

# Chapter 2

## Issues

2.1 The Rural and Regional Affairs and Transport References Committee's (RRAT Reference Committee) 2009 report – *Management of the removal of the rebate for AQIS certification functions* – noted that, overwhelmingly, the submissions to the inquiry and evidence provided by industry representatives indicated that there were significant concerns about the Government's cost recovery reform process.<sup>1</sup>

2.2 The committee acknowledges that some of the concerns raised by sectors of the commodity export industry during the 2009 inquiry have been addressed over recent months, as the six joint industry/AQIS Ministerial Task Forces (MTF's) (meat, horticulture, grains, dairy, seafood and live animals) work toward agreement on industry-specific work plans.

2.3 The committee also notes, however, that some sectors of the commodity export industry still have significant concerns about the increased fees and charges that have come about as a consequence of the removal of the 40 per cent rebate for AQIS certification functions.

2.4 In particular, AQIS' negotiations with the horticulture industry – through the Horticulture MTF – have failed to reach an agreement. There are also concerns about the significant impacts the reform process is having on small manufacturing companies and family-run businesses – a number of which have not been represented by peak bodies or involved in the MTF consultation process.

2.5 Submissions from various sectors of the commodity export industry also expressed concerns about the impact increased costs will have on the Australian export industry, including: exporters' ability to remain competitive, the effect on trade growth in existing markets, and the impact on new businesses looking to enter export markets.

### Current economic climate

2.6 Evidence to the inquiry stressed that the removal of the export certification rebate was being undertaken during a period of challenging economic circumstances for many Australian primary export industries. These circumstances included:

- the effect of the global financial crisis on export markets;
- the effect of weather conditions and natural disasters domestically and overseas;

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1 Senate Rural and Regional Affairs and Transport References Committee, *The removal of rebate for AQIS export certification functions*, September 2009, p. 23.

- the high cost of Australian labour;
- the historically high Australian dollar; and
- the difficulties in accessing certain export markets.<sup>2</sup>

2.7 Some suggested their industries were at a 'crisis point' or 'tipping point' where the removal of the rebate could result in significant negative consequences.<sup>3</sup> For example, the Australian Meat Industry Council (AMIC) characterised the removal of the rebate as a 'new tax' and suggested that without any offsets to that cost increase, regional businesses and 'the viability of meat processors and producers' will be endangered.<sup>4</sup>

2.8 Mr John Kelly, Executive Officer, Kangaroo Industries Association of Australia (KIAA), told the committee that if the reforms proceed as currently proposed (and the industry did not gain access to the Russian and Chinese markets) at least 30 per cent of the remaining processing premises would be forced to close.<sup>5</sup>

2.9 The importance of keeping export certification fees and charges to a minimum was emphasised in a number of submissions. For example, the Department of Resources, Energy and Tourism's (RET) submission to the inquiry stated that:

Given the strong export focus of the portfolio, RET notes the importance of keeping fees and charges to a minimum, with rigorous application of risk management principles required to keep prices down to aid competitiveness.<sup>6</sup>

2.10 DAFF told the committee that it was estimated that the reforms to export certification would result in a total reduction in regulatory costs of around \$30 million across export sectors. However, DAFF conceded that some of these reduced costs would be picked up by industry as they take up some of the inspection and auditing functions currently performed by the Department. Nonetheless, it stated:

Ernst & Young, an accounting firm who undertook an independent analysis of the potential reform benefits, have indicated immediate net financial

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2 For example, Australian Horticultural Exporters Association, Submission 49, Supplementary Submission 2, p. 2; Commonwealth Fisheries Association, *Submission 51*, p. 2; Summerfruit Australia, *Submission 56*, p. 1; Sunraysia Table Grape Association, *Submission 57*, p. 2 and Kangaroo Industries Association of Australia, *Submission 63*, p. 2.

3 For example, Summerfruit Australia, *Submission 56*, p. 1, Victorian Farmers Federation, *Submission 60*, p.1, Mr Tony Klausner, Spiess Australia Smallgoods, *Committee Hansard*, 29 November 2011, p. 14, Mr Greg Darwell, Mulwarra Export *Committee Hansard*, 29 November 2011, p. 20 and Mr Daryl Young, Australian Agricultural Commodities Pty Ltd, *Committee Hansard*, 29 November 2011, p. 32.

4 Australian Meat Industry Council, *Submission 61*, p. 4.

5 Mr John Kelly, Kangaroo Industries Association of Australia, *Committee Hansard*, 29 November 2011, p. 9.

6 Department of Resources, Energy and Tourism, *Submission 31*, p. 1.

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.<sup>7</sup>

2.11 DAFF noted that while several 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'.<sup>8</sup>

### **Impacts on regional, seasonal and smaller industry participants**

2.12 The potential impacts of the export certification reforms on regional companies, smaller companies, and industry participants who operate on a seasonal basis, was frequently highlighted during the inquiry.

2.13 The Australian Horticultural Exporters Association (AHEA), for example, indicated that remote, small and seasonal producers would effectively be disadvantaged and noted the vulnerable position of horticultural exports in Australia:<sup>9</sup>

Horticulture is spread around Australia at many out of the way locations. The product is often highly perishable and doesn't lend itself to assemblage at centralised facilities as we have in the grain or dairy industries or the meat industry at meat processors prior to export. Horticulture likewise doesn't have the huge volumes to export like some other agricultural industries and so is unable to amortise the excessive AQIS inspection/clearance costs against such volume.<sup>10</sup>

2.14 Mr Gary Burridge, Chairman of AMIC, told the committee that the Government's decision to return to 100 per cent cost recovery had been taken without understanding the implications for jobs, especially in regional Australia. Mr Burridge told the committee that:

Almost 50 per cent of the red-meat-processing facilities are located in local government areas with a population of less than 20,000 people. We are a major regional employer, generating close to 50,000 jobs. The cost increases as proposed will threaten the viability of a number of regional

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7 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 2.

8 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 2.

