

SUBMISSION

SUBMISSION TO

**SENATE STANDING COMMITTEE ON RURAL
AFFAIRS & TRANSPORT**

IN RESPONSE TO

**INQUIRY INTO BIOSECURITY & QUARANTINE
ARRANGEMENTS**

**MANAGEMENT OF THE REMOVAL OF THE
FEE REBATE FOR AQIS EXPORT CERTIFICATION
CHARGES**

29 July 2011

PREFACE

The red meat sector is now Australia's No.1 agricultural enterprise. The Australian Meat Industry Council (AMIC) is the only employer association and recognised Peak Council in Australia, representing the commercial export and domestic processing industry.

AMIC is also the Peak Council representing the post-farm gate sector including smallgoods manufacturers, wholesalers, distributors, boning rooms and independent retail butchers – in total, close to 2,500 member companies representing close to 50,000 workers directly employed in meat processing, exporting, wholesaling and retailing in Australia.

In addition, there is conservatively at least the same number again of Australian's involved in the road transport, shipping, carton and equipment manufacture, insurance, banking, laboratories and other ancillary industries – all dependent on the red meat processing and export sector for a proportion of their livelihood – an industry worth an estimated A\$15 billion to A\$17 billion to the Australian economy in total.

AMIC provides services and support to members that improves their working environment and is focused on achieving the best outcomes for the industry and its members as part of one voice on issues critical to their business.

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1. SUBMISSION SUMMARY

Inquiry into Biosecurity & Quarantine Arrangements. Management of Removal of Fee Rebates for AQIS Export Certification Charges.

The meat processing industry in Australia employs close to 50,000 people, most of these in regional locations. It is a low margin/high volume business that exports 70% of its production to foreign markets earning valuable foreign exchange for the country.

The Government has for the last decade contributed 40% of the cost of the Government inspection program. This has covered administration, Canberra overheads and public good considerations for what has been understood as the legitimate contribution of Government to this service.

The Government is proposing to apply what is essentially a "new tax" on meat exports from July 1 by removal of their 40% contribution to AQIS Export Certification costs. Without any offsets to that cost increase, they will be endangering many regional businesses and the viability of meat processors and producers alike.

One of the objectives of the Export Certification Reform Program (ECRP) as agreed by the Government in 2009 was to

"enable an effective transition to an improved Export Certification and Inspection System through the provision of a 40% offset of the full cost of AQIS services to export industries".

For meat, the current reform model for the majority of establishments will only increase the overall cost of export certification rather than any offset to the removal of the 40% contribution by Government. The new meat inspection model known as AEMIS (the Australian Export Meat Inspection System) will provide the Gillard Government with close to \$30 million of cost savings. For industry however, it will represent an increase of between 44% - 110% of their total compliance costs depending on the plants configuration. Meat inspection reform was contemplated as a partnership between Government and industry. Most partnerships don't require one party to attract all the cost savings while the other party attracts all the losses.

AMIC attended the Senate Enquiry Hearings on July 7, 2011 in Canberra and a copy of AMIC's opening statement is included as part of this submission.

While in close discussion and consultation with Government for over two years on the reform process, it was only on May 11, 2011 that that it was confirmed by Government that they would not provide any contribution to the cost of export certification post July 2011. Prior to that we had respected the confidentiality requested of us and had not entered into any public debate on the issue. Following the advice on May 11, AMIC entered into a public media campaign highlighting the unfairness of what was proposed and also implementing a strong advocacy of our concerns to both sides of politics. (See Attachment B and C)

There are no savings for industry in the new model proposed by the Federal Government under a 100% cost recovery policy. We support the meat inspection reforms but they must be at a cost that provides a commercial incentive to adopt the new program, not to force a new tax on the meat processing industry that will cost regional jobs.

Part of the original agreement in September 2009 with the Federal Government was an independent review of the legitimate costs of Government. The deliberations undertaken and the outcomes delivered on this issue are summarised in Section 5 of this submission.

There is just cause in our view to argue that Government has the responsibility to share costs in export certification not only to cover its own overheads and administrative costs associated with the running of a Government Department, but for the public good in terms of food safety, market access, animal welfare, and to provide incentives to implement efficiencies.

A model for full cost recovery of a Government monopoly service represents poor public policy where there are no incentives in the system for efficiency or improvements in effectiveness.

There is a "win/win" here for Government and industry if both parties contribute to the outcome.

2. STATEMENT BY THE JOINT CHAIR OF THE MINISTERIAL TASKFORCE ON MEAT CERTIFICATION REFORM AND CHAIR OF THE AUSTRALIAN PROCESSOR COUNCIL MR GARY BURRIDGE

INTRODUCTORY COMMENTS TO THE HEARING OF THE SENATE STANDING COMMITTEE ON RURAL AFFAIRS & TRANSPORT

PARLIAMENT HOUSE - THURSDAY 7 JULY 2011 A 5:15 P.M.

