

SUBMISSION

TO

SENATE STANDING COMMITTEE ON RURAL AND

REGIONAL AFFAIRS AND TRANSPORT

***“INQUIRY INTO THE REMOVAL OF REBATE FOR
AQIS EXPORT CERTIFICATION FUNCTIONS.”***

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EXECUTIVE SUMMARY

The Australia mango industry is very disappointed that the 40% rebate on AQIS fees is being removed with inadequate industry consultation and with an apparent lack of understanding of the true impact the increased fee structure will have on the Australian mango industry or horticulture in general.

AMIA believes the current AQIS cost recovery model is flawed due to the structure of recovering all AQIS costs from potentially diminishing exports. With Australian horticulture battling drought, increased wages and a rising Australian dollar, as exports decline, the burden of AQIS fees will be placed on reduced volumes of exports.

We have little faith in AQIS to find true cost savings based on information presented to date and failure to achieve immediate savings in the face of full cost recovery will be devastating for the Australia mango export industry.

With Australian mango production increasing at 4% per annum, and significant plantings on the past 5 years likely to increase production from 7 million trays to 10 million trays within the next 5 years, the further enhancement of exports markets is critical to the future of our industry.

With increasing AQIS fees, the increasing Australian dollar reducing our global competitiveness and the anticipated 25% increase in production costs due to the increase in wages because of the Federal Government's Award Modernisation process, Australian mango growers and exporters face a very bleak future.

AMIA has reviewed the submission to this Inquiry by Cherry Growers of Australia and fully supports their submission.

INTRODUCTION

On 19 August 2009 the Senate referred the following matters to the Senate Standing Committee on Rural and Regional Affairs and Transport for inquiry and report.

The Australian Government's management of the removal of the 40 per cent fee rebate for the Australian Quarantine and Inspection Service (AQIS) export certification functions, having regard to:

- a. the level of industry support for the removal of the 40 per cent rebate prior to the implementation of comprehensive reform of AQIS's export inspection and certification services;
- b. the adequacy of consultation by the Government in the development of industry work plans;
- c. the capacity of the Government, including AQIS, to implement efficiency proposals;
- d. the adequacy of government funding to implement industry work plans;

- e. any progress on meeting targets in industry work plans;
- f. the financial or other impact on industry sectors of the failure to meet reform targets; and
- g. any other relevant matter.

The following information has been prepared by AMIA on behalf of the Australian Mango Industry and is duly submitted for consideration by the Senate Standing Committee.

INDUSTRY OVERVIEW

The Australian mango industry is an important regionally based industry. The industry is made up by 1200 growers in production regions from Perth in Western Australia, across the northern regions of Western Australia, the Northern Territory and Queensland and down to northern New South Wales. The industry is growing at an estimated 4% per annum, and recently has seen significant plantings of trees, many planted by corporate investors operating through managed investment schemes.

By international standards, the Australian mango industry is relatively small, producing less than 1% of the world's mango production.

Currently production is estimated at 7 million trays per annum (three year average) with a value of \$120 million farm-gate value, (fresh market) but with increased plantings, AMIA estimates production of 10 million trays within 5 years. Currently between 7% and 8% of fresh market production is exported, and in conjunction with State/Territory Governments and the Federal Government, AMIA has been undertaking significant activities to boost volumes of mangoes being exported.

The Australian mango season extends from September through to March, with the majority of the crop harvested during October to January.

The Australian mango industry has a National Industry Organisation – AMIA and has a Board of Directors with members representing mango growing regions in each State/Territory.

IMPACT OF THE LOSS OF 40% REBATE

AMIA is strongly opposed to the introduction of full cost recovery on AQIS export inspection charges prior to efficiencies being gained in the delivery of AQIS services. In 2001, a 40% subsidy of AQIS fees was introduced following recognition by the Federal Government that compensation should be paid to exporters for the inefficient way in which AQIS delivered the service.

It is apparent that since 2001 there has been very little effort by AQIS to find efficiencies and it is unreasonable to expect horticultural exporters to now carry the cost of inefficiency whilst a rushed plan for implementation of efficiencies is undertaken.

The mango industry, as with many horticulture industries, is a high cost producer when compared with many of its export competitor's such as Brazil, Philippines, and South Africa. With Australia's wage structure being higher than any of these countries and with wages and salaries representing up to 60% of total production cost, it is a significant challenge to compete in a global market.

The mango industry relies heavily on a number of relatively small exporters and grower exporters. With increasing production, the Australian industry is undertaking much work to develop new export markets and build current markets. We currently export approximately 8% of production, but we believe this percentage could decline 25%, (down to 6% of production) given the anticipated additional costs borne by growers/exporters. As an industry already facing market failure, this will be devastating to the many small to medium family businesses that make up the large percentage of Australian mango growers.

