Chapter 2

Issues considered in the inquiry

Industry support for removal of the rebate

2.1 While some submitters to the inquiry expressed support for removal of the 40 per cent rebate, the majority of submissions received by the committee emphasised that industry support is predicated on implementation of comprehensive, and overdue, reform. The Sheepmeat Council of Australia and the Cattle Council of Australia told the committee that the removal of the subsidy would provide an incentive to progress badly needed reform within AQIS. However, the Councils went on to state that:

> If the 40 percent rebate is removed without the necessary reforms being successfully implemented, Australia's red meat producers would be forced to shoulder the full cost of inefficiencies within Australia's monopoly export certification body. This outcome is unacceptable to red meat producers as it places Australian producers at a comparative disadvantage to our competitors in international markets who receive taxpayer funded certification services.[1]

2.2 GrainCorp told the committee that all members of the AQIS Grains Industry Consultitative Committee (AGICC) support the removal of the rebate. In its submission GrainCorp stated that:

> Grains industry representatives believe removal of the rebate will allow for funding and development of reforms to AQIS operations and that this will bring about net benefits to the Australian grains industry. Members of the AGICC also believe the reforms proposed by Beale will lead to a net improvement in biosecurity arrangements in general.[2]

2.3 The committee notes that ABB Grain Ltd (ABB) was more qualified in its support of the changes. ABB Grain told the committee that prior to the announcement of the proposed reforms to AQIS's export inspection and certification services, ABB was opposed to the removal of the 40 per cent rebate due to concerns about the impact of the additional impost on the industry. ABB now welcomes and supports the Government's reform agenda which it believes will eventually provide industry with the choice of cheaper alternative service options. However, ABB told the committee:

> It is still an issue though that the realisation of these alternatives will not be available for some time. In the meantime industry is being asked to bear the increased charges for AQIS services.[3]

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1 *Submission 22*, p. 2.

2 *Submission* 6, p. 1.

3 *Submission* 14, p. 2.

2.4 A common theme in submissions was that removal of the rebate should not have been contemplated ahead of the implementation of reform.[4] Cherry Growers of Australia (CGA) told the committee that while it understands the Government's decision to work towards full cost recovery, the process through which this will be achieved will have a very negative effect on the Australian cherry industry and the wider horticultural sector.[5] The Australian Council of Wool Exporters and Processors Inc told the committee that the decision to remove the subsidy prior to the implementation of reform has created unnecessary and premature cost increases for exporters.[6]

2.5 However, frustration with the glacial pace of reform to date and advice from AQIS that the changes were a 'fait accompli' have forced most sectors to accept the withdrawal of the subsidy in return for government's commitment to work with industry to address reform issues.[7]

2.6 The Horticulture Australia Council (HAC) told the committee that:

> Horticulture is vehemently opposed, as we put in our submission, to the removal of the 40 per cent rebate in advance of the promised reforms. We think that is poor policy and poor timing, particularly in relation to some of the points that the other agricultural industries have been making here today.[8]

2.7 HAC told the committee that the industry had effectively been given an ultimatum: industry could either have a rebate on fees for the current financial year or reform.[9] In its submission, HAC stated that:

> The view of the Horticulture industries is that proceeding with the proposed reforms apace is the best, lasting solution to this unfortunate situation; as we believe that the reforms should lead to significant efficiencies and cost-savings in the Horticulture Export Program, and thus improve the service delivery to end-users (growers, packers and exporters).[10]

2.8 Mr Ian McIvor, Chairman of the Australian Livestock Exporters Council (ALEC), told the committee '[w]e do support the 40 per cent being withdrawn but

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4 See for example: *Submission* 2, Australian Renderers' Association; *Submission* 8, Cherry Growers of Australia Inc; *Submission 9,* Nursery and Garden Industry of Australia; *Submission 19,* Australian Council of Wool Exporters and Processors Inc; *Submission 20,* The Western Asutralian Farmers Federation and *Submission 27,* Commonwealth Fisheries Association.

5 *Submission 8,* p. 17.

6 *Submission 19,* p. 1.

7 See for example: *Submission 18,* Red Meat Advisory Council Limited, p. 2 and *Submission 16,* Deer Industry Association of Australia.

8 *Committee Transcript,* 11 September 2009, p. 87.

9 *Committee Transcript,* 11 September 2009, p. 88.

10 *Submission* 5, p. 4.

very much subject to the reform process taking place'.[11] In its submission, ALEC told the committee that:

> While it is accepted that removal of the fee rebate will have a financial impact on the sector, industry views the short and long term benefits stemming from this reform process as far outweighing the costs.[12]

2.9 ALEC also views the current reform package as offering industry an opportunity to drive the direction and pace of reform.