- Good afternoon Senators and thank you for inviting AMIC here today. I had prepared a statement for the hearing that outlined the considerable investment of time and money we have outlaid on the AQIS reform agenda and the importance we place on rolling out cost effective reform. In providing this outline I must record that I had a meaningful meeting this morning with the Minister which could lead to an acceptable outcome to our industry but at this stage remains confidential. It remains critically important however that the Senate Committee gains an understanding of the challenges currently facing our industry and the need to achieve a mutually agreeable outcome on this issue.
- The Australian meat processing industry together with the Federal Government entered in good faith into a program of export certification reform in 2009 looking to identify new efficiencies and productivity improvements to offset increased costs that would result from a proposed Government policy of 100% cost recovery for the service. That process developed and supported a new model for export certification for the meat industry that by 2011, was known as AEMIS – The Australian Export Meat Inspection System
- Reform of the AQIS Meat Inspection Systems however had begun some years earlier. AMIC began a process of reform with AQIS in 2005 through the Strategic Evaluation Group from which a number of initiatives including the Plant Hygiene Index, removal of outdated inspection practices and the development of alternative inspection models were initiated. The basis of the new AEMIS model was MSEP which was already on the table for discussion well in advance of any announcement by the Beale Review.
- When the Beale recommendations were announced in December 2008 the industry had already done its homework and was in a position to recommend to the Government generational change in meat inspection systems as a way of offsetting cost increases associated with 100% cost recovery i.e. a “win/win” for Government and industry.
- After a slow start to deliberations and the disallowance in the Senate of new fees and charges in September 2009, AMIC committed to work with both sides of politics, the Independents and the Minister of the day to fashion a package that would meet the mutual objectives of Government and industry. That agreement was set out in a 7-point plan provided to all parties including the Minister in October 2009.
- Part of that 7-point plan was an agreement co-signed by myself and Rob Delane, then Head of AQIS and Deputy Secretary of the Department to deliver the long-awaited MSEP model over a 3 to 5 year period. Another was an independent review of the legitimate costs of Government i.e. what portion of the total cost of providing export certification for the meat industry should responsibly be absorbed by the Federal Government as part

of their community responsibilities in ensuring market access, food safety, quality assurance and animal welfare standards.

- Agreement to the 7-point plan included industry support to rescind the disallowance motion in the Senate in October 2009 covering changes to existing AQIS fees and charges. Industry delivered on its side of the bargain.
- In a letter to me from Minister Burke in December 2009 the Government said the reforms proposed under his Export Certification Reform Program would deliver the "opportunity to remove substantial costs from the export supply chain for industry and AQIS – in fact "in the order of \$30 million per year from 1st July 2011".
- The return to 100% cost recovery according to testimony given at the Senate Estimates in late May, amounts to over \$6 per head cattle equivalent (60-80 cents per ovine). These costs are in addition to the industry already agreeing to absorb a further \$2 per head (around \$30 million i.e. a total regulatory cost of \$85 million) by covering the cost of providing company employed, newly appointed AQIS Approved Officers (AAO's) that will replace retrenched Government meat inspectors under the new arrangements.
- The Government estimates it will save \$30 million from this reform. Industry costs will however increase, we estimate, by between 44% to 110% depending on the plant's configuration. Under the proposed arrangements at this point for what is a Government monopoly service, there are no efficiencies offsetting the return to 100% cost recovery as promised in 2009 - a principal objective of the reform. We can provide that breakdown of cost.
- What has happened is that AQIS in negotiating market access for the new model with importing countries has added new layers of cost in the form of additional Government inspection (Food Safety Meat Assessors) and increased verification testing. These additions were not part of the original agreement on reform and add nothing to product outcomes. Industry has been assured that these new layers of verification and cost can be negotiated away but industry is concerned there is not a committed change agent in the department to make this happen.
- Most of our international competitors in Brazil, Canada and the United States do not pay these fees. With the dollar so strong, these new charges only further reduce our international competitiveness.
- The meat processing sector has traditionally been a high volume / low margin business. In the current market environment with a high exchange rate, it will be extremely difficult to pass increased Government charges forward to our international customers. Consequently they are most likely to be passed back to producers.
- The decision by the Federal Government to return to 100% cost recovery has been taken without ever understanding what the implications would be for jobs, especially in regional Australia. Almost 50% of red meat processing facilities are located in Local Government Areas (LGA's) with a population of less than 20,000 people i.e. – we are a major regional employer generating close to 50,000 jobs. The cost increases as proposed will threaten the viability of a number of regional meat processors already under pressure from soaring power bills, live stock and labour shortages and with a carbon tax on the way.
- Detailed research of individual plant data in 2009 identified there would be adverse impacts on processor profitability varying from a decline of over 2% to over 25% with small scale facilities suffering bigger declines in

profitability. The four case studies reflected investment plans totalling \$5 million-\$10 million would be deferred, current operations reviewed, production levels in some cases reduced, and employment adversely affected.

- The processing sector represents 90% of livestock turnover in this country. We continue to hear policy recommendations that seek to encourage greater processing in Australia and export from this country as chilled and frozen meat but in this case all we see are increased Government costs acting against that outcome.
- The opportunity for generational change in meat inspection practices and efficiencies in Australia is within reach. The Government has spent \$127 million of taxpayer's money to get the reform process to this point but unless an acceptable outcome is reached, these funds will not have been utilized as effectively as one would have hoped.
- The new inspection reforms have been on hold since February this year because industry will not accept these exorbitant, un-agreed cost increases. The momentum for change is lapsing and unless there is an agreement, industry will lose confidence in the process and Government's commitment to reform.

Australian Meat Industry Council

Thursday 7 July 2011

3. WHY THERE ARE NO COST SAVINGS FOR THE MEAT INDUSTRY UNDER AQIS EXPORT CERTIFICATION REFORMS

AMIC in 2009 entered in good faith, into a program with the Federal Government of reform of the Australian export meat inspection system. The Government originally promised there would be substantial cost savings in the reform proposal. In correspondence from Minister Burke to the AMIC Chair dated 16th December 2009, he committed that the reform process would “provide the opportunity to remove substantial costs from the export supply chain for industry and AQIS”.

AMIC originally agreed to reform that centred on what was then described as the Meat Safety Enhancement Program (MSEP). This agreement with Government was formally acknowledged in a letter jointly signed by the Executive Director of AQIS and Deputy Secretary DAFF and the Chair of AMIC on 27th August 2009.

