



Australian Government

Department of Agriculture, Fisheries and Forestry

**Deputy Secretary and
Executive Director**
Australian Quarantine and Inspection Service

Ms Jeanette Radcliffe
Committee Secretary
Senate Standing Committee on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Ms Radcliffe

**Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry into the
removal of rebate for AQIS export certification functions**

Please find attached the Department of Agriculture, Fisheries and Forestry's submission to the Standing Committee on Rural and Regional Affairs and Transport Inquiry into the removal of rebate for AQIS export certification functions.

The Department's submission is provided in accordance with the information contained in your letter of 24 August 2009 where you invited the Department to provide a written submission to address the issues identified in the terms of reference.

Yours sincerely



Rob Delane

4 September 2009

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;

The Department of Agriculture, Fisheries and Forestry has received numerous contacts and items of correspondence with differing views in relation to the return of 100% cost recovery and there was little initial support.

The government's decision that the 40% government subsidy would lapse on 30 June 2009 would not have been supported by industry sectors if there was no commensurate reform package. The affected industries have indicated that their support for fee increases was contingent upon significant reform to export regulatory services and systems and efficiency gains.

In April 2009 six joint Industry – AQIS Ministerial taskforce were established with each affected industry sector (meat, fish, dairy, grain, horticulture and live animals) to identify reforms to export regulatory services and systems. This initiative in combination with the government's \$40 million Export Certification Reform Package, announced on 19 June 2009, secured industry's support, with each sector committed to move back to 100 percent cost recover from 1 July 2009.

The revised fees and charges associated with the return to 100 percent cost recovery were endorsed by each taskforce, except the horticulture industry.

(b) the adequacy of consultation by the Government in the development of industry work plans;

Six joint Industry – AQIS Ministerial taskforces were established in April 2009 representing each of the affected industry sectors (meat, fish, dairy, grain, horticulture and live animals). Each taskforce developed clear reform agendas that then led to the development of work plans. Numerous meetings were conducted to develop these reform agendas and each work plan was finalised by the industry representatives on the taskforces.

The membership of the taskforces was determined by each industry export sector to ensure key industry representation across commodities affected by the fee changes. Membership includes:

- Grain – A&B Grains, ABB Grain; Grain Trade Australia; Grains Council of Australia; Australian Fodder Industry Association; Australian Seed Federation; CBH Group; GrainCorp Operations; AWB Ltd; Sunrice; Pulse Australia; Australian Oilseeds federation; Australian Cottonseed Industry Association; Grain Poll Pty Ltd, Australian Grain Exporters Association, Timber
- Livestock – Australian Livestock Exporters' Council
- Meat – Australian Meat Industry Council (AMIC)
- Fish – Abalone Fisherman's Co-op Ltd; Tasmanian Seafoods Pty Ltd; Ocean Foods Pty Ltd; Australian Maritime College; Seafood Services Australia
- Dairy – Safe Food Production Queensland; Dairy Food Safety Victoria; Australian Dairy Products Federation; Australian Dairy Farmers; Murray Goulburn; Fonterra; Dairy Australia
- Horticulture – Australian Horticulture Exporters Council; Horticulture Australia Council; Nursery Garden Industry Australia; Horticulture Export Consultative Committee (Citrus/Mango); Horticulture Australia Limited

The following meetings were held with the taskforces to develop the reform agendas and associated work plans:

Taskforce	Meeting Date
AQIS-Export Dairy Ministerial Taskforce	8 May 2009 22 May 2009 – Telecon 10 June 2009 – Telecon 9 July 2009 11 August 2009 – Telecon
AQIS- Live Export Ministerial Taskforce	5 May 2009 19 May 2009 10 June 2009 – Telecon
AQIS-Export Horticulture Ministerial Taskforce	30 April 2009 22 May 2009 – Telecon 10 June 2009 – Telecon 23 June 2009 - Telcon 2 July 2009 23 July 2009 - Telecon 14 August 2009 - Telecon 18 August 2009 - Telecon
AQIS-Export Fish Ministerial Taskforce	29 April 2009 1 May 2009 20 May 2009 10 June 2009 – Telecon 9 July 2009 11 August 2009 - Telecon
AQIS-Export Grain Ministerial Taskforce	29 April 2009 22 May 2009 – Telecon 10 June 2009 – Telecon 16 July 2009 29 July 2009 28 August 2009 - Telecon 4 September 2009 - Telecon
AQIS-AMIC Ministerial Taskforce	8 April 2009 11 May 2009 11 June 2009 15 June 2009 – Telecon 19 June 2009 - Telecon 26 June 2009 - Telecon 1 July 2009 28 July 2009 19 August 2009 25 August 2009