> ALEC understands that, if the reform agenda does not progress as agreed, then industry will lose access to the funding and any reform process will be driven by AQIS. This is not acceptable to the live export sector. While AQIS may have the best intentions, they cannot engineer and impose regulatory reform on an industry, without their involvement, and expect a positive outcome. This has been tried and has failed.[13]

2.10 The Australian Meat Industry Council (AMIC) told the committee that 'removing the export rebate without corresponding efficiency offsets is unacceptable to our industry when we have been led to believe that AQIS's corporate overheads have increased in the order of 250 per cent in the last four years'.[14] AMIC told the committee that it had initiated the reform process with AQIS five years ago and proposed the concept of reform to the minister and the ministerial taskforce as a response to the decision on full cost recovery in February of this year. AMIC said:

> We clearly recognise from the outset that reform in the export certification area is a complex one, indeed. AMIC have committed significant industry funds over the last five years to actively engage the department on reform, with joint AQIS and AMIC strategic planning forums which were established in the year 2003. Through that process we identified a range of initiatives that would modernise the meat inspection and verification system in Australia and would lead to significant efficiencies and productivity gains for the industry. When the decision to return to full cost recovery was announced, we were in a position to put those five years of commitment and innovation on the table in the form of efficiency gains and productivity gains that if implemented would generate savings to offset the cost increases proposed. Industry recognised these initiatives would take time to implement and to deliver in full. Industry openly accepted the additional responsibilities and the associated internal costs of this reform.[15]

2.11 AMIC also told the committee that its position on this issue had not altered. AMIC submitted:

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11 *Committee Transcript*, 11 September 2009, p. 65.

12 *Submission* 4, p. 2

13 *Submission* 4, p. 2.

14 *Committee Transcript*, 11 September 2009, p. 24.

15 *Committee Transcript*, 11 September 2009, pp. 24 -25.

> There must be agreement to postpone any decision to remove the Government's 40% contribution to AQIS export charges until they can be matched with the implementation efficiencies and productivity gains proposed by industry.[16]

Potential to realise savings proportionate to increase in fees

2.12 Submitters to the inquiry expressed concern at the flow-on effects of the removal of the subsidy to grass root producers. While this will be dealt with in greater detail below, the committee notes the submissions of AgForce and the NSW Farmers Association which, while welcoming the opportunity to achieve efficiencies for agricultural export trade, raise concerns that the savings achieved through reform may be difficult to quantify and may not be proportionate to the cost to producers.[17]

2.13 The committee also notes the comments made by ALEC regarding advice received at a recent consultative committee meeting flagging the possibility of further fee increases:

> At the last consultative committee meeting Dr Ann McDonald, who is the new head of our side of it for AQIS, indicated that because of additional overheads being received the new charges may even in fact go up again before this year is out. Needless to say, we were not very happy about that and we lodged a protest. I say that now because from what you said, Senator, they are receiving additional funds and it gives the impression that there must be a fair bit of money in the system. But from what she explained to us, that has already been absorbed by the additional costs that they are incurring.[18]

Transition to full cost recovery

2.14 Some submitters would have preferred to have seen the return to cost recovery phased in. The Australian Dairy Industry Council Inc told the committee that it had sought a transition to full cost recovery, but in its absence had agreed to a compromise position whereby 50 per cent of the reform funds will be rebated to offset the fee increase.[19]

Removal of Rebate as a disincentive to export

2.15 A number of submitters expressed the view that some of the costs involved in export are legitimate costs of government. Some submitters told the committee that they considered the 40 per cent rebate to be an investment in export industries by government.[20] AMIC, who represent the largest contributor to AQIS's export

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16 *Submission* 28, p. 9.

17 *Submission 11*, p. 1 and *Submission 24*, p. 1.

18 Mr McIvor, *Committee Transcript*, 11 September 2009, p. 70.

19 *Submission 17*, p. 1.

20 *Submission* 3, Global Fruit Exchange Exports Pty Ltd.

certification charges, told the committee that they have always opposed the removal of the 40 percent rebate because it reflects the legitimate cost of government.[21] The committee heard that adding cost through higher government charges fundamentally undermines the market access objective, especially when Australia's competitors do not face the same costs.