An example of the impact of the proposed increase in fees is described below.

Currently in Australia there are 2 vapour heat treatment (VHT) disinfestations facilities. These VHT facilities are used to treat mangoes destined for countries such as Japan and China to ensure the fruit is free of fruit fly.

The market access protocol to Japan requires an AQIS inspector to be present at times during the treatment, such as when each treatment is finished and the facility is opened. Given the remote location of the 2 VHT facilities, AQIS inspectors, as well as Japanese MAFF inspectors are on site for all of the export season.

If a VHT facility operates October to February, base on working a 5 day week, with overtime on Saturdays and Sundays, the facility operator would expect the following increase in fees.

Pre 30th June 2009 fee structure

20 weeks (5 day working week)	\$2 520/week	\$50 400/season
Overtime (Saturday/Sunday) 20 weekends	8 hours/day @\$141	\$45 120/season
Total		\$95 520

Current fee structure

20 weeks (5 day working week)	\$4 284/week	\$85,680/season
Overtime (Saturday/Sunday) 20 weekends	8 hours/day @\$240	\$76 800/season
Total		\$162,480

The proposed loss of the 40% rebate will increase the facilities costs by 70%. These additional costs cannot be passed on through the supply chain, so the VHT operator and the growers supplying the facility will bear these increase costs.

FURTHER CONSIDERATIONS

It should be noted that as advised above, horticultural exports, and in particular mangoes, are very price sensitive. This is simply demonstrated with the fluctuations in the Australian dollar, as when the dollar increases in value, export volumes decrease.

Also, our industry faces increased wage pressures due to the Award modernisation process, with the outcome expected to increase wages, and therefore production costs by 25% for growers.

With the increase in AQIS fees, the increasing value of the Australia dollar and the increase in production costs due to wage increases, it is clear that the Australia mango industries ability to export and be globally competitive is becoming increasingly difficult.

The current AQIS cost recovery model is flawed due to the need for the model to recover all AQIS costs from potentially diminishing exports. The model does not take into consideration the volumes of exports, meaning that if export volumes decrease, the total volume of AQIS fees to ensure cost recovery needs to remain the same, placing more pressure on existing exports.

If as expected, exports decrease, which is quite plausible, given that Australian horticulture is battling drought, increased wages and a rising Australian dollar, the burden of AQIS fees will be placed on reduced volumes of exports.

FURTHER ISSUES

In addition to the above example, we make the following points:

1. The Government has chosen to implement Beale Recommendation 79 relating to full cost recovery and has ignored Recommendation 80 "*The Government should enhance Budget Funding for activities which support biosecurity-related technical market access for Australian exporters.*"
2. Similarly, Recommendations 75, 76, 77 and 78 have either not been implemented or the principles covered have not been utilized in the implementation of Recommendation 79.
3. Given the hourly rates charged by State Plant Health/Quarantine Authorities it is difficult to comprehend how AQIS can currently charge \$77 per quarter hour or \$308 per hour. Industry can see no justification for this rate.
4. The Australian Mango Industry is not supportive of the removal of the 40 per cent rebate until the comprehensive reform of AQIS and the export inspection and certification services are well and truly implemented.
5. The Australian Mango Industry believes that neither the Government nor AQIS has been able to implement efficiency proposals over the past eight years and at this point in time

we have not seen anything of substance to show this situation will change in the coming period.

6. Over the past number of years the industry has faced some very difficult times as a result of:-

- ❖ Long periods of drought
- ❖ Extreme environmental and/or climatic conditions including frost and hail often in periods close to harvest
- ❖ Unusual seasonal rain during the harvest period.
- ❖ Inability to maintain and/or access new global markets because of quarantine and/or biosecurity issues
- ❖ Reduced margins as a result of the retail duopoly that operates within Australia
- ❖ Constant changes in the industrial relations environment resulting in instability within the employment arena
- ❖ Award Modernisation process that will make employment costs even higher resulting in industry being even less competitive in the international markets.
- ❖ High input costs particularly relating to fuel, fertilizers and chemical.
- ❖ Limited or reducing resources eg. water
- ❖ Increased regulations and 'red tape' at all levels of Government
- ❖ Poorly negotiated and implemented Trading Agreements
- ❖ Fluctuating interest rates.
- ❖ Fluctuating value of the Australian Dollar

Individually each of these factors has reduced the competitiveness of the relevant businesses but two or more combined have made it an increasingly impossible environment for not only the individual businesses but also the industry at large.