The MSEP model had a Government employed Veterinary Officer on the plant but all the Government employed meat inspection positions were replaced with company employed positions known as AQIS Authorised Officers (AAO's). This allowed the Government to retrench close to 200 Government employed Meat Inspectors saving the Government over \$30 million. The cost of the AAO's that replaced the Meat Inspectors was transferred to industry.

In negotiating technical market access for the new model, AQIS ended up accepting a new layer of cost in the form of an additional Government inspector called a Food Safety Meat Assessor (FSMA's). This decision added substantial cost to the model.

The FSMA position however adds nothing to the output of the new model other than overseeing that the AAO's are doing their job. Under MSEP this is the role of the On-plant Veterinarian but in the interim model negotiated by AQIS known as AEMIS (the Australian Export Meat Inspection System) they have added the FSMA's to take on that role.

In September 2010, AQIS advised AMIC in writing they were confident that they could negotiate away the need for FSMA's by July 2011. Now they are saying this may take longer – up to 3 years or more.

The FSMA's are not part of the current system and are not envisaged as part of the final reform model of MSEP. The FSMA's however come at a huge cost to the program – around \$22 million. They are an interim measure and only there as a result of AQIS negotiations. AMIC has argued therefore that Government should pay for the FSMA's position until they can negotiate them away. If industry is forced to pay for these otherwise unnecessary positions there will be no incentive for AQIS to remove them from the program.

Under the Government's new policy of 100% cost recovery, the inclusion of the cost of the FSMA's will render every plant in Australia under the new AEMIS model, big or small, significantly worse off than under the current model. (See Attachment 1) Since substantial cost savings and efficiencies were a principle objective of the reform process entered into in 2009, this outcome falls well short of the original objectives set by Government.

Adding further to the cost burden for industry is a new level of verification testing under the new model. (See Attachment D) This was another by product of the AQIS negotiations on market access. Industry is willing to absorb this additional

verification cost under agreed sunset provisions if Government is willing to cover the cost of the FSMA position they put there.

The Government appears reluctant to recognise the cost increases faced by processors under the new reform model and continues to focus on the \$30 million they have saved from the retrenchment of their meat inspectors. The Government has been happy to support financially, systems and infrastructure for the export of live animals for slaughter and processing in other countries, but does not seem as keen to invest in the world's best practice quality assurance and animal welfare systems in Australia.

Failure to deliver the new AEMIS model will mean the substantial investment by Government in new initiatives such as the Product Hygiene Index (PHI) will be lost let alone the \$127 million of taxpayers money already invested in this reform. The data from the increased verification framework will also be lost to AQIS. The cost to AQIS of re-employing probably already retrenched Meat Inspectors will also be an unnecessary logistical and costly exercise. Most important is the momentum for change that has been generated over the last 3 years will be lost and unlikely to be regained at any time in the near future.

Solution - The reform of meat inspection in Australia is only starting. The agreed endpoint of MSEP is 3 to 5 years away and Government we believe has a moral obligation and a previous commitment to contribute to the cost of implementation of the reform until MSEP is delivered. The compromise position put by industry requiring Government to carry the cost of the FSMA position until they can negotiate their removal is a fair and reasonable one under the circumstances. Without it, the substantial cost impost of 100% cost recovery to many regional meat processors before reform has been achieved, will be too much and will inevitably cost jobs in regional Australia.

4. ANALYSIS OF THE COST IMPOST BY PLANT TYPE

EXPORT CERTIFICATION MEAT REFORM ESTIMATED COST ANALYSIS EXPLANATION

On the following page there are a number of cost scenarios based on actual meat processing establishments. They show the effect of the implementation of the current export meat reform model, the Australian Export Meat Inspection System – AEMIS. On line Government meat inspection activities have been transferred to the meat processor. The Government however as part of the new AEMIS model has increased the level of verification of the activity which has added to the cost. The main component of this additional cost is the imposition of a new inspection function called the Food Safety Meat Assessor.

Explanation of the cost analysis attached table

Species – The type of live stock being processed.

Establishment Production – This shows the throughput per hour, the total kill for the day and the year. It helps define the various processing establishment sizes.

Inspection system – Describes the staffing that is required for inspection and who they work for.

On Plant Veterinarian – This is a Government employed Veterinarian who is stationed at the processing establishment on a full time basis. The cost is billed to the meat processor.

Meat Inspector – These are Government employed meat inspectors who conduct post mortem inspection on all carcasses being processed. The cost is billed to the meat processor.

Senior Meat Inspector – This is a Government employed supervising meat inspector who is stationed at larger processing establishments to supervise the meat inspectors and assist the Government Veterinarian. The cost is billed to the meat processor.

AQIS Authorised Officer - This is a qualified competent meat inspector who conducts post mortem inspection on all carcasses being processed. They are authorised by the Government in a similar way to how the Government authorises meat inspectors in the current inspection system. This person is paid directly by the meat processor. In the AEMIS model these people replace the current meat inspectors.

Food Safety Meat Assessor – This is an additional Government employed meat inspector with auditing skills who is stationed at the end of the slaughter line to verify that post mortem inspection has been performed adequately. They may also be used on larger meat processing establishments to assist the Government Veterinarian. The cost is billed to the meat processor.

The table shows the total number of persons involved in on line meat inspection before and after the reform (AEMIS). This highlights one of the inefficiencies of the model as there are more people involved in most meat processing establishments.

Fee models

No reform - current fee structure – This shows the cost of the current meat inspection service.

The pre 1 July 2011 figure shows the cost with the 40% rebate included.

The 1 July 2011 figure shows the cost without the 40% rebate included.

