



Australian Government

Department of Agriculture, Fisheries and Forestry

**Deputy Secretary
Biosecurity**

Committee Secretary
Senate Rural Affairs and Transport References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

Thank you for the opportunity to provide a written submission to the Senate Rural Affairs Transport References Committee, regarding management of the removal of the fee rebate for Australian Quarantine and Inspection Service's (AQIS) export certification functions.

I have taken the opportunity to clarify some issues raised in submissions and during the hearings on 7-8 July 2011 and provide some indication of the next steps the department will be undertaking, which I trust will be useful to the Committee.

I understand that departmental officers may be asked to appear again before the Committee finalises its report. We welcome the opportunity to further discuss export certification reform.

Yours sincerely

Rona Mellor

12 August 2011

Background

Funding of \$127.4 million was provided in November 2009 for the implementation of the Export Certification Reform Package (ECRP) through to 30 June 2011. The department has worked with industry through six Ministerial Taskforces (MTFs) - meat, horticulture, grains, dairy fish and live animals - to deliver reforms to export certification and provide efficiencies for the industries.

The MTFs developed workplans that they believed would introduce efficiencies into the export certification process, primarily by reducing regulatory costs, but also through other projects. Both the department and the export industries have been responsible for reform delivery.

The workplans have been reviewed by the MTFs since they were first developed to ensure they will provide the best possible outcomes and efficiencies - some projects have been discontinued and others have been added. Through the entire process, the MTFs have remained committed to completing all of the projects in their workplans by 30 June 2011.

Since the MTFs were formed in April 2009, they have met face-to-face and via teleconference over 200 times. This does not include numerous informal meetings, telephone conversations and emails between various departmental officers and individuals or sub-groups of the MTFs.

New industry fees and charges will be implemented throughout the course of 2011-12 to underpin revised service delivery arrangements and enable export industries to reap more efficiencies and pass on to industry more financial benefits, as and when they are identified.

A total reduction in regulatory costs of around \$30 million is estimated across the export sectors under the reforms. It is true that some of these reduced costs will be picked up by industry as they take up some of the inspection and auditing functions currently performed by the department.

However, Ernst & Young, an accounting firm who undertook an independent analysis of the potential reform benefits, have indicated immediate net financial benefits to industry of between \$15 and 17 million per annum. Ernst & Young also identified non-financial benefits including from increased industry self-management and inspection/audit delivery flexibility, improved market access arrangements through more effective performance reporting and data management, and more streamlined IT systems enabling better practice and improved certification outcomes.

All Australian export industries returned to full cost recovery arrangements from 1 July 2011 with the removal of the 40 per cent rebate that had been applied to AQIS export costs. This was agreed at the commencement of the reforms in 2009. The Export Certification Reform Package provided \$85.3 million to cover the rebates to industry during this period. While several of the industries are not happy with the removal of the 40 per cent rebate, efficiencies are already flowing from the reforms (e.g. the \$10 million for the meat industry) and will continue to flow as new service delivery models and accompanying fees and charges are rolled out and other projects begin to pay dividends.

The department is continuing to work, with the export industries, to implement new service delivery models and supporting fees and charges that enable the industries to maximise the potential benefits from the reforms.

Legitimate costs of government

All export sectors have raised concerns over the legitimate costs of government. The department's application of cost recovery arrangements have been deemed compliant with the Department of Finance and Deregulation's cost recovery guidelines and therefore only legitimate costs have been applied to industry for which fees and charges are set to recover.

Dairy Ministerial Taskforce

The export dairy industry is a mature sector, with a focus on exports. There is a strong partnership approach between industry, state regulatory authorities and the department with respect to export reforms, with a shared vision for the future of dairy exports.

The dairy industry already benefits from reduced AQIS regulatory involvement. A total of 4.6 departmental officers manage the export dairy program, which costs the industry approximately \$2.088 million per annum. Reduced AQIS involvement in dairy export establishments is a result of longstanding agreements with state regulatory authorities who oversee these establishments and provide information to AQIS to enable AQIS to provide export certification for exported dairy products.

The Dairy MTF had funding of \$2.510 million from the ECRP and has undertaken a number of important projects, including the development of a five year strategic plan, a project to simplify the processing for returning Australian goods and a study mission to review practices overseas.