2.16 AMIC outlined for the committee what it sees as the legitimate costs of government:

> The legitimate costs of government, as far as we are concerned, are almost identical to what occurs in a number of other exporting countries in the world. For example, with the meat processing sector, we will pay for inspection, veterinary services, anything to do with market access. Corporate costs, corporate overheads and DAVVA overheads remain a cost of government and a legitimate cost of government.[22]

2.17 AMIC provided the committee with a table based on Meat and Livestock Australia data that indicates the range of functions paid for by industry and by government in various export markets (refer Appendix 4).

2.18 Mr Hastings described removal of the rebate as an anti-stimulus package which is going to reduce exports.[23] Mr Hastings described for the committee the difficulties facing emerging export industries such as the ostrich industry. While the industry has been hit by losses in the last two years through rises in the value of the Australian dollar and increased feed prices as a result of the drought, the international ostrich meat market is significantly undersupplied. Similar scenarios were outlined for the committee by members of the deer and emu export industries. However, the ostrich meat export industry is reliant on a single specialist abattoir. The operator of that abattoir, the Australian Game Meat Company, told the committee that the removal of the subsidy and the resultant increase in fees had placed serious questions over the viability of his operation and that of the growers who rely on him.[24]

2.19 AMIC also expressed concerns about the impact of the changes on smaller processors. AMIC told the committee that research undertaken to assess the impact of the removal of the rebate identifies that there will be clear adverse impacts on processor profitability varying from a decline of over 2 percent to over 25 percent with smaller scale facilities suffering bigger declines in profitability. AMIC expressed concern that this may lead to job losses and closures, particularly in regional Australia. [25]

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21 *Committee Transcript*, 11 September 2009, p. 24.

22 *Committee Transcript*, 11 September 2009, p. 28.

23 *Committee Transcript*, 11 September 2009, p. 86.

24 *Committee Transcript*, 11 September 2009, pp. 81-82.

25 *Submission* 28, pp 8-9.

Transfer of costs from public to private sector

2.20 A number of witnesses expressed concern that the reform process represents a transfer of costs from the government sector to the private sector. The Commonwealth Fisheries Association contend that the reforms represent a cost transfer rather than a cost saving. Mr Melham told the committee:

> CFA contends it will be a cost transfer because, as I stated, we are simply shifting functions from government to the private sector and in many cases the seafood companies are going to have to undertake and add functions to their existing activity at a cost.[26]

2.21 These views are shared by the Australian Horticultural Exporters Association. The AHEA submitted that there is a very real danger of the reform process resulting in a cost transfer for phytosanitary service provision from AQIS to the private sector. AHEA told the committee:

> This process will be pursued to generate the appearance of cost savings within the AQIS Program, when in fact the costs will still exist within the Export Pathway, simply transferred from the Public sector to the Private sector, with no net savings.[27]

Adequacy of consultation by Government in development of industry work plans

2.22 The committee notes that the perceived adequacy of the level of consultation throughout this process appears to have varied dramatically from sector to sector.

2.23 The Australian Livestock Export Council told the committee that the livestock export sector is satisfied with the level of consultation by Government in the development of industry work plans. ALEC had initiated discussions around regulatory reform for its sector well in advance of the initiation of this current process. ALEC has worked closely with AQIS in the development of work plans and has invested significant time and resources consulting with its industry.[28]

2.24 In its submission to the inquiry the Commonwealth Fisheries Association told the committee that the Government had failed to adequately consult the seafood industry on the initial development of the industry work plans as the makeup of the Seafood Export Consultative Committee and the Ministerial Taskforce did not include representatives of the peak industry bodies at either state or national levels.[29] The committee was told that while the taskforce included legitimate industry players, the

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26 *Committee Transcript*, 11 September 2009, p. 5.

27 *Submission 21*, p. 5.

28 *Submission 4*, p. 2.

29 *Submission 27*, p. 1.

organisations represented did not represent the majority of the seafood industry.[30] The CFA successfully lobbied for inclusion on the Seafood Task Force, but its late inclusion meant it had not had sufficient time to consult its members on the development of the seafood work plan.[31]

2.25 Members of the horticulture sector also expressed concern about the limited timeframe for consultation.[32] The NGIA told the committee that 'the timeframe provided to industry for consultation with constituents, in the development of the Horticultural Industry Work Plan, was insufficient in order to clearly articulate and express the needs of industry.'[33] Cherry Growers Australia submitted that while there had been discussions between AQIS and Horticulture Australia Council there had been limited or no consultation with industry organisations and individual growers and exporters in relation to the specific industry work plans.[34]