Reform - current fee structure – This shows what the AEMIS model fully implemented would cost using the current AQIS fee model and includes the cost of the meat inspection functions that have been transferred to the meat processor.

Proposed solution – This shows the total cost to the meat processor with the solution that AMIC have proposed in place.

The table shows the cost of the current inspection model (Pre- reform) and AEMIS (post reform).

Note: the financial situation will actually be worse than shown as the current AQIS fee structure was developed in 2009 and doesn't take into account wage and CPI increases. Therefore the examples shown are best case scenarios.

EXPORT CERTIFICATION MEAT REFORM - ESTIMATED COST ANALYSIS
Australian Export Meat Inspection System - AEMIS

Species	Beef Small		Beef Small/Med		Beef Medium		Beef Large		Sheep Small		Sheep Medium		Sheep Large	
Establishment Production														
Throughput/hr	22		60		75		150		110		350		600	
Daily kill	176		480		600		1200		880		2800		4800	
Annual kill	38,720		105,600		132,000		264,000		193,600		616,000		1,056,000	
Inspection system	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform
On Plant Veterinarian	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Meat Inspector	1		2		3		5		1		3		5	
Senior Meat Inspector	0		0		0		1		0		0		1	
AQIS Authorised Officer		0		2		3		5		0		3		5
Food Safety Meat Assessor		1		1		1		2		1		1		2
Total Authorised Inspectors	2	2	3	4	4	5	7	8	2	2	4	5	7	8
No Reform - Current fee structure														
pre 1 July 2011	\$180,659		\$286,322		\$331,966		\$498,072		\$177,755		\$321,406		\$474,312	
1 July 2011	\$301,099		\$477,203		\$553,277		\$830,120		\$296,259		\$535,677		\$790,520	
Reform - Current fee structure														
1 July 2011		\$301,099		\$497,819		\$594,419		\$921,848		\$296,259		\$576,819		\$882,248
		x		x		x		x		x		x		x
Proposed Solution		\$201,655		\$398,375		\$494,975		\$722,960		\$196,815		\$477,375		\$683,360
		✓		✓		✓		✓		✓		✓		✓

Note Based on current fee structure, 8 hours per day, 1 shift per day, 5 days per week, and 48 weeks production per year.
Fees and charges provided by AQIS
Costs of AQIS Authorised Officers provided by Industry
Does not include the additional costs of other verification like carton meat microbiological testing etc.
Total costs estimate cost analysis based on the best available information at the time.

5. THE LEGITIMATE COSTS OF GOVERNMENT

5.1 INTRODUCTION

At the Senate Enquiry on Thursday 7 July, the Senate Committee on Rural and Regional Affairs and Transport investigating "Biosecurity and Quarantine Arrangements – Management of Removal of Fee Rebate for AQIS Export Certification Function", asked that AMIC provide an outline on what we considered to be the Legitimate Costs of Government for the meat industry.

Committee members clearly indicated that part of the original agreement to rescind the Senate resolution of September 15, 2009 disallowing the export fees and charges had been agreement between the Government and the Opposition to an independent review of the Legitimate Costs of Government.

A summary of the Reports tabled under the Ministerial Task Force on Meat Inspection or developed independently on the Legitimate Costs of Government is attached. This includes coverage of:

- i) The original Ernst & Young Review of AQIS Fees and Charges in 2009;
- ii) The Terms of Reference for an Independent Review tabled by DAFF at the MTF on 7 May 2010 (see Attachment A); and
- iii) The Independent Reviews ultimately undertaken by AMIC, namely the SG Heilbron Economic and Policy Consultancy Studies and the Dwyer Partners Study on "A Legal and Economic Critique of Meat Export Certification Charges". (Copies of the Heilbron and Dwyer reports can be provided separately.)

The Government in February 2011 rejected any suggestions that there had been agreement to an Independent Review of the Legitimate Costs of Government. This forced industry to consider other options and to hold back release of its independent research. Endorsement by the Senate Committee that there was clearly an agreement to an Independent Review now allows these papers to be released.

Confidentiality

It was suggested at the Senate Enquiry Hearings on Friday 8 July that the Ernst & Young reports had remained confidential because of the industry not wanting the report released. AMIC disagrees with this assertion. Each of the three (3) versions of the Report, namely:

25 August 2009	- Draft
6 September 2009	- Final then Draft
8 May 2010	- Final

were all marked "Commercial in Confidence – Not for Release Outside of the Ministerial Task Force or AQIS/AMIC Cost Recovery Working Group".

The MTF was always under the impression that discussions with Government through the MTF were of a confidential nature and not for general distribution. AMIC was advised that release of the Ernst & Young Report remained a Ministerial decision.

AMIC's first Newsletter to Members on the Reform Agenda was dated 31 March 2010 and marked the first formal loosening of the confidentiality requirement on the MTF. There have ultimately been 14 further editions of the AMIC newsletter

covering the reform issues. There were few if any references to the Ernst & Young report in any of these newsletters because of its perceived confidentiality until released by the Minister.

Other reports by Ernst & Young on the benefits of reform have also been identified as Confidential to date.

The Legitimate Costs of Government in Delivering Export Certification for the Meat Industry

Also attached is a summary of AMIC's initial position on the Legitimate Costs of Government for the meat industry. The Executive Summary followed AMIC's review of the Heilbron Consulting and Dwyer reports, plus a detailed review of AQIS expenditure under the meat program. It covers what we believe are the Legitimate Costs of Government for the meat program.

Coincidentally the ultimate outcome from those deliberations was a 56% contribution by industry and a 44% contribution by Government essentially endorsing the 60:40 cost split decision made a decade earlier following the Productivity Commission Review in 2001.