9 Mr Alastair Scott, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 18.

10 Australian Horticultural Exporters Association, *Submission 49*, p. 4.

meat processors already under pressure from soaring power bills and livestock and labour shortages, with a carbon tax on the way.<sup>11</sup>

2.15 The Community and Public Sector Union (CPSU) argued that further analysis and modelling was required by DAFF to ensure that the new AMEIS system and fees and charges regime does not disadvantage sections of the export meat industry. It noted that the implementation of the new system would require some flexibility and tailoring to the particular circumstances of establishments.<sup>12</sup> The CPSU was particularly mindful of the implications for regional communities:

CPSU members employed at those establishments are concerned that the practical effect of the new Australian Meat Export Inspection System may be to place smaller plants at a competitive disadvantage to the larger establishments – ultimately leading to the consolidation of export meat processing to large scale plants, the closure of smaller plants and the loss of valuable and important jobs from some regional communities.<sup>13</sup>

2.16 The Commonwealth Fisheries Association (CFA) noted that premises in remote locations have been 'paying the same, due to cost equalisation and despite the travel time, as everybody else in the city or wherever the AQIS office is'. The CFA suggested that costs for premises in remote locations are 'going to perhaps triple or quadruple the cost of both registration and inspection'.<sup>14</sup> The closure of some regionally based and remote processing centres was characterised as 'inevitable'.<sup>15</sup> The CFA told the committee:

There is a real risk that the third-party auditors, which is the system that AQIS and we are keen to introduce, will focus on the low-hanging fruit—that is, the metropolitan areas—and therefore the AQIS inspector will be the one left with the remote areas. The cost will be even greater, because that will be, in effect, an AQIS inspection.<sup>16</sup>

A whole range of people—30 per cent to 40 per cent—in this program who are registered do fewer than 10 shipments per year. It is very difficult to see with the increase in cost, particularly in remote locations, how they will continue to export. That has an effect to the extent that the boats who

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11 Mr Gary Burridge, Australian Meat Industry Council, *Committee Hansard*, 7 July 2011, p. 8.

12 Community and Public Sector Union, *Submission 45*, p. 3.

13 Community and Public Sector Union, *Submission 45*, p. 3.

14 Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 2.

15 Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 3.

16 Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 2.

service those particularly processors will now have to go to a bigger port or wherever.<sup>17</sup>

2.17 The CFA highlighted the impact on smaller regional processors, noting that 'fishermen will still fish their quota [but] they will take the product to a bigger processing plant'.<sup>18</sup> The CFA went on to argue that:

This is the issue the government has to confront. When someone comes along in six months time and says, 'The costs are now too high; I have to exit from Ceduna or Margate', or wherever it may be, that is the reality of what is going to happen. That is a commercial reality.<sup>19</sup>

2.18 The committee received evidence regarding the detrimental effect the additional costs are having on a number of export businesses – particularly smaller businesses and those servicing niche export markets.

2.19 For example, Mr John Kelly from the KIAA indicated that the additional costs of the 40 per cent – which he argued actually adds about 60 per cent to the company's AQIS bill – have become crippling for the kangaroo industry, particularly since the loss of the Russian market two years ago.<sup>20</sup> Mr Kelly told the committee that:

It comes on top of all of these other compliance measures, which have added about 15 to 20 per cent to overall operating costs – not just the AQIS bill; the overall operating costs. Industry wore that, in the hope of getting that market, and we are now asked to take on all these additional AQIS bills. It is crippling. At the moment some 75 per cent of industry processing capacity is moth-balled. There are only a few export processing premises left open. One of those is saying they cannot go on any longer.<sup>21</sup>

2.20 Mr Tony Klausner, Managing Director of small manufacturer Spiess Australia Smallgoods also described to the committee how his business has been impacted by what is effectively a 1, 297 per cent increase in fees and charges.<sup>22</sup> When asked about the impact of this increase on the viability of his small export business, Mr Klausner indicated that:

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17 Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 3.

18 Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 6.

19 Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 6.

20 Mr John Kelly, Kangaroo Industries Association of Australia, *Committee Hansard*, 29 November 2011, p. 9.

21 Mr John Kelly, Kangaroo Industries Association of Australia, *Committee Hansard*, 29 November 2011, p. 9.

22 Mr Tony Klausner, Spiess Australia Smallgoods, *Committee Hansard*, 29 November 2011, p. 14.

If we would have known three years ago that this was going to happen we would not have invested \$7 million in building a new export approved plant. It is literally crippling. It is basically killing our industry. It is killing all the smaller operators out there that do not export 40-foot containers on a daily basis.<sup>23</sup>

2.21 Similarly, Mr Greg Darwell, Managing Director of Mulwarra Export, indicated that his business is currently required to pay up to 400 per cent more in fees and charges than it did for the same level of service two years ago.<sup>24</sup> Mr Darwell told the committee that his small business is operating in an incredibly competitive international market:

We have increased raw material costs, freight costs and insurance costs and now we have unnecessary increases in documentary costs, all of which we simply cannot pass on to customers if we wish to remain competitive in the international marketplace. This move by the government to increase costs will do nothing but reduce the number of exporters, in particular small specialist exporters.<sup>25</sup>

2.22 Ms Helen Dormon from Dairy Australia told the committee that the dairy industry had used a two-tiered registration fee structure 'because we wanted to have user pays so that people who used more certificates et cetera did pay more'.<sup>26</sup>

We have had the discussion with AQIS and others at times because the concern was that the smaller players, if they were having to pay more, would be concerned and would mount a display against that. But we have had no backlash from those smaller players against the increase in fees they have had to pay with those registrations, because they believe that the service they are getting in paying those fees warrants it. So the smaller and bigger ends of town are actually catered for, because as a dairy industry we have recognised very clearly that we are all vulnerable to the weakest link in the chain...<sup>27</sup>

2.23 The committee also received evidence that the removal of the export certification rebate could discourage smaller producers from registering for export. It was further argued that a reduction in the number of exporters would subsequently lead to an even higher level of costs charged to the remaining exporters.