2.26 Cherry Growers of Australia also stated that the efficiency plan now being presented by AQIS has not been tested through an appropriate and independent cost benefit analysis and has not been benchmarked against comparable services in competitor countries. Market testing of potential private sector third party providers as recommended under the Australian Government Guidelines for Cost Recovery has also not been undertaken. In addition, there has been no discussion with affected stakeholders regarding a Cost Recovery Impact Study as required under the Guidelines. [35]

2.27 The committee also notes the observations by the Australian Horticultural Exporters Association. While the AHEA commends AQIS for a well and constructively managed process of industry consultation in the development of the Horticultural Work Plan, the AHEA expressed some serious concerns with AQIS' consultation with industry. AHEA told the committee that the reform budget developed by AQIS bears little resemblance to the Work Plan submitted by the Ministerial Task Force for Horticulture in terms of desired outcomes. AHEA submitted that:

> Superficially, the areas addressed seem correct, but in reality the allocation of resources is other than what Industry Representatives detailed in the Work Plan.[36]

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30 Mr Christopher Melham, Chief Executive Officer, Commonwealth Fisheries Association, *Committee Transcript*, p. 5.

31 *Submission 27*, p. 1.

32 *Submission 29*, Citrus Australia, p. 2

33 Submission 9, p. 5.

34 *Submission ,*. p. 17

35 *Submission* 8, Cherry Growers of Australia, p. 1.

36 *Submission 21*, pp. 5 - 6.

2.28 AHEA concludes that this demonstrates that industry consultation is 'an empty chalice' and that AQIS has manipulated and distorted industry's desires to achieve AQIS' desired direction:

> Accordingly many in AQIS are confident with “managing the reform process to AQIS’s own end” and this will severely compromise this Review/Evaluation and Implementation of positive change potentially achievable within this “reform phase”.
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> Typically AQIS avoid keeping accurate and definitive records of meetings when AQIS service delivery deficiencies or short comings are detailed, reducing the ability for measured improvement, benchmarking or managing Key Performance Indicators.
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> In the Horticultural Ministerial Task Force Proposed Work Plan, Review/Evaluation of AQIS and Services, AQIS have no formal accountability to follow Industry reform desires. There doesn’t exist a process of appeal within the Biosecurity Services Group for managing this review of AQIS Service delivery to which Industry can call upon.[37]

2.29 These concerns led AHEA to withdraw from the Ministerial Taskforce.[38]

The capacity of the Government, including AQIS, to implement efficiency proposals

2.30 AQIS told the committee that it was confident that the reform process could be undertaken within 12 months. Submitters also expressed some confidence in the Government's ability to implement efficiency proposals and a commitment to working with Government to achieve reform. For example, ALEC told the committee that 'the livestock export sector firmly believes that, following implementation of these projects, government will be able to deliver outcomes with a reduced capacity, in terms of resources. This will deliver financial and efficiency benefits to industry.'[39]

2.31 HAC told the committee

> AQIS have repeatedly assured us that the proposed reforms are possible, and that they are well-motivated to achieve them in the given timeframe – though the timeframes vary depending on the proposed reform (as some will require legislative changes, for example).[40]

2.32 However, HAC's Chief Executive, Ms Kris Newton told the committee:

> There is a degree of cynicism within some parts of the industry and amongst some growers as to the capacity of AQIS to deliver those reforms or deliver them sufficiently or within the time frames. We have had

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37 *Submission* 21, AHEA, pp. 10-11.

38 *Submission 21*, p. 5.

39 *Submission 4*, p. 3.

40 *Submission 5*, p. 5.

> assurances from senior AQIS officials and the minister's office that those reforms will be undertaken and that they will be expeditious, but at this point we have to take that on trust.[41]

2.33 AMIC expressed concern that the timelines for the reform process are unrealistic. AMIC told the committee:

> The meat inspection reform agenda is a technical issue that should have technical time lines. The political decision to return to full cost recovery contains unrealistic timeframes for its implementation and this potentially puts at risk reform in general.[42]

The adequacy of government funding to implement industry work plans

2.34 The committee notes that the government has allocated a total of $39.4 million for the Export Certification Reform Package. The committee also notes that this funding is subject to the fees and charges legislation being passed through the parliament.[43] A total of $40 million has been split between six industry sectors based on the average allocation of funds to these industry sectors over the three year period from 2005/06 to 2007/08.[44] DAFF advised the committee that the shortfall of $0.6 million will be subject to further discussions with the Department of Finance and Deregulation.[45]

2.35 DAFF told the committee that this funding is seen as adequate to meet the objectives of the industry workplans and that the most significant reform in the packages is in regard to meat inspection.