AMIC believes there are strong economic, legal and community obligations why Government should be making a contribution to AQIS Export Certification Charges on behalf of the Australian taxpayer.

5.2 SUMMARY OF THE VARIOUS REPORTS TABLED TO-DATE ON THE LEGITIMATE COSTS OF GOVERNMENT

Introduction

Part of the 7-point plan put to all sectors of industry and both sides of Government in October 2009 was a review of the Legitimate Costs of Government - i.e. what was the appropriate level of contribution by Government to the total cost of export certification that represents overheads, administration and the Government's community responsibility in ensuring market access, food safety, quality assurance and animal welfare standards in Australia.

In previous reports to Senate Estimates, the Ernst & Young report has been put forward as the Government's response to this request. That is incorrect. There are two Ernst & Young Reports:

1. Joint AQIS/AMIC Ministerial Task Force Sub-Committee "Independent Review into AQIS Fees and Charges in the Meat Program"

The interim report was tabled on 25th August 2009 and identified that overhead costs allocated to the Meat Export Program had grown by over 138% since Financial Year 2005/2006. Over the same period costs classified as either internal or external T&O overheads (technical and operational) increased by over 262%. This compared to DAFF overheads and AQIS overheads increasing by approximately 60% and 85% respectively.

This report was tabled as a final by Ernst & Young on 6th September 2009, before the 7-point plan had been finalised and agreed on. This was a review of AQIS costs and the trends in those costs over the previous 5 years.

In May 2010, Ernst & Young produced a revised version of the report, now nominating the September 6 version as a 'draft'. The reason provided was that a number of changes had occurred within the Export Reform Program that had affected the contents of the September 2009 'draft'. Two of these were the finalisation of the Financial Year 2009/2010 budget figures and the second was the revised Meat Export Establishment charge. The September 6 edition was updated to accommodate these changes.

None of these reports met the requirements of a review of the Legitimate Costs of Government as per the 7-point plan. All 3 reports were marked '*Commercial in Confidence – Not for release outside Joint Ministerial Taskforce or AQIS/AMIC Cost Recovery Working Group*'.

2. A second report was undertaken by Ernst & Young in February 2011. This was entitled "Export Certification Package – Benefits Realisation Plan".

DAFF acknowledged in December 2010 that a team from Ernst & Young had been appointed to assist in developing a "Benefits Realisation Plan" for each of the 6 MTF's. The Benefits Realisation Plan was to provide stakeholders with a shared understanding of the budgets and expected benefits of the reform program and a basis for the measure of the success of the reform program.

AMIC provided direct input into the report highlighting the lack of reform at the time and the lack of any cost savings or efficiency gains as originally proposed and promised. In fact for the majority of AMIC members they would be worse off. AMIC was highly critical of the first draft of this report and provided lengthy feedback including criticisms of many aspects of the report on the meat industry and the way intangible 'benefits' had been calculated.

The response to the AMIC comments about the transfer of costs and the added verification overlay was that the industries costs weren't considered.

3. Ministerial Joint AQIS/AMIC Task Force - Terms of Reference for Independent Review into the Legitimate Costs of Government

AQIS tabled on 7th May 2010 at MTF Meeting No.15 a Terms of Reference for an Independent Review into the Legitimate Costs of Government (See Attachment A). This was clear recognition from DAFF/AQIS that an independent review into the Legitimate Costs of Government was an integral part of the Export Certification Reform Program for meat.

AMIC provided AQIS with 9 points for inclusion in the Terms of Reference including a review of the contribution Government should be making to export certification programs based on the community benefits from the program.

In July/August 2010 AQIS advised AMIC that they could no longer take this aspect of the reform program forward and asked AMIC to undertake the independent review themselves. The basis for this request was internal legal advice. AMIC agreed to undertake the independent review and report back to the MTF and the Minister.

4. AMIC's Independent Review of the Legitimate Costs of Government

AMIC oversaw 3 projects in implementing the Independent Review of the Legitimate Cost of Government. These 3 projects were:

- a) SG Heilbron Economic & Policy Consulting – "A Study on the Basis in Recovering All Costs and Charges for the Export Certification of Meat Products" – December 2010.
- b) SG Heilbron Economic & Policy Consulting – "Supplementary Report – International Cost Recovery Policies" - January 2011.
- c) Dwyer Partners – "Meat Export Certification Charges – A Legal and Economic Critique" – February 2011.

The findings from the 3 reports were summarised in a paper presented to the Minister in Canberra on 7th March 2011. They provided strong evidence on an economic and legal basis in conjunction with the Governments community service obligations for a Government contribution to the cost of export certification to what is an uncontested monopoly Government service.

The Minister did not accept that there had been a commitment to an independent review of the Legitimate Costs of Government in the Export Certification Reform Program. As a result, the 3 independent reports overseen by AMIC have at this stage not been released. The Government proposes to return to 100% cost recovery of every aspect of its Meat Program including the pass through costs of the Department and the Biosecurity Services Group. There is no contestability of any inefficiencies in service delivery or the restrictive work practices. Costs of servicing the Ministers Office over operational issues plus overheads, and administration costs for its Canberra and Regional offices are also included.

