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**Submission
to**

**SENATE RURAL AFFAIRS AND TRANSPORT REFERENCES
COMMITTEE**

**Inquiry into Biosecurity and Quarantine Arrangements
Management of removal of the fee rebate for AQIS export
certification functions**

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Introduction

The Australian Horticultural Exporters Association Inc. is the national peak industry body representing approximately 85% of horticultural exports across Australia. The development and establishment of new markets and maintenance and growth of existing markets has continued to be a significant and ongoing investment for the horticultural industry over the last decade and increased production coming on in many sectors to cater to export opportunities means the export sector must remain internationally competitive.

The horticultural industry is increasingly heavily reliant on exports in order to maintain economies of scale and global competitiveness and to avoid oversupply in the Australian market. As such production increases, export will become even more important in order to maintain a fair return on investment for growers.

The horticultural industry is struggling to remain viable and to maintain a presence in export markets due to Australia's lack of price competitiveness compared to alternate Southern Hemisphere suppliers such as Chile and New Zealand. The high cost of labour in Australia is a major issue for the horticultural industry and the increased value of the AU\$ has impacted heavily.

Despite the recent Government 40% rebate on AQIS inspection fees, the cost of quarantine inspections to fulfill protocols imposed by importing countries such as Taiwan, and other ASEAN countries is far higher in Australia compared to inspection costs in competitor countries including our close neighbour New Zealand.

The Australian horticultural export industry has reached a crisis point whereby any further increase in costs will have a significant negative impact on export sales and a physiological impediment to what should be a level playing field with trading partners.

Situation Analysis

Over the past two years the export of Australian fresh fruit and vegetables has declined by more than 25% by value or AUD \$ 150 million.

This decline can be attributed to, Firstly the range of weather from heat and drought in 2009/10 to the wettest season since 1974 in 2010/2011. In some fruit growing areas thousands of stonefruit trees have died as they sat in flood water for weeks. These regions will not come back into full production for 3 years provided there are trees available now from nurseries of the right varieties to replace them. In Queensland the effects of the cyclones and the rain will be felt for years in the tree fruit industries.

Secondly the strong exchange rate has placed our exports at considerable disadvantage compared to our other Southern Hemisphere competitors such as Chile, South Africa, Argentina, Brazil and New Zealand. Increasing 30% against the USD in 2 years, effectively increasing the selling prices by as much as 30%. As a result in our main markets of Asia where we have the greatest competitive advantage due to close proximity, we are just too expensive and sales have been very difficult and business hard to maintain. Market share has been progressively eroded as a result.

Thirdly we are also facing throughout S E Asia and N E Asia, a raft of increased quarantine requirements that have at times unnecessarily increased our cost of doing business in the region.

Unlike Chile , New Zealand and the USA for that matter which are fruit fly free , Australia has several species of fruit fly, some unique to Australia. For this reason the horticultural industry is required by Asian countries to provide scientific proof that we are able to prevent these fruit flies from being shipped in our produce . The research into cold disinfestation and chemical treatments has to be funded through grower levies and this involves the expenditure of millions of dollars . Some Asian countries are now requiring specific data on each species of fruit fly and are requiring research data specific for each type of fruit .

Instead of our export markets accepting that cold treatment over a certain period of time will kill all flies in all fruit, which Australia has sufficient data to demonstrate , we have to frequently repeat the research time and again for each market .

The cost of this research is a huge impost on the various horticultural industries and has resulted in some industries withdrawing from any large scale exports.

The quarantine barriers and the unreasonable requirements are a major impediment to export of fresh produce from this country .

A further impediment to the export of fresh fruit and vegetables is the increasing cost burden of AQIS inspection . The recent move to 100% cost recovery has meant that it is costing citrus exporters between \$ 800-,1,200 per 40 ft container to ship citrus to a phytosanitary market depending on the entry requirements. That equates to costs of approx AUD \$ 1.00 per carton to ship oranges to some markets or 5% of the CIF price.

AQIS over the past 2 years through the Ministerial Task force [MTF] has been told time and time again that we have to reduce our costs and become more efficient . Their response has been to propose “AQIS Approved Officers (AAO`s) to replace Approved Arrangements “ or AA`s at some packing sheds or loading facilities . AA`s are accepted by some markets for low risk produce in many cases however AA`s and AAO`s are not acceptable for fruit fly host produce [high risk] in countries such as Japan, China, Taiwan , Korea, Taiwan , or New Zealand .