> The most significant reform in the packages is in regard to meat inspection. The proposal developed through the Ministerial Taskforce has the potential to return in excess of $15 million in savings over the course of a full year once the main reform measures begin.[46]

2.36 The committee notes concerns raised by the Pastoralists and Graziers Association that reform package funds should not be used to pay any staff redundancies arising out of the reform process.[47]

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41 *Committee Transcript*, 11 September 2009, p. 87.

42 *Committee Transcript*, 11 September 2009, p. 25.

43 *Submission 12*, Department of Agriculture, Fisheries and Forestry, p. 4.

44 Meat: $29.04 million; Dairy: $0.68 million; Fish: $1.86 million; Grain: $3.94 million; Horticulture: $2.48 million; $1.90 million; *Submission* 12, p. 4.

45 *Submission 12*, p. 4.

46 *Submission 12*, p. 4.

47 *Submission 7*, p. 1.

Progress on meeting targets in industry work plans

2.37 The committee notes that to date only two of the ministerial task forces have signed off work plans: horticulture and live animal exports. DAFF advised the committee that work plans for the grain industry have been developed in detail and that the meat proposal is still being developed[48] DAFF also provided the committee with a summary of progress toward meeting the targets in the industry workplans for each of the sectors and tabled copies of Reform Papers developed in relation to each industry sector:

Meat industry:

- Rebate in place until 30 September 2009 to discount all fees to rates imposed prior to 1 July 2009;
- Ernst and Young have undertaken an independent review of AQIS costs and charges to provide the basis for an agreed approach to full cost recovery;
- Red Meat Reform Strategy outlining the development of the AQIS meat inspection has been agreed with the taskforce.

Fish industry

- Engaging consultant to undertake independent review of links in fish export supply chain to be completed by 30 October 2009.

Dairy industry

- Details of a rebate using 50 per cent of the funds allocated to the industry are being finalised and will be implemented by 1 October 2009;
- Business mapping of dairy export supply chain has commenced.

Horticulture industry

- Independent external review of AQIS's Horticulture Export Program to be undertaken to identify savings to begin in the next month;
- Extensive mapping of AQIS and industry export processes also to begin in next month to identify duplication, disconnectivity and gaps between industry and AQIS systems.

Grain industry

- Detailed workplans for each of six key areas of reform developed;
- Implementation of each work plan commenced as of 4 September 2009.

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48 *Committee Transcript*, 10 September 2009, p. 17.

Live Export Industry

- Detailed work plans for each of seven key reforms.

2.38 However, the committee observes that some industries indicated that little progress had been made in meeting the targets in industry work plans due to the tight time-frames imposed. Most attention to date has been concentrated on developing work plans.

2.39 The Australian Horticultural Exporter's Association stated that little progress has been made in meeting targets as the industry is voluntarily-based and most industry participants have businesses to operate. The industry argued for the funding to be made available over a number of years – 'this process will not work with a life span of only one year as Reviews and Evaluations take time to be performed'.[49] Other industries also indicated that little progress had been made in meeting targets.[50]

2.40 Industry representatives also noted that progress has been hampered because the reform funds have not yet been made available.[51] The Australian Livestock Exporters Council indicated that the Council has been pro-active in developing the project work plans, which have already been finalised and presented to government. However, the Council noted that it does not have the resources to implement these projects without the resources proposed by Government.[52] The funds will be transferred to the Australian Livestock Exporters' Council for implementation of reform projects once the threat of regulation disallowance in relation to the revised fee schedule has passed.[53]

2.41 The committee notes ALEC's confidence that it will meet the milestones identified for its reform projects, despite the delayed start to commencement of its work program.[54]

Financial or other impact on industry sectors of the failure to meet reform targets

2.42 A number of farmers' organisations and others in the industry expressed concerns at the impact on industry sectors of the failure to meet the reform targets.

49 *Submission* 21, AHEC, p. 9.

50 *Submission* 19, Australian Council of Wool Exports & Processors; *Submission* 22, p. 2 Sheepmeat Council of Australia & Cattle Council of Australia, p. 2; *Submission* 9, Nursery & Garden Industry Australia, p. 6,

51 See for example: Ms Kris Newton, CEO, HAC, Committee Transcript, 11 September 2009, p. 98.

52 *Submission* 4, ALEC, p, 3.

53 *Submission 12*, p. 6.

54 *Committee Transcript*, p. 70.

Several groups argued that that full cost recovery of AQIS export inspection charges should not occur prior to efficiencies being gained in the delivery of AQIS services.