5.3 ASSESSMENT OF THE LEGITIMATE COST OF GOVERNMENT FOR THE MEAT PROGRAM

BACKGROUND

- AMIC has argued from the offset that the residual cost of the AQIS meat program for 2011-2012 after implementation of the new AEMIS meat inspection model (i.e. \$56.5 million) remains the Legitimate Cost of Government.
- AQIS negotiates market access in isolation from industry. It then puts in place the regulations to meet those market access requirements and then audits that industry is meeting those requirements charging 100% of the cost for this uncontestable service. If it identifies what it perceives as a problem it also imposes the penalty. A model for full cost recovery for a Government monopoly service where there are no incentives in the system for efficiency or productivity gains should always be considered as poor public policy.
- The original agreed objective of the AQIS reform program for the meat industry was to deliver the Meat Safety Enhancement Program model (MSEP) in all export markets - ie no FSMA's (Food Safety Meat Assessors). Industry wanted that objective to be achieved over a 3-year timeframe - AQIS eventually asked and got agreement to 5 years. The delivery of the AEMIS model, with its current component of FSMA's, is therefore only an interim position in achieving this objective.
- Meat for the foreseeable future will be traded on Veterinary Health Certificates. Australia supported this at CODEX. Any additional Government involvement is therefore a market by market technical market access issue and a barrier to trade with those markets. AQIS has told us that they will negotiate away the additional FSMA's in time. Government therefore should pay for the FSMA's as they are clearly outside of CODEX and purely a technical market access barrier. This also serves to keep pressure on the Government to remove these positions. They have been a late addition by AQIS in order to meet the market access obligations ultimately negotiated by them.
- Veterinarians at meat slaughter establishments have a duality of roles. One is to oversee the meat inspection activities, and food safety production process. The other is to collect, verify and report on the animal disease situation in the livestock presented for slaughter. This second role helps Australian fulfil its international animal health disease reporting obligations. In doing that it facilitates trade in livestock and livestock products both edible and inedible. This disease surveillance and reporting is filling a void created by the downsizing of state and territory agricultural services.
- In consideration of the above, we believe that for the range of legal and economic reasons identified in AMIC's independent research by SG Heilbron Consulting and Dwyer Partners, along with the community obligations and advantages that clearly exist for the Government of having an internationally recognised meat inspection service and animal disease surveillance system, that there are legitimate costs of the current service that Government should be covering. It is unfair, economically inefficient and legally questionable to be taxing the meat processing sector in order to cover these costs for what is a mandated Government monopoly.

A COMPROMISE SOLUTION

Attached is a breakdown of the total verification costs (inclusive of both the industry and Government charges) under the new AEMIS model totalling an estimated \$85.509 million. As a compromise solution we have identified those costs that can be legitimately paid for by industry and those costs that should be legitimately covered by Government.

Industry's Contribution to Costs

- Under the AEMIS model industry will assume the cost of the AAO's (AQIS Authorised Officers) the costs of which have been transferred across from AQIS. Current estimates suggest this will be around \$30 million.
- Area Technical Managers' (ATM's) costs will be included in Fee for Service charges. For a reduced ATM frequency for performing plants to be effective, it requires a charge to be placed on ATM's otherwise there is no driver to encourage better performance.
- AMIC is willing to accept the bona fide Fee for Service costs for the On-plant Veterinary Officers (OPVO's) consistent with our obligations under Codex. One could argue that if the Australian domestic processing sector is the benchmark, then the addition of an OPVO in export plants is only because of market access. They are not required for the domestic market. Government will need to assume the costs associated with DAFF overheads, BSG overheads and Food Division costs currently allocated to these cost centres.

Government's Legitimate Costs

- The Government needs to cover costs associated with the Food Safety Meat Assessors (FSMA's) as these are an outcome of market access negotiations undertaken by AQIS and not part of the original agreement on the model. The ultimate objective will be for the position to be negotiated away as an unnecessary component of market access over time. If industry pays for these there will be no incentive for Government to negotiate their removal.
- Government must accept all on-costs not directly related to Fee for Service as Legitimate Costs of Government. This includes:-
 - DAFF and BSG Overhead costs,
 - Central Office costs
 - Field Operations Managers costs
 - Disease surveillance and reporting costs.
 - Field Training and Development,
 - Overseas Audits

This is because:-

Pass through overhead costs from DAFF and BSG make up close to 11% of the total \$56.5 million residual cost after AEMIS is fully implemented. These have no relation to the delivery of a fee for service. They are revenue raising only and are clearly a tax on meat exports.

Central office costs relate to the location of a Government Department in Canberra to service the Government and its various obligations. There is no requirement to have this infrastructure for the provision of a cost-recovered on-plant service.

Field Operations Managers (FOM's) are an overhead cost of Government as part of their management system covering Government obligations and interests over meat exports. They do not relate to the fee for service on a processing plant.

Disease surveillance and reporting costs relate to the costs of assessing livestock and livestock products for the presence of animal diseases of significance to Australia and the recording and reporting of them. This enables Australia to fulfil its reporting obligation to the international animal health organisation OIE, and to verify animal disease claims on certificates for livestock and livestock products exports.

Field Training and Development - Industry has to pay to train and develop its own staff. Why should industry have to pay to train Government employees as well? Under the new model the Government should be paying for the training and development of its own staff as it will be Government that benefits.

Overseas Audits - This is a technical market access issue. Even the Beale Review identified that technical market access costs should not be cost recovered from industry. Technical market access is a Government cost.

SUMMARY

In summary in 2011/2012 the Government admits they will save \$30 million in inspection costs because this cost has been transferred to industry in the form of AAO's. The industry is also willing to contribute a further \$18.345 million in supporting costs for the OPVO's and the ATM's as part of a fee for service that meets full cost recovery requirements. This makes industry's total contribution \$48.345 million to the meat program or 55.9%. The rest is the Legitimate Cost of Government, or 44.1%.

This outcome also reflects a similar breakdown of costs under the original 40% contribution from Government and endorses that the decision made a decade ago following the Productivity Commission Report in 2001 is still current today.