2.24 For example, the CFA noted that the 'inevitable increase in the annual registration fee with the end of the government 40% co-contribution and lower number of registrations to spread it over, will result in continued declines in

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23 Mr Tony Klausner, Spiess Australia Smallgoods, *Committee Hansard*, 29 November 2011, p. 14.

24 Mr Greg Darwell, Mulwarra Export, *Committee Hansard*, 29 November 2011, p. 19.

25 Mr Greg Darwell, Mulwarra Export, *Committee Hansard*, 29 November 2011, p. 20.

26 Ms Helen Dormon, Dairy Australia, *Committee Hansard*, 8 July 2011, p. 15.

27 Ms Helen Dormon, Dairy Australia, *Committee Hansard*, 8 July 2011, p. 15.

registrations'. The CFA also suggested that this could mean '[a] much lower export volume and less export plants across which to spread costs'.<sup>28</sup> Mr Brian Jeffriess described this as a 'ratcheting effect' and argued that it will 'drive up the program cost for each individual who remains in the export program'.<sup>29</sup>

2.25 Similarly, Mr Alastair Scott from the AHEA questioned the AQIS budget forecasting where large fee increases were proposed for registered packing establishments. He noted 'it is not reasonable to expect that the same number of registered establishments will be registered next year with that sort of fee [increase]'.<sup>30</sup>

2.26 Mr Greg Darwell, Managing Director of Mulwarra Export, also argued that increased costs would stifle new entrants. Mr Darwell told the committee:

I visited a small, 12-month old, boutique smallgoods processor in the Northern Rivers three weeks ago. Their product is brilliant. It will work in export markets. But they are 12 months old. They look at the costs associated with going into the export market and they ask me, 'Can your business guarantee the volume to be able to recoup these costs?' At the moment I have to say no. It stops them taking that first step. That is [a] place in a regional community, with high unemployment, and it has Italian guys in there now who are producing world-class smallgoods.<sup>31</sup>

### **AQIS Authorised Officers (AAOs)**

2.27 A key reform from the Export Certification Reform Package (ECRP) is the introduction of the AQIS Authorised Officers (AAOs) model for some export industries. Under the ECRP, AAO's are described as:

... specially trained individuals who are authorised to perform specific export inspection functions in accordance with Australian export legislation. When undertaking these duties, AAOs are regarded as Australian Government officials. They may conduct a range of duties depending on the commodity and their training qualification.<sup>32</sup>

2.28 DAFF noted that the 'AAO concept includes increased training and assessment standards, police checks, strong management of conflicts of interest, a

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28 Commonwealth Fisheries Association, *Submission 51*, p. 3.

29 Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 1.

30 Mr Alastair Scott, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 20.

31 Mr Greg Read, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 29 November 2011, p. 22.

32 Australian Quarantine and Inspection Service, *Authorised Officers (AAOs) for Plant Exports – What is the Cost*, available at: [http://www.daff.gov.au/data/assets/pdf\\_file/0007/1964851/AAOs\\_for\\_Plant\\_Exports\\_-\\_What\\_is\\_the\\_cost.pdf](http://www.daff.gov.au/data/assets/pdf_file/0007/1964851/AAOs_for_Plant_Exports_-_What_is_the_cost.pdf) (accessed 1 November 2011).

code of conduct and values for all AAOs, real time data on inspection results, and performance and audit history'.<sup>33</sup>

2.29 The CPSU raised a number of concerns regarding the role of AAOs. It was argued that it was a 'major departure from the current tried and tested arrangements where inspection duties are performed by properly qualified inspectors employed by government – whose role is to apply the inspection standards set by government'.<sup>34</sup> In particular, the CPSU noted that the new AAOs would not be independent of their employers:

AQIS proposes to address the obvious conflict of interest and independence issues through seeking to apply the protections and standards of APS employees to those AAO's as if they were APS employees.

CPSU doubts the effectiveness of that proposal and believes that consideration should be given to whether legislative or regulatory change would be required to provide AAO's with adequate protections<sup>35</sup>

2.30 The CPSU also argued that:

- unless their concerns were addressed, the introduction of the AAO role would increase the risk of compromising the inspection standards required by Australia's trading partners;<sup>36</sup>
- the introduction of the AAO role would place a practical burden (recruiting, training and retaining sufficient numbers of skilled staff) and thereby increase costs for the smaller plants; and<sup>37</sup>
- the proposed model would only deliver savings to the largest of plants and would actually increase costs on the smaller plants.<sup>38</sup>

2.31 The AHEA also highlighted the costs of training, accrediting and auditing AAOs and suggested that there is a level of uncertainty regarding the personal liability of AAOs for compliance breaches. Despite being aimed at transferring costs to private industry, AHEA pointed to the fact that 'AQIS will still need to sign off on any documentation electronically generated, and will regularly audit the AAO's'.<sup>39</sup>

2.32 Further, Mr David Minnis, AHEA, noted that AAOs must show they do not have a conflict of interest, limiting the number of persons who can act as an AAO and

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33 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 5.