Since 1 July 2009 there has also been several sub-committees established to progress individual work plan priorities within the grain, dairy, fish and meat industries which include:

Meat

- Independent Review of AQIS Charges Working Group

Fish

- Export Fish Supply Chain Review Working Group

Dairy

- Charging Subcommittee to identify rebate options

Grain

- Working Group A - Export legislation
- Working Group B - Operational aspects of the export pathway, including certification, AQIS inspection, capacity to provide services and approved arrangements
- Working Group C - Market access
- Working Group D - Systems interfaces between industry and AQIS, including export documentation
- Working Group E - Financial analysis of existing AQIS charges
- Working Group F - Communication pathways and Industry interface with AQIS

(c) the capacity of the Government, including AQIS, to implement efficiency proposals;

The AQIS - Industry taskforces have identified key areas of reform for their industry sector that would allow efficiencies for the delivery of government inspection and certification activities and improve productivity arrangements. Timeframes and resources that are a combination of industry and AQIS have been identified against each work plan. Where additional resources or skills are required consultants have been or will be engaged.

(d) the adequacy of government funding to implement industry work plans;

A total of \$39.4 million was confirmed for the Export Certification Reform Package on 21 August 2009. This funding is subject to the fees and charges legislation being passed through the parliament. This funding has been split between sectors based on the average allocation of funds to these industry sectors over the last three years 2005/06 through to 2007/08. The shortfall of \$0.6million will be subject to further discussions with the Department of Finance and Deregulation.

Industry	Funding
Meat	\$29.04m
Dairy	\$0.68m
Fish	\$1.86m
Grain	\$3.94m
Horticulture	\$2.48m
Live Animal Exports	\$1.90m
TOTAL	\$40m

Funding is seen as adequate to meet the objectives of the industry work plans. 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. The industry has also flagged that should importing country requirements change to give greater recognition of company quality assurance measures in the near future there is also a further potential savings in the same magnitude. The other benefit identified by the meat industry is the better use of technology that provides independent objective measurement of establishment performance that will substantially strengthen market access opportunities and security. Meat will also have applied \$9.8 million in rebates to 30 September 2009, to assist the transition of its industry members to full cost recovery (due 1 October 2009).

Dairy will be using 50% of its allocation for transitional funding. It will also apply the remaining funding to undertake a thorough supply chain analysis to identify potential opportunities for the removal of costs. This might involve better managing overlaps that might exist between State regulatory arrangements, commercial oversight and the Commonwealth's certification obligations.

Fish, like dairy, will conduct a detailed analysis of its industry through a supply chain analysis to as a basis for identifying and prioritising projects of highest value to the industry. It is expected that the funding allocation will be sufficient to meet reform expectations.

Grain has commenced its review and has subsequently developed a detailed set of work plans. Its reform agenda will also look at the supply chain, legislation, inspection arrangements and verification, and a fees review. The supply chain consultancy will identify further areas for projects that remove costs or support market access for the industry. Technology reform will focus on EXDOC (export documentation system), mobile office technology and electronic certification. They like the other sectors will also invest in further market access activity.

Horticulture will have a very similar approach to Grain. In addition there will be detailed analysis to evaluate the benefit of approved arrangements in their sector, how technology can remove costs from certification arrangements, improve market access protocols ie the 2% Japan arrangement etc. Funding provided to this sector should be sufficient to ensure the objects of its reform agenda are met.

Live exports have developed a menu of reform items that seek to reduce regulatory costs. These arrangements include improved through-chain technology to minimise manual preparation of documentation, uniform QA arrangements, easily accessible protocol advice for export markets, and removal of low risk redundant arrangements from its regulations. This industry has identified project costs slightly higher than its allocation, but is prepared to support this initiative from industry funds to ensure the full benefits of this reform opportunity can be materialised.

(e) any progress on meeting targets in industry work plans;

Meat Industry

The Meat Taskforce has in place a rebate whereby all fees are discounted to rates imposed prior to 1 July 2009. This rebate will be in place until 30 September 2009. In conjunction with this rebating, an independent review of AQIS costs and charges for the AQIS Meat Export Program has commenced. Ernst and Young have been appointed to conduct this review in consultation with the Australian Meat Industry Council and AQIS. The review will seek to clarify the true costs of AQIS service in a transparent manner and will report on options for the most equitable mechanism for recovering AQIS operating costs including an examination of the impact of AQIS fees and charges on small abattoirs. The final report has been completed and will provide the basis for an agreed approach to full cost recovery.