Processor Group

Australian Meat Industry Council
29 July 2011

THE LEGITIMATE COSTS OF GOVERNMENT FOR THE AQIS MEAT INDUSTRY PROGRAM

MEAT PROGRAM COST CENTRE	PAID BY INDUSTRY			PAID BY GOVERNMENT						TOTAL
	Employee Cost	Other Expenses	Total	Employee Cost	Other Expenses	DAFF Overheads	BSG Overheads	Food Division	Total	
FSMA	-	-	-	16.068	3.375	1.397	1.468	0.611	22.919	22.919
ATM's	1.860	0.903	2.763	-	-	0.144	0.104	0.036	0.284	3.047
OPVO's	13.727	1.855	15.582	-	-	1.100	0.965	0.344	2.409	17.990
Field Training & Development	-	-	-	0.298	0.617	0.081	0.010	0.010	1.016	1.016
Overseas Audits	-	-	-	0.379	0.107	0.081	0.010	0.010	0.587	0.587
FOM's	-	-	-	0.640	0.228	0.037	0.035	0.010	0.950	0.952
Central Office	-	-	-	2.119	0.225	1.130	0.059	6.465	9.998	9.998
Total	15.587	2.758	18.345	19.504	4.552	3.970	2.651	7.486	38.163	56.509
AAO's - Transfer of Meat Inspection Cost under the AEMIS Model to Industry			30.000						Nil	30.000
TOTAL COST	To Industry		48.345	To Government					38.163	*86.509
Source: DAFF			(55.9%)						(44.1%)	(100%)

*NB – slight errors due to rounding

ATTACHMENTS

- a) Terms of Reference Tabled by DAFF – May 7, 2010
- b) Media Release – June 1, 2011
- c) Newspaper Advertisement – Rural Press
- d) Additional Verification Costs Associated with the AEMIS Model

Ministerial Joint AQIS – AMIC Task Force
TERMS OF REFERENCE
For an Independent Review into Legitimate Costs of Government
in respect of Cost Recovery Arrangements for the AQIS Meat Export
Program

Title of Review:

Report into the Legitimate Costs of Government in respect of Cost Recovery Arrangements for the Meat Export Program

1. Establishment

The AQIS – AMIC joint Ministerial Taskforce has requested an independent review of the nature of costs incurred by the AQIS Meat Export Program (the Program). The review will establish whether the costs incurred by the Program should be legitimately funded by government appropriation or legitimately funded through cost recovery arrangements in line with the Australian Government Cost Recovery Guidelines 2005.

This Review will operate from June 2010 and will provide a preliminary report to the MTF by the 1st of September 2010. The report will include recommendations regarding the funding treatment of costs, with a view that the recommendations will inform the budget and cost recovery arrangements for the Program from 2011/2012.

2. Functions and Responsibilities

An independent consultancy will be commissioned by 1st June 2010. The consultancy will report to the MTF on the following matters:

- An assessment of the Department of Agriculture Fisheries and Forestry's policy decisions regarding the nature, coverage and quantum of costs included in, or excluded from, the Meat Export Program's cost recovery arrangements. These costs will be assessed against:
 - Policy arrangements of comparable countries and trading competitors
 - The Australian Government Costs Recovery Guidelines 2005 including, but not limited to consideration of whether current cost recovery arrangements are consistent with Key Principle No 2 and Key Principle No 5 contained within those guidelines
- An exploration of current cost recovery operation of the Meat Export Program in respect of the red meat industry and an exploration of potential alternative options which would maintain or improve an equitable recovery of costs including:

- the recovery of costs at alternative points along the meat export supply chain and,
- the recovery of costs through alternative mechanisms including levies and other forms of taxation.

In its recommendations the independent consultancy should also give consideration to outcomes of the following reviews affecting the Meat Export Program's cost recovery arrangements:

- One Biosecurity, A Working Partnership – The Independent Review of Australia's Quarantine and Biosecurity Arrangements Report to the Australian Government and,
- Independent review into AQIS Fees and Charges in the Meat Program

The Department of Agriculture Fisheries & Forestry will make copies of both reports available to the independent consultancy.

3. Membership

A working group will be established to progress completion of the report for presentation to the MTF. The working group will be comprised of industry representatives and officers of the Department of Agriculture Fisheries and Forestry as nominated by the membership of the MTF.

The working group will be assisted by the MTF secretariat as required.

4. Meetings

The independent consultancy will provide fortnightly progress reports to the MTF via the working group. Where contact meetings with the independent consultancy are required any agenda items will be provided by the MTF secretariat.

5. Reporting

The working group will present a draft report to the MTF for consideration and final acceptance.

6. Evaluation and Review

The Chairmen of the MTF will hold a meeting on completion and presentation of the report in order that MTF members can satisfy themselves of the legitimacy of the outcomes of the review.

7. Funding Arrangements

Cost associated to the independent consultancy and completion of the report will be borne from funds made available to the meat export industry through the Export Certification Reform Package.

8. Terms of Reference Functional Parameters

The working group will recommend the firm to provide the independent consultancy to the MTF. The firm will be selected under an appropriate Panel of Providers arrangement which has been established to provide financial services to the Commonwealth.

9. Communication

The independent consultancy will not disclose their findings to any person or party outside the working group or MTF without the express permission of the MTF.

The independent consultancy will provide a written report of their deliberations and recommendations on the completion of their allotted tasks and no later than the 1 September 2010.