34 Community and Public Sector Union, *Submission 45*, p. 3.

35 Community and Public Sector Union, *Submission 45*, p. 4.

36 Community and Public Sector Union, *Submission 45*, p. 4.

37 Community and Public Sector Union, *Submission 64*, p. 2.

38 Community and Public Sector Union, *Submission 64*, p. 2.

39 Australian Horticultural Exporters Association, *Submission 49*, p. 7.



indicated that, in the case of the horticultural industry, 'we do not have people out there ready to be trained'.<sup>40</sup>

2.33 The AHEA also raised concerns about the cost of the AAO proposal, and argued that it 'remains lacking in even basic details and is uncosted and with no cost/benefit analysis proposed by AQIS'.<sup>41</sup> The AHEA suggested that the Ernst & Young benefits report on AAOs should 'be set aside as lacking substantial detail and foundation to be credible'. In particular, it suggested that this report was based on the 'misleading' assumption that AAOs would be taken up by at least 80 per cent of the horticultural industry (in terms of phytosanitary certification) when major markets will not accept non-government inspectors.<sup>42</sup>

2.34 The AHEA also argued that, in comparison to the previous model of approved arrangements,<sup>43</sup> the AAO model of export certification would increase regulation and compliance costs for industry:

This is because the AAOs are individual agreements for individuals, whereas AAs are company based arrangements. If an AAO leaves a company, the company is left with nothing, whereas with an AA—an approved arrangement—the structure of the phytosanitary certification remains with the company and thus lessens the rebuilding costs when staff leave. Accordingly, AAs offer a more straightforward process of bringing in new staff and having them trained and audited. AQIS have advised industry that no more AAs will be issued and that they will be phased out if they are not strongly supported.<sup>44</sup>

### ***AAO's and market access***

2.35 The committee received conflicting evidence regarding whether the introduction of the AAO model would create efficiencies. Opinions also varied across the various industry sectors regarding whether the model would be accepted by Australia's trading partners.

2.36 In providing GrainCorp's views on the introduction of AAO's, Mr Phillip Clamp observed that the AAO model was 'a variation of the approved arrangements

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40 Mr Alastair Scott and Mr David Minnis, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 22.

41 Australian Horticultural Exporters Association, *Submission 49*, p. 8.

42 Mr Alastair Scott, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 16.

43 Under the Approved Arrangements model, companies were required to fully document their systems for compliance with legislative and importing country requirements. The AA was then approved by AQIS.

44 Mr Alastair Scott, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 17.

which have been used for 'the best part of 20 years [with] no adverse market feedback'.<sup>45</sup>

2.37 A number of submitters and witnesses, however, expressed the view that the implementation of the AAO model could prove problematic. It was argued that there is a risk the model would not be accepted, or could jeopardise exporters' access to overseas markets.<sup>46</sup> The AHEA argued that:

This move across to AAO's is being done without knowing which export markets they can clear produce for. AQIS maintains that once the model is up and running, they will approach the markets to seek approval. This is a bit like putting the cart before horse, and Industry has advised AQIS that they believe the uptake will be quite modest as it has been for Approved Arrangements.<sup>47</sup>

2.38 The AHEA also expressed concerns regarding the lack of clarity in relation to the acceptance of AAOs:

Whether fruit fly free sensitive markets such as those of North Asia and North America will accept AAO's inspecting produce has not been clarified by AQIS. There is no country in Asia to our knowledge which employs non government inspectorial services to clear imports or exports. If they don't accept this industry self inspection, then the possible savings due to the use of AAO's rather than AQIS inspectors is removed.<sup>48</sup>

2.39 When asked about the consequences should trading partners decline to accept AAOs, AHEA's David Minnis agreed that there is likely to be duplication (in having to have both a government certification and an AAO). Mr Minnis suggested that this was likely to be the case until trading partners agreed to the new arrangements AQIS is currently negotiating.<sup>49</sup> Mr Minnis used the following example to suggest that a resolution to this issue may take some time:

In the case of Japan, they took 24 years to stop sending their inspectors to Australia to check AQIS's inspection of our citrus going to Japan. Now we can have that fruit inspected just by AQIS. That is the sort of intransigence that we are dealing with in some of these overseas countries.<sup>50</sup>

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45 Mr Phillip Clamp, GrainCorp, *Committee Hansard*, 8 July 2011, p. 4.

46 See, for example, Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 3.

47 Australian Horticultural Exporters Association, *Submission 49*, Supplementary Submission 2, p. 3.

48 Australian Horticultural Exporters Association, *Submission 49*, pp 6-7.

49 Mr David Minnis, Australian Horticultural Exporters Association, *Committee Hansard*, 29 November 2011, p. 6.

50 Mr David Minnis, Australian Horticultural Exporters Association, *Committee Hansard*, 29 November 2011, p. 6.

2.40 CGA also expressed concerns about trading partners' acceptance of AAOs, and estimated it would 'take 3 to 5 years of tough inter-government negotiation to gain acceptance of AAOs [in some export markets] with the possibility that they will not be accepted at all'.<sup>51</sup>

2.41 In the meat sector, AMIC indicated that the AAO system had resulted in new requirements being introduced to allow access to some markets. In particular, the United States requires an 'end-of-chain inspector who was a government official'.<sup>52</sup> AMIC Chairman Mr Gary Burridge, noted that:

In negotiating market access for the new model with importing countries, AQIS has had to add a new layer into what is the Australian inspection system. These people are called 'food safety meat assessors' and these individuals include increased verification testing. These additions were not part of the original agreement on the reform and add nothing to the product outcomes. Industry has been assured that these layers of verification and total cost can be negotiated away, but industry is concerned there is not a committed change agent in the department to make this happen.<sup>53</sup>

2.42 Mr Burridge also noted that the engagement of food safety meat assessors 'added an additional \$22.9 million' and that AMIC had received differing advice from government regarding the period food safety meat assessors may be required.<sup>54</sup> Periods ranged from 12 months to 5 years, however he suggested 'it could be never'.<sup>55</sup>

2.43 The committee notes that DAFF has indicated it is committed to the '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 slaughter chain'. However, the committee also notes that DAFF has so far been unable 'to commit to a timeframe for the successful negotiation'.<sup>56</sup>

2.44 The committee also notes that some industry sectors are not confident of AQIS' ability to complete successful negotiations with overseas markets and gain acceptance for the new AAO model – at least in the short term.

2.45 For example, Mr Greg Darwell from Mulwarra Export, told the committee that he understands that Electronic Health Certificates are now accepted in Japan, China and Canada, and that they are close to being accepted in the United States. Mr Darwell notes however, that exports to Japan, China and Canada are dominated by the

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51 Cherry Growers Australia, *Submission 55*, p. 3.