Most importantly, the department, dairy export industry and state regulatory authorities are working together to further refine arrangements that underpin the role of the state authorities in auditing export dairy processing establishments. Under the new arrangements, competent persons are able to undertake auditing, thus broadening the current requirement for auditing to be conducted by state government employees. This arrangement also provides the opportunity for a range of audits- both regulatory and commercial- to be undertaken by the same individual, provided it is permissible under the state system and the auditor is competent. New agreements between AQIS and the state regulatory authorities are scheduled to be finalised by December 2011.

Fish Ministerial Taskforce

The seafood export industry is diverse in terms of range of products, geographical spread of exporters, and degree of maturity and export-focus of individual companies or exporters. As noted during the Committee hearing of 8 July 2011, the scope of reforms for the seafood export industry is limited, due to the streamlined procedures already in place, which are largely possible due to limited oversight and restrictions imposed by trading partners. However, the number of industry participants is declining, which means it is critical to find efficiencies wherever possible, including in reduced regulatory costs.

This industry, like most of the export industries, has expressed concern about departmental overheads applied to the seafood export program and has asked for transparency. The department's application of overheads to cost recovered programs has been assessed and deemed consistent the government's cost recovery policy. The department has undertaken to be more transparent with all export industries regarding the application of overheads to programs.

The department has also undertaken to closely review the costs of the fish export program to and to reduce them where possible. This includes revising central office costs and undertaking a review of regional costs and making changes where possible.

Similar to the Dairy MTF, one of the objectives of this taskforce is to reduce duplication of regulatory audits. In this case, most state regulatory authorities have agreed that AQIS will be responsible for auditing export seafood establishments, including product that may be produced for the domestic market at these establishments. AQIS has developed arrangements for Approved Auditors, who are competent persons, to audit these establishments for AQIS. This arrangement has been welcomed by the Fish Ministerial Taskforce. As noted earlier, AQIS is working to formalise agreements with state regulatory authorities by December 2011.

Grain Ministerial Taskforce

The grains industry has achieved consensus on the service delivery model and it will be implemented over the next few months. New operating guidelines and regulations will provide industry with greater flexibility in inspection and certification practices, including the timing of inspections and the point in the supply chain where an inspection can be performed. Industry will also have the opportunity to independently engage AQIS Authorised Officers (AAOs) – specially trained individuals who will manage and perform export inspection functions in accordance with Australian export legislation.

The new service delivery model will be underpinned by changes to the *Export Control (Plants and Plant Products) Orders 2005*. This will ensure our export legislation is transparent, up-to-date, flexible and consistent with current and future industry practices and market requirements. This will allow the department to continue to meet our obligations under the International Plant Protection Convention. The revised orders will provide a number of benefits to industry including modernised, streamlined and outcomes focused legislation, expanded role for AQIS Authorised Officers and revised phytosanitary standards.

A new market access mechanism has been introduced and allows exporters of Australia's grain and other plant products, including seeds and fodder, to pursue new markets, respond to changing market conditions, new policies and technical requirements of importing countries.

A new Grains Industry Market Access Forum (GIMAF) has been established to assist in delivering the new model. GIMAF will be the voice of industry and will oversee and direct market access activities under the GIMAF Market Access Strategic Plan, currently being developed.

The department continues to work with the grains industry on appropriate fees and charges to underpin the service delivery model and provide equity across industry participants. Through the reform process recognised efficiencies have allowed the department's Grain and Seed Export Program 2011-12 budget to reduce from \$13.4 million, if the current service delivery model were to remain, to \$12.6 million under the new service delivery model. It is envisaged that these savings will increase as there is increased uptake of the model.

Horticulture Ministerial Taskforce

The export horticulture industry is a disparate sector. It is diverse in terms of range of products, geographical spread of exporters, degree of maturity and export-focus of individual companies or exporters.

The Horticulture MTF considered the broad direction of the regulatory reforms at a number of meetings and there were particular amendments to the proposed service delivery model to address issues they had identified. The Horticulture MTF provided 'in-principle' agreement on 6 December 2010 to a new service delivery model, which would support the roll out of AAOs across the horticulture export industry. The model provides industry with the opportunity to independently engage AAOs in the same way as the grains industry. The model also provides exporters with the option of continuing with AQIS inspectors or the ability to engage AAOs.

Since 24 March 2011, some members of the Horticulture MTF have withdrawn their 'in-principle' support for the service delivery model. The members had concerns related to the proposed de-prescribing of horticulture products to markets that do not require phytosanitary certification. As part of the reform agenda, the department established the principle that if certification services were not required by importing countries then the department should not be providing this service. However, the Horticulture MTF has requested that all horticulture products remain prescribed. This provides a level of regulation above what is required to maintain market access. The department is continuing to work with the horticulture industry to ensure this is the direction the industry wishes to pursue.