Jointly signed:

Ms Rona Meilor
Deputy Secretary DAFF

Mr Gary Burridge
Chairman Australian Processor Council, AMIC



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MEDIA RELEASE

Date 1 June 2011

NEW GOVERNMENT CHARGES DEAL A HEAVY BLOW TO THE STRUGGLING MEAT EXPORT INDUSTRY

“At Senate Estimates last week the Federal Government virtually admitted they were proposing a new tax on the Australian export meat industry from July 1” said Gary Burridge – Chair of the Australian Processor Council.

“After almost 5 years of attempting to reform Australia’s meat inspection system, the Government has proposed a new fee structure for meat inspectors from July 1 this year that will substantially increase costs for every export meat processor in Australia.

The Government had said the reforms were supposed to deliver “...the opportunity to remove substantial costs from the export supply chain for industry and AQIS”. “In reality the proposed new fee structure delivers just the opposite”, Mr Burridge said.

“This is nothing but a blatant tax on exports, reducing our competitiveness in the global market and threatening the viability of a number of regional meat processors already under pressure from soaring power bills, livestock and labour shortages and with a carbon tax on the way”.

“Our global competitors in the US, Canada and Brazil do not pay full cost recovery for the inspection service they operate, so the Australian Government’s proposed tax will only serve to hamstring our export industries on the global stage.

“Recent media comments suggest that the biggest threat to the future of livestock farming in Australia was the reduction in market competition. These increased Government charges are going to threaten the economic viability of marginal regional operators; potentially reducing competition and costing regional jobs”.

“Close to 50,000 Australians work in the meat processing and export sector, with 50% of processors operating in regional Australia where the Government says that jobs are a priority – We agree. These processing establishments play a vital role in contributing to the economic fabric of the rural towns they operate in. Threatening their survival is likely to have direct impact on jobs and indirect impact on small businesses that rely on them for work”.

“The meat processing industry is a low margin business and these increased Government costs won’t be able to be passed forward in a global market where we are already losing our competitiveness with an Australian dollar well above parity with the US dollar”.

“There is only one way these increased Government costs can go and that is back to the livestock producer”, Mr Burridge said.

“The meat industry has offered a compromise solution to the Government that we believe could resolve the issue and allow once in a generation change in meat inspection systems to be implemented” said Mr Burridge.

“With this new tax the Government appears willing to risk once in a generation reform and waste \$127 million of taxpayer’s money allocated by Government in 2009 to get to this point”.

Ends

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'The Gillard Government is imposing a new \$6 per head Tax on the Australian Producer'

The Facts

The Australian Meat Processing Industry has with the Federal Government developed and supported a new model for export services in Australia.

The new model will require less resources from the Australian Quarantine Inspection Service to operate but will affect regional businesses and jobs.

The new inspection model will provide The Gillard Government with \$30 million of savings.

Federal Agriculture Minister, Senator Joe Ludwig wants industry to pay 100% of the cost of the new model for Australia's export services by deciding to eliminate the existing 40% rebate for Agriculture.

Based on a recent Senate Estimates Hearing it was acknowledged that the costs for the new model results in \$6 per head tax for Industry from 1 July 2011.

This cost will ultimately be borne by livestock producers.

Most of our major international competitors do not pay these fees. This \$6 per head tax will reduce our international competitiveness as a meat exporting country.

This decision will act as a "tax on livestock production and exports" that will threaten the viability of meat processors and producers alike.

What should you do?

Contact your Local Federal Member urgently or Minister Ludwig's Office on (02) 6277 7520 and ask why the Gillard Government wants to impose a \$6 per head tax on the Australian Red Meat Industry.



**EXPORT CERTIFICATION MEAT REFORM
ADDITIONAL VERIFICATION COSTS**

There are a number of additional costs that will be incurred with the new meat inspection model that were not part of the old model. These have been considered necessary by the Government to assure importing countries that the integrity of the meat inspection activity will be retained under the AEMIS model. This is based on the assumption that the current system delivered an acceptable outcome in terms of meat safety and suitability.

These verifications are additional to verification procedures that are already in place that show that the food safety and suitability is on either equal to world's best practice or exceed it.

These additional verifications costs relate to:-

Food Safety Meat Assessor

This is an additional Government employed meat inspector with auditing skills who is stationed at the end of the slaughter line to verify that post mortem inspection has been performed adequately on a carcass by carcass basis. They may also be used on larger meat processing establishments to assist the Government Veterinarian. The cost is billed to the meat processor and is currently around \$138,000 per year, including all overhead costs.

Post Mortem Verification

Government employed Veterinarians already stationed at each export meat slaughtering establishment will have to verify the performance of on line meat inspection daily. This will increase their work load and on some of the larger establishments they will need to be assisted in the function by a Food Safety Meat Assessor. This verification activity is not undertaken by the meat inspectors who are currently employed by the Government. The exact cost is difficult to quantify but on some establishments it could be equal to part or all of a Food Safety Meat Assessor.

Carcass Total Viable and Coliform Counts

In addition to the current *E. Coli* and *Salmonella* monitoring it is now required that carcass Coliform counts and total viable counts will have to be done. There will be an increase in costs in laboratory testing although the opportunity exists to piggy-back the testing on the existing *E. Coli* swabbing. It is estimated that this will increase current carcass microbiological testing costs by about 25%. About half of the establishments do the total viable counts due to this being an EU market access requirement.

Carton Meat Total Viable and Coliform Counts

This testing of packaged meat is new. It is meant to be in place for an interim period whilst correlation is demonstrated between the carcasses and the packaged meat. It is estimated that the increase in cost will equate to 50 cents per carcass for beef and 5 cents per carcass for sheep. This covers on-plant sampling and laboratory testing costs. Some establishments do this already but they are in the minority.

Data, Capture, Analysis and Reporting Costs

The above data will have to be captured, analysed and reported on. The cost of this has yet to be estimated.



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