52 Mr Gary Burridge, Australian Meat Industry Council, *Committee Hansard*, 7 July 2011, p. 12.

53 Mr Gary Burridge, Australian Meat Industry Council, *Committee Hansard*, 7 July 2011, p. 7.

54 Mr Gary Burridge, Australian Meat Industry Council, *Committee Hansard*, 7 July 2011, p. 9.

55 Mr Gary Burridge, Australian Meat Industry Council, *Committee Hansard*, 7 July 2011, p. 12.

56 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 6.

large processor exporters and, as a small business, China is only one of the 30 plus countries his company exports product to.<sup>57</sup>

2.46 Mr Darwell also told the committee that Mulwarra's Chinese importers still request that a hard copy of Health Certificates are faxed prior to shipment and that currently there is no electronic Halal Certificate. Mr Darwell therefore remains unconvinced that a move to electronic certificates will result in a decrease in costs to exporters. He is also concerned that as domestic competitors in export markets do not face 100 per cent cost recovery for similar processes, Australian exporters are placed at a disadvantage.<sup>58</sup>

2.47 Mr Darwell also remains concerned that the cumulative costs of Health and Halal Certificates for each air freight shipment will be significant, particularly as four or more Health and Halal Certificates may be necessary for each shipment, at a cost of \$49 and \$100 respectively.<sup>59</sup>

## **Cost recovery**

### ***Implementation of new fees and charges***

2.48 DAFF noted that '[n]ew industry fees and charges would be implemented throughout the course of 2011-12 to underpin revised service delivery arrangements'.<sup>60</sup> However, some submitters were concerned the export certification rebate was being removed before the AQIS fees and charges model was finalised.<sup>61</sup>

2.49 The WA Farmers Federation (WAFF) noted the Beale report's finding that 'Australia's biosecurity agencies are significantly under-resourced' and that these agencies require a funding increase 'in the order of \$260 million per annum – shared between business and taxpayers'.<sup>62</sup> WAFF argued that one effect of this situation was 'a constant expectation that "industry" will be required to meet the difference of this underinvestment'.<sup>63</sup>

### ***Air freight***

2.50 The issue of air freight costs was of particular concern to some businesses. The Australian Table Grape Association's submission argued that:

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57 Mr Greg Darwell, Additional Information provided to Committee, 5 December 2011, p. 1.

58 Mr Greg Darwell, Additional Information provided to Committee, 5 December 2011, p. 1.

59 Mr Greg Darwell, Additional Information provided to Committee, 5 December 2011, p. 1.

60 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 2.

61 For example Australian Council of Wool Exporters and Processors, *Submission 50*, p. 2; Cherry Growers Australia, *Submission 55*, p. 3.

62 Western Australian Farmers Federation, *Submission 44*, p. 1.

63 Western Australian Farmers Federation, *Submission 44*, p. 2.

The full impact of full cost recovery of AQIS, including Head Office costs will place in jeopardy grower's willingness to export, particularly in the air freight trade of grapes. Particular export markets are only suited to airfreight, for others it is a way of presenting fruit to the buyers before they order by sea. AQIS costs for small air freight shipments will prohibit trade at the current inspection rate of \$272 per hour plus tonnage charge plus document fees plus travel costs.<sup>64</sup>

2.51 Mr David Minnis, AHEA, highlighted that volumes for horticultural export are often small and niche. He also noted that the inflexibility of the new fee structure may negatively impact air freight:

When you look at the fee structure and you start putting fees on documents and inspection time, you find that you might sea-freight 10 containers using one phyto, one export permit and two-hour inspections, while for 800 cartons of grapes to Thailand for a phyto market the costs are exactly the same...[I]f the fee structure does not allow us to almost cross-subsidise but to have sympathy for air freight, we will lose it.<sup>65</sup>

2.52 Mr Greg Darwell from Mulwarra Export told the committee that his company predominantly uses air freight to supply products to overseas customers:

Last year we exported in excess of 850 tonnes of chilled Tasmanian salmon and ocean trout, all by air freight. As such the only AQIS costs that apply to us are the documentation costs associated with the issuing of health certificates for meat and seafood primarily, as well as dairy and horticulture, and halal certificates for meat.<sup>66</sup>

2.53 Mr Darwell argued that AQIS should re-examine its charges in relation to small shipments of air freight and suggested that the Government, through AQIS, could give consideration to reducing the costs of Health Certificates and Halal Certificates for shipments that weigh less than 1,400 kilos. Mr Darwell also suggested that, for these types of small shipments, the fees should be charged at the old levels.<sup>67</sup>

2.54 Mr Brett McDonald, General Manager of Bankstown Cold Store and Homebush Export Meat Co. Pty Ltd, told the committee that he was in agreement with Mr Darwell's proposal:

Yes, I think that would be a good idea. The standard shipment I would do for air would be 1,200 kilos. It is what they call a standard AV. It is one of those airline containers you see as you go past. That is generally 1,200 kilos. As an exporter you try to fill it because the airlines charge you, say, \$3,000 for an AVE. The more meat you put in it, the better the freight costs

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64 Australian Table Grape Association, *Submission 66*, p. 3.

65 Mr David Minnis, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 20.

66 Mr Greg Darwell, Mulwarra Export, *Committee Hansard*, 29 November 2011, p. 19.

67 Mr Greg Darwell, Mulwarra Export, *Committee Hansard*, 29 November 2011, p. 24.

come. Sometimes, though, I might only have 200 kilos that has been requested, and that is when it really hurts.<sup>68</sup>

### **Transparency**

2.55 The apparent lack of transparency in relation to AQIS fees and charges was another area of concern raised by submitters.<sup>69</sup>

2.56 The CFA, for example expressed the concern that DAFF, through setting cost-recovery fees and charges, was attempting to burden industry participants with AQIS 'back-office' and overhead costs.<sup>70</sup> The CFA argued that:

The government process needs to be very aware that full cost recovery means full accountability and transparency from government. We believe that this means accepting extra costs where they are attributable to administrative errors in government. It also means full cost exposure.<sup>71</sup>