2.43 WAFarmers indicated a level of uncertainty over the benefits that the reform process will deliver, given that farmers are currently faced with a short-term increase in costs, due to the 'push back' of (effectively) higher export-related costs. The Federation noted that should cost and process benefits not be realised through the reform, these costs will add to long-term costs for farmers.[55]

2.44 Similar concerns were expressed by the NSW Farmers Association. The Association stated that the removal of the subsidy will impose extra costs on exporters who will then pass these costs back to farmers.[56]

2.45 AgForce Qld also stated its concerns over the removal of the 40 per cent rebate for export certification functions and the affect that this will have financially on grass-root producers:

> While AgForce welcomes efficiencies for the agricultural export trade, including the removal of duplication between federal and state jurisdictions and the electronic processing of export certificates, it does not believe that the systems that have been implemented are proportionate to the cost to producers. [57]

2.46 Industry groups also expressed their concerns. The Australian Horticultural Exporter's Association argued the need to remain competitive in the world market, with increasing competition from other global suppliers. The Association stated that exporters are unable to pass these large increases onto their customers and remain competitive, therefore exports will decrease, which will see an increase in product on the Australian domestic market. The Association noted that exporters, who have already been affected by drought, the high Australian dollar, global recession, and increasingly difficult protocol measures have reduced exports significantly.[58]

2.47 One submission noted that citrus growers 'already battling with higher water, fertiliser, chemical and wage costs are in no position to absorb increased AQIS charges'.[59]

2.48 Similarly, Cherry Growers of Australia stated that:

> Export of fresh horticultural products is already under extreme pressure due to Australia's lack of international competitiveness. With Australia's wage structure being higher than any of Australia's major horticultural exporting

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55 WAFarmers, *Submission* 20, p. 1.

56 *Submission* 24, NSW Farmers Association, p. 2.

57 *Submission* 11, AGForce Qld pp 1-2.

58 *Submission* 21, AHEA, p 10.

59 *Submission* 25, Mildura Fruit Company, p. 1.

> competitors…When this is combined with the fluctuating value of the Australian Dollar against the major trading currencies, it is likely that Australian horticultural exports will decline by $125 million to $180 million (down by 10% to 15%) over the next two years.[60]

2.49 Cherry Growers of Australia stated with an estimated 130 000 people directly employed in Australia horticulture such a reduction in exports could cause the loss of up to 20 000 jobs in regional areas over the next 2-3 years.[61]

2.50 AMIC argued that the removal of the rebate places Australia's 'most successful' agricultural export industry at a competitive disadvantage in the export market place. AMIC stated that if the rebate is removed the export processing sector (84 establishments) will pay the government approximately $84 million for the right to operate in the export sector (an average of $1 million per plant). Exporters in many other countries pay very little or no impost (the US industry contributes 10-12 per cent of FSIS operating costs compared to Australia's industry funding 100 per cent of AQIS operating costs). AMIC noted that the red meat industry employs 55,000 people, many in remote and regional Australia and earns approximately $8.7 billion in export earnings.[62]

2.51 Similar concerns were expressed by other industry groups.[63]

2.52 Other industries were supportive of the reforms. The Australian Livestock Exporters Council argued that the implementation of the reform projects will deliver savings to the sector at least equal to the fee rebate removed on 1 July 2009. Other benefits include more efficient use of industry resources, reduced 'red tape', reduced resource requirements by regulators, more timely delivery of services and more effective engagement with destination markets.[64]

Other matters

Consultation on return to full cost recovery

2.53 Despite AQIS's statements that industry had been prepared for the lapse of the 40 per cent subsidy, the return to full cost recovery appears to have caught many in the industry unaware. Concerns were raised at the lack of an appropriate level of

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60 *Submission* 8, Cherry Growers of Australia, p. 1.

61 *Submission* 8, Cherry Growers of Australia, p. 1.

62 *Submission* 28, AMIC, p. 3.

63 *Submission* 22, Sheepmeat Council of Australia & Cattle Council of Australia, p 2; *Submission* 19, Australian Council of Wool Exporters & Processors; p. 2; *Submission* 9, Nursery & Garden Industry Australia, p. 7 and *Submission* 23, AMIA , p. 3.