Currently for instance citrus is being loaded in Melbourne and being shipped to Korea . Clearance is achieved after both an inspector from NPQS Korea, and AQIS has inspected the fruit. It is therefore being inspected twice here in Australia , and will be inspected again on arrival in Korea. Given this level of required inspection , industry finds it difficult to accept the push by AQIS to reduce their operating costs by introducing the concept of self inspection using Approved AQIS Officer`s [AAO`s] . These individuals will be trained by AQIS [at industry`s cost] to undertake inspection of export shipments and will be audited regularly by AQIS [at industry`s cost] .

This move across to AAO`s is being done without knowing which export markets they can clear produce for. AQIS maintains that once the model is up and running , they will approach the markets to seek approval . This is a bit like putting the cart before horse , and Industry has advised AQIS that they believe the uptake will be quite modest as it has been for Approved Arrangements [AA`s].

For instance in the whole of the Sunraysia , there is only one establishment that has an approved arrangement in operation. This in a region where more than 70 % of Australia`s tablegrape exports are cleared , and at least 35 % of all citrus exports.

So the proposal to reduce AQIS costs to industry by introducing further arrangements for self inspection will in the view of the export industry fail to deliver significant savings and efficiencies as per the Terms of Reference of the MTF. .

Issues of Concern

Failure of the AQIS Reform process

AHEA is extremely concerned about the return to full cost recovery on AQIS export inspection fees and charges in the absence of any demonstrated reduction in inspection costs. The Minister for DAFF, made it very clear that \$127 million across 6 primary industries provided by the Australian Government in 2009 to extend the 40% rebate payment period through to the end of June 2011 was to fund a transition to full cost recovery together with a reform process which would provide efficiencies and cost savings to replace the rebate. It is now certain that the reform process has failed and AQIS 's only major reform is attempting to shift costs to industry rather than introducing cost saving efficiencies with the export inspection and certification processes.

Specific Issues.

The consultation process surrounding the AQIS reform process has been inadequate with limited communication allowed at Peak Industry Body level

The Horticultural Ministerial Task Force has been suppressed in communication with industry due to the imposition of confidentiality restrictions on Task Force Members

Industry's concern regarding perceived cross-subsidization of DAFF's administration and community service obligations from income derived from the export inspection service has been endorsed by independent review by Ernest & Young independent consultants has been ignored by AQIS.

In addition several issues regarding the process and conduct of the Horticultural Ministerial Taskforce as raised by the AHEA representatives Mr David Minnis and Mr Alastair Scott in the Rural Affairs and Transport References Committee hearings on Thursday 7th July 2011 are of grave concern. If further investigation by DAFF supports the assertions then the outcomes of the AQIS Reform Process of the past 18 months should be considered doubtful.

The AQIS Reform proposal to introduce a system of industry employed AQIS Approved Officers (AAO's) does not provide a resolution to the current high cost of inspection and is likely to incur higher costs for seasonal industries. There is also no agreement in place with the governments of major export markets such as Taiwan, China, Japan, Korea, and ASEAN countries to accept inspection by AAO's. It is estimated that it will take 3 to 5 years of tough inter-government negotiation to gain acceptance of AAO's with the possibility that they will not be accepted at all.

In the next 4 to 5 years the horticultural export industry is expected by AQIS to pay 40% more for export inspection and certification services without any reform cost savings. This fact in itself is unacceptable.

AQIS have previously indicated to the Senate Inquiry that " A number of these other countries around the world pay the full cost of export certification from the government.." However the MTF – Horticulture has failed to find one country that pays the equivalent of \$272 per hour for an export field inspection and certification and that includes New Zealand, Canada, and USA.

This brings into question whether DAFF are reasonably and fairly recovering legitimate costs that are directly related to the provision of services for export inspection and certification. Of that \$272 per hour the MTF recognizes that approximately \$200 per hour goes towards the recovery of backroom costs which are arguably not directly associated with the provision of export inspection and certification services, and therefore should not be recovered by the Government.

This area of backroom costs has been furiously protected by AQIS in the MTF's evaluation of AQIS costs and has effectively been a no go zone when looking into legitimate cost savings from within AQIS. Industry believes that many of these backroom costs should be picked up by the Government as has been done in the last 10 years as a community service benefit, and not a penalty imposed on exports.

Yours sincerely,

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