2.57 The Victorian Farmers Federation's (VFF) submission also questioned the nature of the costs that were being recovered by AQIS:

The VFF is concerned that the aims of the Beale Review recommendation for AQIS to move to full cost recovery has not been well managed by DAFF but rather has looked for an easy way for example by AQIS proposing to increase Packing shed registration from \$330 to \$12,300 in a move that is seen as an attempt by AQIS to recover overhead costs rather than recover the cost of the activity.<sup>72</sup>

2.58 Mr Brett McDonald, Bankstown Cold Store and Homebush Export Meat Co. Pty Ltd, argued that:

If the government is convinced that a 100 per cent cost recovery on my business is the way to go, AQIS need to justify my additional costs. From my perspective, the new charge is extortionate. The registration charges in the cold store sector do not even make sense. Why does a large 100,000-pallet cold store owned by an abattoir now pay \$10,080 per year, the same as my 20-pallet cool room with one pallet of export meat in it?<sup>73</sup>

2.59 Mr McDonald also pointed to what he sees as an inequity in the new regime:

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68 Mr Brett McDonald, Bankstown Cold Store and Homebush Export Meat Co. Pty Ltd, *Committee Hansard*, 29 November 2011, p. 27.

69 For example, Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 2.

70 Mr Brian Jeffriess, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, p. 4.

71 Commonwealth Fisheries Association, *Submission 51*, p. 5.

72 Victorian Farmers Federation, *Submission 60*, p. 1.

73 Mr Brett McDonald, Bankstown Cold Store and Homebush Export Meat Co. Pty Ltd, *Committee Hansard*, 29 November 2011, p. 25.

I read a speech in *Hansard* where the government's Shayne Neumann stated that the largest abattoir in Australia will save \$6 million over the next three years in AQIS fees due to AEMIS and the \$25.8 million assistance package they negotiated. If one big business in the meat industry can save \$6 million then it is not fair dinkum for the same system to cost my cold storage and meat export business an additional \$40,000 in AQIS charges.<sup>74</sup>

2.60 The committee acknowledges the comments made by these organisations and understands their concerns regarding the scaling of fees and charges. The committee believes that business owners could legitimately have expected that the removal of the 40 per cent rebate would result in a commensurate increase in fees and charges. The committee was concerned to hear however, that the AQIS reforms would result in an increase of over 1,400 per cent for some businesses.<sup>75</sup>

2.61 The Customs Brokers and Forwarders Council of Australia (CBFCA) noted that a lack of key performance indicators did not allow for AQIS (or industry) to determine whether existing programs are effective. The CBFCA argued that:

These aspects are of particular interest to industry on the basis of the AQIS fee-for-service which is levied by AQIS in relation to services that it delivers. In essence those who pay for the service should have the right to have justified the cost and efficiency to effectiveness of that service delivery. Industry has no option in relation to AQIS monopoly service delivery. Such transparency needs to be reinvigorated.<sup>76</sup>

2.62 The CBFCA also noted the industry had raised concerns about the imposition of cost burdens which, they argued, do not meet Productivity Commission or Department of Finance cost recovery guidelines:

Industry in general and the CBFCA, in particular, have raised specific concerns on the imposition on industry of cost burdens which, in its opinion, do not meet the Productivity Commission's report as to appropriate cost recovery mechanisms nor, in its opinion the Department of Finance's cost recovery arrangements. These aspects have been referenced in collective industry consultation with AQIS however issues remain to be resolved.<sup>77</sup>

2.63 Riverina Citrus noted that although much of the work undertaken by AQIS is administrative in nature and does not require specialist skills, citrus growers pay commercial hourly rates for these services. Riverina Citrus also argued that often the work done does not justify the significant expense and the group recommended:

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74 Mr Brett McDonald, Bankstown Cold Store and Homebush Export Meat Co. Pty Ltd, *Committee Hansard*, 29 November 2011, p. 25.

75 For example, Mr Tony Klausner, Spiess Australia Smallgoods, *Committee Hansard*, 29 November 2011, p. 14.

76 Customs Brokers and Forwarders Council of Australia, *Submission 37*, p. 5.

77 Customs Brokers and Forwarders Council of Australia, *Submission 37*, p. 6.

... that the fees and charges currently levied by AQIS must be urgently reviewed and a more modern, competitive and justified pricing arrangement put into place<sup>78</sup>

2.64 Several witnesses commented on the link between the export certification processes and the domestic market for produce, with many commodities industries highlighting their reliance on exports in order to be viable. It was also highlighted that changes to export regimes could also have implications for the domestic marketplace. For example, Australian Pork indicated that they are dependent on export facilities to remain viable and under current policy these facilities are required to pass on an additional layer of costs for domestic product.

Around 85 per cent of all pigs in Australia are processed through export-certified abattoirs, but only 11 per cent of those are actually exported. This, of course, means that export certification and its associated costs apply to almost all of the domestically grown and consumed pork. For us this is not an issue of export competitiveness; for the pork industry it is about the competitiveness of the whole industry.<sup>79</sup>

2.65 The committee acknowledges the concerns raised by various industry participants regarding the impact of increased fees and charges. The committee also notes that there appears to be a belief within DAFF that businesses should be able to withstand an increase in the cost of certificates. Mr Read told the committee:

I think there was evidence probably a couple of years ago here from ABARE that about a 2c movement in the Australian dollar basically subsumes the cost of AQIS. That was at the stage when it was 60c. So in terms of a \$49 certificate charge, when it was \$29 three or five months ago, impacting on the viability of the businesses to export to those markets, I do not think that is a fair rationalisation whatsoever of what the impact of that cost is.<sup>80</sup>

### ***Legitimate costs to government***

2.66 A disputed issue was whether full cost recovery was appropriate and whether government should have responsibility for a percentage of the costs of export certification.