64 *Submission* 4, ALEC, p. 3. See also *Submission* 6, Graincorp, p. 1.

consultation by AQIS with key stakeholders during the process to introduce full cost recovery.[65] The Cherry Growers of Australia complained that:

> The Horticultural Export Consultative Committee (HECC), which has a long standing role to represent stakeholders in all matters to do with AQIS was forced into agreeing to confidentiality during the full cost recovery negotiation. When HECC could not be convinced to accept a plan to gain efficiencies, a Ministerial Task Force was appointed with a view to "rail-roading" horticulture into agreeing on a poorly conceived plan which, if implemented, will not bring cost relief until long after the 40% subsidy is dropped, if at all.[66]

2.54 CGA also expressed concern that many of the basic principles set out in the Australian Government Cost Recovery Guidelines have not been adhered to as part of the decision to remove the rebate.[67]

2.55 The Australian Council of Wool Exporters & Processors (ACWEP) stated that it was advised by AQIS that the wool industry would not be part of the Reform Review process and that the wool industry's interests would be attended to by changes made for the meat industry. The Council noted that 'with due respect to the meat industry, they will be more concerned with their own industry than the wool industry'. ACWEP stated that the wool industry made repeated requests to be included in the consultation process. All requests 'have been either denied or ignored'.[68]

2.56 The CFA also indicated that the seafood industry would prefer to see the reforms identified and implemented and then a proper cost recovery impact statement produced to determine which functions of AQIS should be fully funded by industry and which functions should be either fully or partly funded by the taxpayer.[69]

> I appeal to the committee not to forget that all government agencies are supposed to undertake a proper cost recovery impact statement in consultation with industry when determining their cost recovery policies.
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> One thing that sticks out in this particular process is that that has not been done, and in my opinion that it is the issue that should be at the top of this process. Whilst I agree that we should be looking at reforms, I think that due process should also be followed. The CFA is currently going through exactly the same process with the Australian Fisheries Management Authority, another government agency, reviewing its cost recovery policy and in stark contrast to AQIS we are at the table with them and have been

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65 *Submission* 18, Red Meat Advisory Council, p.1; *Submission* 11, Agforce Qld, p. 2; *Submission* 19, Australian Council of Wool Exporters & Processors, p. 3; *Submission* 26, Australian Ostrich Association, p.1.

66 *Submission* 8, Cherry Growers of Australia, p. 1.

67 Submission 8, p. 9.

68 ACWEP, *Submission* 19, p. 1.

69 *Committee Transcript*, 11 September 2009, p. 10.

> for six months. We are being presented with detailed budgets as industry, saying, 'This is what we propose to charge in line with the government's CRIS policy and this is why we are recommending this. What do you think?'
>
> We have been negotiating and are now at the point where we will sign off, whereas if you bring it back to AQIS, we have not seen any budgets. We do not know whether the 100 per cent charge is justified, whether that activity is fully driven by the exporter or whether it is being driven by the department itself or other government policy. This is a really important issue that I think the committee needs to look at and take into consideration. CFA certainly believes that it has been negligent in that area.[70]

2.57 A number of submitters indicated that had they been aware cost recovery of export certification fees was being considered by the Beale review, they would have addressed this in submissions to that review. As it was, the recommendation of the Beale review to return to 100 per cent cost appears to have surprised many in the industry.

2.58 AMIC told the committee:

> Beale was commissioned post the equine influenza outbreak. Its primary function was to look at importation and importation risks to this country. We are not aware of how that transferred to cost recovery from AQIS. It was never on the radar screen. When it started appearing in the press, we certainly became alarmed, but at no stage did Beale contact us, as AMIC, for input.[71]

2.59 AMIC also told the committee that while there had been 'rumblings' about a return to full cost recovery, there was no official word that removal of the rebate was under consideration.

> We wrote to the Minister. The Minister assured us that we would receive consultation before anything occurred. When we finally met with the Minister in February, we were told it was a fait accompli and the 40 per cent was gone.[72]

Impact of disallowance

2.60 As discussed earlier, the committee notes that the Government has stated that provision of funding for the development of reforms in each industry sector is contingent on the safe passage of fees and charges legislation, the *Export Control (Fees) Amendment Orders 2009 (No. 1)*, being passed through the parliament. In light of the current motion to disallow these regulations, the committee explored the impact of disallowance on AQIS and industry.

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70 *Committee Transcript*, 11 September 2009, p. 10

71 *Committee Transcript*, 11 September 2009, p. 47.

72 *Committee Transcript*, 11 September 2009, p. 29.

