Commonwealth
Fisheries
Association

Submission to Australian Senate Standing Committee on Rural Affairs and Transport

Hearings 7 July 2011 on Export Levy Arrangements

Commonwealth Fisheries Association (CFA) – Background

CFA represents all the operators in fisheries managed by the Commonwealth Government (through the Australian Fisheries Management Authority (AFMA)).

CFA also represents the Australian fishing industry on certain matters, such as the export levy issue. For example, the CEO of CFA is the only fisheries association member of the Seafood Export Consultative Committee (SECC) which advises on the AQIS Fish Exports Program. A Director of CFA, Brian Jeffriess, is also the acting Chair of SECC.

The SECC membership is skills-based rather than representative. It includes expertise in both wild fisheries and aquaculture, and has a balance from most States and seafood industries.

The AQIS Fish Exports Program

The Program Budget is historically around $4-4.5 million pa, including the 40% co-contribution from government. SECC meets regularly to identify the services required from AQIS. The Budget is then set and allocated between charges for registration for land premises and boats, inspection fees, and provision of export certificates.

SECC has a Budget Subcommittee which examines the Program in detail, and this means that there is not a lot of “low hanging fruit” to cut from a Budget. Changes in the whole structure of the AQIS services would be required to achieve significant further savings (see below).

The Ministerial Task Force (MTF)

The Fish MTF was set up to recommend changes to the Export Program. The target was to minimise the extra levy resulting from the termination at 1/7/2011 of the Government’s co-contribution of 40% of the costs of the Program.

The Fish MTF membership consisted of the SECC, one external industry, and other AQIS staff. It was co-chaired by the SECC Chair and AQIS.

The Fish MTF has not yet submitted its final report to the Minister.

Today the CFA is presenting the general issues and directions as a result of the reforms. These are very clear.

Environment in which MTF Considered its Recommendations

The seafood industry has found export markets very difficult in the last three years, due to:

(1) The effect of the GFC on markets in Japan, North America, and Europe
(2) The effect of the 2011 earthquake/tsunami in Japan
(3) The major appreciation of the $A against all seafood currencies
(4) The problem of building the market in China for "new products" such as tunas
(5) The problem of access to China for rock lobster
(6) The high tariff and non-tariff barriers to entry to Korea and Europe
(7) The big decline in the rock lobster catch in all key States
(8) The loss of confidence by Banks in most of the industry.

Many of these are normal business risks and cyclical. Others such as the $A strength appear likely to last for at least the next 4-5 years – much longer than the normal cycle.

The effect on exports over the last decade has been:

	Exports (tonnes)			**Exports ($m)**		
	2000/01	2009/10	%change	2000/01	2009/10	%change
Lobster	13,345	7,730	(42)	686	400	(42)
Prawns	12,124	4,659	(62)	375	61	(84)
Abalone	3,543	3,638	3	321	216	(33)
Tuna	12,171	9,322	(23)	341	117	(66)

Source: ABARES, Presentation to Outlook Conference, March 2011

Effect on Fish Exports Program

Some of the catch was diverted from export to the Australian market. However, the effect on the Fish Export Program is the same – a much smaller product volume across which to spread the Program costs.

One flow-on effect is a reduction in the number of land premises and boats registering for exports. For example:

	No. Registered
Jan. 2008	839
June 2011	693

The inevitable increase in the annual registration fee with the end of the government 40% co-contribution and lower number of registrations to spread it over, will result in continued declines in registrations. Many premises are registered for less than 10 shipments per year.

Some industries will recover in 2011-2013. An example is tuna export – but even in that case, the registered premises number will be the same, and it will be in very large tonnage shipments – so requiring only a few more export certificates.

This will happen at the same time as:

(1) Many boats are only registered so to be able to export to Europe, if it opens up again. A significant number will give up on Europe, and not register.

(2) By mid-2011, every major fishery in Australia is managed by Individual Transferable Quotas (ITQ's). The result will be a rationalisation of boat and land registrations.

(3) Some aquaculture production, especially salmon, will continue to grow, but not necessarily increase the current low level of exports.

Future Action

As described above, the SECC and AQIS are potentially faced with:

(1) A much lower export volume and less export plants across which to spread costs.

(2) A past rigorous approach to cost management, meaning that there is no "low hanging fruit" to identify for cost reduction.

Therefore, a fundamental restructuring of the Program is required, but one which must not reduce the quality behind the export certificate. The AQIS brand has been an important part of Australia's reputation overseas for reliable and safe product.

The restructuring options for government and industry as proposed by the reform agenda are:

(1) To develop the option for Third Party Auditors to take over much of the AQIS inspection work. This requires lead times for accreditation of these Auditors, including training institutions to gear up for the courses. There is no guarantee that these will be lower cost than AQIS (ie cost shifting). In addition:

    - There is the risk that spreading a lower level of direct AQIS activity across a similar level of Canberra and regional office overheads will not reduce real costs.

(2) The Program has to move to recovery of actual cost for each service. Currently, travel costs to remote areas are absorbed into the general cost pool rather than charged directly to the client. This will have a real impact on remote ports, and this will need to be addressed by government.

    - There is a risk that Third Party Auditors will focus on the volume business in high throughput ports and not service lower volume areas.

(3) The Program will need to move to reduce the cost burden of unrecovered services such as telephone advice to brokers and exporters. This needs to be via internet.

- There is a risk that this will be a disincentive to export activity, especially new exporters.

(4) AQIS will need to get real outcomes on the current Commonwealth/State negotiations to rationalise the very costly overlap between State licensing and inspection of seafood processing establishments.

- CFA understands significant progress appears to have been made in the last 12 months, but there is no concrete change yet in place.

- The next challenge is to get this to dovetail with the increasing accreditation requirements of retailers (eg supermarket chains).

(5) Industry will have to adjust to change such as avoiding weekend processing; more multi-product inspectors; more electronic data transmission; and general rationalisation of their relationship with AQIS.

- Industry and AQIS have proved this can happen with the introduction of electronic documentation in a short period in the 2000's.

- Industry has to proactively encourage Third Party Auditors, and the Registered Training Organisations to establish the courses.

(6) AQIS and DAFF will need to adjust to being totally accountable for their cost structures, including DAFF overheads.

- Real progress has been made in this area, but it a major cultural change and will take time.

What Government has to consider

It has become clear to us that the end of the co-contribution will lead to major cost increases for exporters at a time when the exchange rate and global economic conditions will create viability problems for many companies. The MTF process has not produced immediate cost savings in the Program. The structural changes will take some years to work.

CFA believes the Government consider:

(1) Extending the co-contribution by another two years on a full or part of the 40%.

(2) If (1) above is not acceptable, then government needs to cover any deficit in the Program at the end of 2011/12 and 2012/13.

(3) How it will deal with the much higher cost burden placed on more remote locations. This has the potential to cause considerable disruption.

(4) The government process needs to be very aware that full cost recovery means full accountability and transparency from government. We believe that this means accepting extra costs where they are attributable to administrative errors in government. It also means full cost exposure.

(5) The duplication in licensing and inspection between all levels of government – Commonwealth, State and local – needs to end. Progress is being made, but it needs to accelerate.

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7 July 2011