2.67 Mr Gary Burrridge from AMIC noted that an independent review of legitimate costs of government was part of the seven-point plan agreement made in 2009. The key issue being 'what portion of the total cost of providing export certification for the meat industry should responsibly be absorbed by the federal government as part of their community responsibility to ensure market access, food safety, quality assurance

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78 Riverina Citrus, *Submission 5*, p. 4.

79 Mr Andrew Spencer, Australian Pork, *Committee Hansard*, 8 July 2011, p. 19.

80 Mr Greg Read, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 29 November 2011, p. 39.



and animal welfare standards'.<sup>81</sup> However, subsequently, the Council 'were told categorically that the legitimate cost of government was not part of the agreement'.<sup>82</sup>

2.68 AMIC argued that:

There is just cause in our view to argue that Government has the responsibility to share costs in export certification not only to cover its own overheads and administrative costs associated with the running of a Government Department, but for the public good in terms of food safety, market access, animal welfare, and to provide incentives to implement efficiencies.<sup>83</sup>

2.69 In contrast, Mr Phillip Clamp noted his organisation, GrainCorp, supported the principle of 'user-pays in this area' and did not consider 'we need government assistance in respect of any subsidisation or socialisation of these costs'.<sup>84</sup>

2.70 DAFF stated that '[a]ll export sectors have raised concerns over the legitimate costs of government'. It noted that its 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'.<sup>85</sup>

2.71 However, several submitters highlighted that Australian export certification fees and charges were higher than those in overseas competitor jurisdictions.<sup>86</sup> DAFF acknowledged that in a number of other jurisdictions the government pays 'the full cost of export certification'.<sup>87</sup> AMIC stated that 'the competing countries that we are against have their government pay for their meat inspection services'.<sup>88</sup> Similarly, Summerfruit Australia noted:

Despite the 40% rebate on AQIS inspection fees, the cost of quarantine inspections to fulfil protocols imposed by importing countries such as Taiwan, and other ASEAN countries is far higher in Australia compared to inspection costs in competitor countries.<sup>89</sup>

2.72 In relation to the horticultural industry, the VFF also expressed their concern that AQIS was proposing 'to impose costly imposts on growers that are not required

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81 Mr Gary Burridge, Australian Meat Industry Council, *Committee Hansard*, 7 July 2011, p. 7.

82 Mr Gary Burridge, Australian Meat Industry Council, *Committee Hansard*, 7 July 2011, p. 12.

83 Australian Meat Industry Council, *Submission 61*, p. 5.

84 Mr Phillip Clamp, GrainCorp, *Committee Hansard*, 8 July 2011, p. 2.

85 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 3.

86 For example, Victorian Farmers Federation, *Submission 60*, p. 1.

87 Mr Greg Read, DAFF, *Committee Hansard*, 8 July 2011, p. 28.

88 Mr Gary Burridge, Australian Meat Industry Council, *Committee Hansard*, 7 July 2011, p. 10.

89 Summerfruit Australia, *Submission 56*, p. 1.

by countries Australia exports to' including a proposed requirement for 'country of origin' labels and inspections of containers to ensure 'food grade standard'.<sup>90</sup>

2.73 The Australian Dairy Industry Council (ADIC) was concerned about 'cost shifting on to producers for strategies that are fundamental to maintaining livestock industries and for rural economies'. It stated:

The industry...expects government to cover the costs of those activities that protect the community and help ensure a viable export food industry. These costs should not be simply shifted to industry – all parties need to take responsibility and share the costs appropriately.<sup>91</sup>

2.74 Mr John Kelly from the KIAA commented that '[t]he broad food industry has submitted to AQIS that they believe the AQIS budget should include a component of government funding to cover 'public good' delivery':<sup>92</sup>

Industry contends that the difference between what should be charged (46c/head) and what is being charged (\$1.06), accounts for additional non-certification AQIS costs being burdened on industry. We recognise that these services are most likely a necessary service to the general public but they cannot be part of the industry cost base.

The Beale Review explicitly referred to cost recovery only applying to certification costs.

2.75 The KIAA submission noted that over the past 18 months, 'the kangaroo industry has accepted, at AQIS behest, a range of new compliance measures designed to assist gaining market access to China and Russia'.<sup>93</sup> KIAA also told the committee that these compliance measures:

... have added some 15-20% to overall operating cost. The only reason for implementing these was to assist the Federal government in gaining Chinese or Russian market access, it must be noted that as yet neither have been secured.

The AQIS fee restructure has added a further 60% to the annual AQIS bill for kangaroo producers. This on top of the additional compliance measures discussed above.

Thus in the past 2 years the kangaroo industry has had to absorb a massive increase in government fees and compliance costs. An immensely higher cost impost than [any] other sector of the red meat industry.<sup>94</sup>

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90 Victorian Farmers Federation, *Submission 60*, p. 2.

91 Australian Dairy Industry Council, *Submission 62*, pp 1-2.

92 Kangaroo Industries Association of Australia, *Submission 63*, p. 1.

93 Kangaroo Industries Association of Australia, *Submission 63*, p. 1.

94 Kangaroo Industries Association of Australia, *Submission 63*, p. 1.

2.76 Mr Kelly also indicated that in terms of his company's export of possum product to Vietnam:

... we are in a very speculative export initiative. We are sending one product to one country. We negotiated the market access for that product. We negotiated the import permits for that product. AQIS had no involvement whatsoever in establishing that market. We pay AQIS audit fees, we pay AQIS permit fees. Essentially we are being charged 10 grand a year for nothing. I do not mind paying a fee, but I am also paying a fee to the state government and it seems that I am being double dipped for no service at all, basically.<sup>95</sup>

2.77 Mr Kelly also argued that in addition to AQIS having no involvement in his company gaining market access to Vietnam:

There is a public good issue as well, to some extent, I guess. We have been registered for 12 months and I have so far exported \$10,000 worth of product, because I am establishing and developing a new market, I have made maybe a \$2,000 margin on that so far. If I had to pay that registration fee upfront, I would be well behind and it would be a further impediment to my decision-making process in wanting to attempt to open a new industry for our state.<sup>96</sup>