2.61 DAFF advised that if the regulations are disallowed the charges would revert to the previous schedule of fees and charges. Mr Delane, Deputy Secretary Biodiversity Services Group, DAFF told the committee:

> If this is disallowed then we revert to the previous fees and charges, some of which were being under-recovered, leading to deficits in the industry liability accounts. We expect that the revenue shortfalls in the department for this financial year will be of the order of $30 million. If not corrected, those shortfalls will persist and in fact get larger. Because of the scale of the
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> industry et cetera, we expect that the normal revenues would be in excess of $40 million. We also expect that, because the fees and charges are based on a previous level and under recovering, there will be shortfalls in the industry liability accounts, the balancing account from which the industry revenue is returned and costs are met.
>
> By the end of 2009-10, we expect that those shortfalls will accumulate to approximately $18million. There are a lot of questions around that, but our estimate currently is about $18 million. That has to be offset by the department, so we have some balance sheet issues which we will also have to manage. As that rolls through, if it rolls through into next year, we will have further shortfall issues with those industry liability accounts in excess of $10 million. Those accounts have to be balanced off at some point, so to do that we would have to have quite substantial fee increases at some future point to meet the cost of service provision at that time—normally we would expect that to be higher—and to recover those shortfalls. So we would be expecting cost increases, and fees and charges would have to come forward that would be significantly higher than those that have been brought forward this year—potentially over 100 per cent higher. [73]

2.62 The committee noted DAFF's observation that there was a trade-off between the $42 million government would gain through the discontinuation of the 40 per cent rebate and the $39.9 million government has committed to implement the reforms. The committee notes the view that disallowance would compromise the availability of funds to support the review program. The committee also observes that if the fee changes are passed, industry will effectively be paying for government to reform itself.[74] The Secretary of DAFF, Dr O'Connell clarified the situation for the committee:

> One is a cost recovery and we are just recovering the cost of the services, and the other is a government program to provide reform. So it would not be accurate to say that they are paying for the reform in that sense.[75]

73 *Committee Transcript*, 10 September 2009, p. 18.

74 *Committee Transcript*, 10 September 2009, p. 25 and *Committee Transcript* 11 September 2009, p. 74.

75 *Committee Transcript*, 10 September 2009, p. 25.

2.63 A number of witnesses expressed concern that disallowance would compromise an opportunity for regulatory reform. Mr Geoff Masters, Quality and Technical Services Manager for ABB Grain told the committee that

> I suppose if the reforms were disallowed we assume the 40 per cent goes back on, so we are back in a situation where we are paying at those lower rates and we would be back where we were. Now there would be a gap that has occurred where we have been paying the higher rate, so the question is how that would be refunded to industry, if at all. I think it would be more the longer term penalties and how we are going to get the reforms, because this is clearly an expensive process to go through. If industry or the government were to commit to a reform process, that is one thing. But it is the funding that has given us the opportunity to move forward. If it was disallowed I suspect the reform process would stall, if not totally stop. That would obviously have a very long-term impact on the industry in our capacity to perhaps have some real reforms around the way industry or exports occur.[76]

2.64 The committee believes that the Government should commit to the review process and provide adequate funding for the review.

2.65 The Dairy Industry told the committee that it believed disallowance would remove the opportunity for the industry to progress reform, Mr Judd told the committee that in light of how far industry had progressed with the reform process to date, it would have to consider how to proceed.[77]ALEC also expressed concern that disallowance would compromise its ability to continue to implement the reforms it has identified. The committee was in no doubt that ALEC's support of the removal of the rebate and the implementation of the new fee structure is because the reform program has been linked to the safe passage of the regulations.[78] Mr Lach MacKinnon told the committee that ALEC 'need the money'.[79]

2.66 AMIC told the committee that it did not support disallowance. AMIC's preferred position is appropriately funded reform agenda with a realistic time frame that does not compromise market access. AMIC's Chairman, Mr Gary Burridge, told the committee:

> It was a political decision to put this time frame around the funding arrangements for this year; it was not our decision. So the decision [to disallow] is, in our opinion, purely a political one.[80]

2.67 AHEA advised the committee that it strongly supported disallowance.

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76 *Committee Transcript* 10 September 2009, p. 2.

77 *Committee Transcript* 10 September 2009, p. 13.

78 *Committee Transcript*, 11September 2009, p. 68.

79 *Committee Transcript*, 11 September 2009, p. 67.

80 *Committee Transcript*, 11 September 2009, p. 30.

> **Senator STERLE**—Mr Scott, just a yes or no will suffice. Does the Australian Horticultural Export Association support disallowance?
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> **Mr Scott**—Insofar as you are saying that we want to block this?
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> **CHAIR**—Yes.
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> **Mr Scott**—Most definitely we do. We have from the very outset. We have not wavered in our position on that and it has been known publicly basically since the 100 per cent recovery was proposed.

2.68 The committee notes that there is some confusion regarding the fate of the additional funds collected to date in the event that the regulations are disallowed. Neither DAFF nor industry representatives appear to have a clear understanding of whether the additional funds collected to date will be returned to industry.