCH

A. Submitter comments on, and FSANZ responses to, consumer research

Issue: The consumer research is inappropriate and/or inadequate to the proposed extension.

Response: The consumer research used in this study was the best, most applicable empirical research available at the time. As noted in this Report the studies used are not directly applicable to the proposed extension of CoOL. FSANZ has reviewed available research and selected studies that provided information on:

- Australian or New Zealand consumers; and/or
- use of country of origin information in purchasing decisions; and/or
- use of country of origin information in purchasing decisions about fruit and vegetables; and/or
- general awareness of country of origin information.

Unfortunately no studies could be located that considered the importance of country of origin information to purchasing decisions of Australian consumers with respect to the proposed extension.

Additionally, FSANZ has relied on empirical studies that presented findings as a result of surveys or interviews with consumers, rather than editorial comment. The studies have consistently found that while the majority of consumers consider country of origin information important in a general sense, a lesser proportion of consumers (3-17 per cent) actually considers this information to be important when they are making purchasing decisions.

Issue: The analysis of the consumer research is flawed. Consumers overwhelmingly want comprehensive CoOL.

Response: As noted above the consumer research analysed was limited to that available which did not cover the specifics of the proposed extension. It is acknowledged that as a general conclusion consumers place importance on country of origin information, this is clear from the AUSVEG study. However this study was focussed on country of origin information in a generic sense and

not on the specific issue of whether consumers actually use this information in purchasing decisions, nor how much extra they would be prepared to pay for that information.

The apparent difference in levels of support for country of origin information is not unexpected. Other studies have found that individuals can operate in one way as citizens generally influencing societal standards, while operating differently as consumers at the point of purchase (eg. Schröder & McEachern 2003). That is, individuals may show strong support for country of origin information when acting as citizens (as demonstrated by the AUSVEG survey) while according the use of country of origin information lesser importance when making purchasing decisions (as demonstrated by the IGD studies).

Issue: Most submitters are not aware of any additional consumer research. However several additional studies and reports were highlighted.

Response: This is consistent with the FSANZ's finding that there were very few studies applicable to exploring the proposed extension of CoOL. Of the additional studies that have been quoted a number were editorial pieces and did not report empirical findings of consumer attitudes. These have not been considered.

One additional empirical study TNS (2006) was obtained and the reported results are not dissimilar to the other studies analysed. The TNS study focussed on country of origin information in making purchasing decisions regarding seafood and deli produce from supermarkets. It found that 72 per cent of respondents considered country of origin to be important to them in a general sense, while 19 per cent ranked country of origin the most important in making seafood and deli purchases. The majority of respondents considered product appearance to be the most important aspect in making seafood and deli purchases.

Issue: Additional consumer research should be carried out.

Response: FSANZ recognises that new research and data may further clarify consumer findings.

B. Further 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 labelling 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* when it came into effect.

This entailed the analysis of:

- consumer awareness of label elements;
- 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.

C. References

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