

**GARY BURRIDGE – INTRODUCTORY COMMENTS
TO SENATE HEARING
THURSDAY 7 JULY 2011**

- 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 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through the Strategic Evaluation Group from which a number of initiatives including the Plant Hygiene Index, removal of outdated inspection practices and the development of alternative inspection models were initiated.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 seven 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 1 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 plants 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 totaling \$5-\$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 turnoff 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 looking to dis-incentivise 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.