Several members of the Horticulture MTF requested that the current approved arrangement system be maintained alongside the AAO model until it is proven to be successful. In response, approved arrangements will no longer be phased out. Existing approved arrangements can continue to operate.

However, it is worth noting that the current approved arrangements system does not have the rigor required to provide the necessary assurance to markets where there are specific government-to-government agreements (known as protocol markets). The AAO concept includes increased training and assessment standards, police checks, strong management of conflicts of interest, a code of conduct and values for all AAOs, real time data on inspection results, and performance and audit history.

Major meat markets have accepted an export certification model that includes the AAO concept. This model was accepted on the basis of data provided from a trial plant. AQIS has advised the Horticulture MTF that the ability to roll out a similar service delivery model that includes the engagement of AAOs for all horticulture markets will also require evidence that the system is robust. Import conditions for a number of horticulture markets already enable AAOs to be engaged by exporters of products to these markets. The engagement of AAOs by exporters to these markets, and the collation of data supporting the effectiveness of the system, is critical to broaden market access for the AAO model.

The department is committed to the further roll out of the reform agenda for this industry.

The department continues to work with the horticulture industry on appropriate fees and charges to underpin the new service delivery model and provide equity across industry participants. Through the reform process, recognised efficiencies have allowed the department's Horticulture Export Program 2011-12 budget to reduce from \$8.5 million, if the current service delivery model were to remain in place, to \$7.2 million under the new service delivery model. It is envisaged that these savings will increase as there is increased uptake of the new service delivery model.

Live Animal Ministerial Taskforce

As the Committee is aware, the Independent Review into Australia's Livestock Export Trade (the Farmer Review) is underway. The recommendations of this review are expected to impact on the reform agenda being pursued by the Live Animal Export Ministerial Taskforce.

However, the major project of this Ministerial Taskforce, the TRACE IT project, continues to progress according to the project plan. The first phase was released on schedule in the first week of July. Work on the release of subsequent phases continues to progress on schedule. This IT project will mean real savings in time and effort for live animal exporters as they exchange information on export consignments with the department.

Meat Ministerial Taskforce

The red meat sector is a well-organised, mature industry, with the peak industry body engaging in robust consultative processes. In addition to the red meat sector, other meat industry sectors, including the pork industry, are also impacted by the reform agenda.

The reforms progressed by the Meat MTF are perhaps the most innovative and complex of the six commodities and represent the most significant changes to current service delivery arrangements. Maintenance of market access under the new service delivery arrangements has been critical and the department has worked hard to gain the acceptance of trading partners to what is proposed. The US formally accepted the new meat certification arrangements as being equivalent to their requirements with the publication of a Federal Register notice in March this year. This agreement paved the way for the negotiation and acceptance of the new system, the Australian Export Meat Inspection System or AEMIS, by other trading partners.

The department is committed to the further roll out of the reform agenda. This includes successful negotiation, as soon as possible, of removal of the US requirement for an AQIS meat inspector, a Food Safety Meat Assessor under AEMIS, at the end of each slaughter chain. Although we are unable to commit to a timeframe for the successful negotiation, we will continue to work with industry and the US towards this end.

The department continues to work with the meat industry on appropriate fees and charges to underpin AEMIS and provide equity across industry participants. AEMIS will be rolled out as a package which includes appropriate fees and charges.

Next steps

Much has already been achieved through the ECRP. The department wishes to acknowledge the significant achievements made by all of the MTFs in setting out the reform agenda and its subsequent implementation.

Notwithstanding the work already done, the future contains many challenges and opportunities. The department remains committed to finalising the outstanding tasks under the ECRP. The tasks are varied and include ongoing IT reforms which will have a significant impact on the efficiency of the export certification system.

The department notes the concerns raised by many industry representatives regarding consultation, and acknowledges that whilst current consultative frameworks have been extremely effective, consideration should be given to broadening the scope of these frameworks. It is evident that some

export sectors wish to be more involved in the consultative framework, and the department will undertake a review of the current export industry consultative committees with respect to terms of reference and scope of membership, in very close consultation with the existing membership of these committees.

The department is also committed to ensuring that a culture of reform extends past the life of the ECRP. We will continue to work with the export industry sectors to ensure regulatory involvement is the minimum required to meet the needs of government, industry and trading partners.