Additionally the Red Meat Reform Strategy outlines the development of the AQIS meat inspection model and is based on reengineering on plant meat inspection services. This model has been agreed with the taskforce. This model is very low risk with respect to export markets.

Fish Industry

The Fish Taskforce is in the process of engaging a consultant to undertake an independent review of links in the fish export supply chain and the overlay of the regulatory framework administered by AQIS. That will be completed by 30 October

The review will identify priority areas where systems supporting the issuing of export certification can be reformed and will investigate issues including duplication between state and Commonwealth regulation, duplication with commercial certification systems and importing country requirements.

The review will form the basis for progressing initiatives to facilitate a more internationally competitive export/regulatory chain for export fish and provide a road map that the taskforce will use to guide its investment decisions until the Export Certification Reform Package finishes on 30 June 2010.

Dairy Industry

The Dairy Taskforce has agreed that 50% of the \$0.688 million be used for dairy fee rebates. The details of the rebate are being finalised and it will be in place by 1 October 2009. The remaining 50% of funds will be transferred to Dairy Australia as the taskforce service provider, who will implement the supporting projects. The first project which has commenced is the business mapping of the dairy export supply chain. This project will investigate ways to reduce and harmonise food safety regulations at the national and export level.

The review will form the road map that the taskforce will use to guide its investment decisions until the Export Certification Reform Package finishes on 30 June 2010.

Horticulture Industry

The Horticulture Taskforce will utilise the \$2.485 million to expedite the reforms required to transform the working partnership between industry and AQIS, and introduce the long overdue efficiencies and cost-savings required. The taskforce membership has been expanded to include representation from Tasmania, Western Australia as well as the nut export industry and vegetable export industry.

Over the next month an independent external review of AQIS's Horticulture Export Program will take a critical look at how much it costs to run the program and where savings can be made. This report to the taskforce will guide investment decisions for horticulture's \$2.485 million reform package funding. This will include independent economic modelling that will show the costs or savings industry can expect from implementing the different reforms will be undertaken.

Extensive mapping of AQIS and industry export processes will also start in the next month. The mapping will identify areas where industry and AQIS systems overlap, areas where they don't connect and any gaps in how they relate. For example where domestic hygiene standards (governing things such as fungal disease or rot) are the same as an importing country's requirements and industry is meeting the domestic standards then AQIS could look to change its current requirement to inspect the product and instead verify the company's compliance with the domestic standard.

One of the main reforms so far identified is in the area of 'Approved Arrangements' (AAs) which can be used to reduce government inspection costs to industry while giving it greater control over plant safety issues. AAs are where AQIS audits a company's compliance with importing country requirements rather than AQIS providing full inspection services. About 34% of export certificates issued by the horticulture program currently use AAs. To help exporters identify whether AAs would benefit them a list of countries that currently accepts them and a list of products that the countries' accept has been developed.

Grain Industry

The Grain Taskforce has prepared detailed work plans for their six key areas of reform agendas along with milestone plans. The implementation of each work plan commenced as of 4 September 2009.

Live Export Industry

The live exports taskforce has prepared detailed work plans for their seven key reforms. The funds will be transferred to Australian Livestock Exporters' Council as the taskforce service provider, which will implement the supporting projects, once the threat of regulation disallowance has passed.

(f) the financial or other impact on industry sectors of the failure to meet reform targets; and

The subsidy provided in past years has varied depending on level of export and other factors. For the 2008 – 2009 financial year the total the government assistance was \$42.90m. The benefit by sector was: Meat \$29.96m, Fish \$2.05m, Dairy \$0.77m, Live animals \$2.27m, Horticulture \$2.99m, Grain \$4.78m.

Based on the export certification reform package funding of \$39.4 million and agreed rebates for meat and dairy sectors, a failure to achieve any efficiency gains from the package would result in increased costs of \$29.256 million (i.e. \$39.4 million less meat and dairy rebate) without commensurate benefits. However, AQIS is confident that the reform package and establishment of ongoing working partnerships with each sector will deliver sustainable benefits to AQIS clients in each sector.

(g) any other relevant matter

In 2001 the previous government adopted a policy of a 40 percent Commonwealth budget contribution to AQIS export fees and service as part of a broad package of measures to provide support to rural and regional Australia.

The 40 percent Commonwealth subsidy of export certification services was a program terminating on 30 June 2009 as recorded in the central budget system maintained by the Department of Finance and Deregulation and listed in the 2005-06 Budget papers. Such a terminating program does not have funds provided in the provisional forward estimates.