2.78 Mr Greg Read told the committee that DAFF is aware of Mr Kelly's situation and acknowledged that Mr Kelly's business is a 'unique business, being the possum tier 1 business'.<sup>97</sup> Mr Read also told the committee that:

After watching the evidence this morning I will have a discussion with him around how we tailor that \$10,000, like I am talking about with the poultry sector, to soften the impact of that amount, particularly in his case. But there is another side to that. When we say 'no' involvement in market access', I can remember a raft of work that we have done on possums in places like Canada. The certificates and the systems that sit around the integrity of the certificates made to those markets all have the training and the infrastructure sitting in the department to support his business. It is quite an unfair representation to say that they sit there and we just provide a bit of a certificate and there is no cost.<sup>98</sup>

2.79 The committee notes Mr Read's comments regarding the role DAFF plays in securing and maintaining export markets. However, the committee also questions

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95 Mr John Kelly, Kangaroo Industries Association of Australia, *Committee Hansard*, 29 November 2011, p. 11.

96 Mr John Kelly, Kangaroo Industries Association of Australia, *Committee Hansard*, 29 November 2011, p. 12.

97 Mr Greg Read, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 29 November 2011, p. 52.

98 Mr Greg Read, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 29 November 2011, p. 52.

whether the effort involved in both securing and maintaining market access should be treated as a legitimate cost to government. The committee notes that it would appear that the Government has made a conscious policy decision to take a step back from its responsibilities in terms of working for the broader purpose of 'community good'.

2.80 The Industry Working Group on Quarantine (IWGQ) noted that it has, for many years raised with DAFF the 'inequity of imposing on industry the cost burdens of what are clearly Government responsibilities (refer Productivity Commission Report 15)' IWGQ also noted that DAFF has yet to address these issues despite its undertakings to do so.<sup>99</sup>

2.81 Cherry Growers Australia (CGA) also noted that:

Industry's concern regarding perceived cross-subsidisation of DAFF's administration and community service obligations from income derived from the export inspection service has not been satisfactorily investigated and communicated.<sup>100</sup>

2.82 Dr Peter Morgan from the Australian Council of Wool Exporters and Processors (ACWEP) noted that he genuinely believes that there is a government cost. Dr Morgan also told the committee that:

I think there are two components: the certification process, which is a fee for service and should have a fee for it which is appropriate for the costs of the service, and then there is general work that AQIS does in resolving problems that come up in importing countries...The costs that I think are legitimate for the wool industry are the certification costs and the administrative overheads that are associated with that.<sup>101</sup>

2.83 Similarly, AHEA stated that:

There have been no improvements and efficiencies offering cost savings from a budgetary review. Reductions in the cost of the AQIS budget have primarily come from the removal of services and lowered staffing levels. AQIS manage the review of their budget costs in a way that prevented the AHEA from reviewing the background cost constructs to their budget from the greater pool of AQIS costs and resources. This was unfortunate as there is no way of knowing whether AQIS is managing its pool of staff optimally across areas of relatively easy transfer—that is, the grains program, the horticultural export program, airport passenger quarantine and general quarantine.<sup>102</sup>

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99 Industry Working Group on Quarantine, *Submission 40*, p. 6.

100 Cherry Growers Australia, *Submission 55*, p. 3.

101 Dr Peter Morgan, Australian Council of Wool Exporters and Processors, *Committee Hansard*, 8 July 2011, pp 7-8.

102 Mr Alastair Scott, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 16.

2.84 The ACWEP noted that fees for electronically and manually requested Health Certificates had varied considerably, and substantially increased, since 2008. It stated that in each case it had been 'assured that the Model used to apportion costs and to set Fees for the provision of Health Certificate services was correct'. However, they argued that 'this could not be so, given the nature of the various changes to the Fees'. It comments that its members were concerned regarding 'how the various costs are apportioned'.<sup>103</sup>

2.85 AMIC noted that a number of reports, and proposed reports, had been prepared on the legitimate costs of government. These were:

- joint AQIS/AMIC Ministerial Task Force Sub-Committee *Independent Review into AQIS Fees and Charges in the Meat Program*, prepared by Ernst & Young in May 2010;<sup>104</sup>
- Ernst & Young *Export Certification – Benefits Realisation Plan*, February 2011;<sup>105</sup>
- joint AQIS/AMIC Ministerial Task Force Independent Review which was not completed. AMIC noted 'In July/August AQIS advised AMIC that they could no longer take this aspect of the reform program forward and asked AMIC to undertake the independent review';<sup>106</sup> and
- AMIC Independent Review of the Legitimate Costs of Government.<sup>107</sup>

2.86 AMIC also noted that a summary of the three projects implementing the Independent Review of Legitimate Costs of Government had been provided to the Minister in March 2011 and have not been released. The findings of the projects 'provided strong evidence on an economic and legal basis in conjunction with the Government's community service obligations for a Government contribution to the cost of export certification to what is an uncontested monopoly Government service'.<sup>108</sup>

## Consultation issues

2.87 The committee received considerable evidence regarding the consultation process undertaken by AQIS in relation to the reform process.

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103 Australian Council of Wool Exporters and Processors, *Submission 50*, p. 1.

104 Australian Meat Industry Council, *Submission 61*, p. 15.

105 Australian Meat Industry Council, *Submission 61*, pp 15-16.

106 Australian Meat Industry Council, *Submission 61*, p. 16.

107 Australian Meat Industry Council, *Submission 61*, p. 16.

108 Australian Meat Industry Council, *Submission 61*, p. 16.

### ***Ministerial Task Force consultation process***

2.88 For some industry sectors it would appear that the Ministerial Task Force (MTF) model used by DAFF throughout the consultation process has proved effective. However, the committee also notes the concerns raised by other industry sectors which suggest that DAFF's commitment to this particular model proved inflexible and did not allow for effective communication and consultation.

2.89 The committee notes DAFF's assertion that since the Ministerial Taskforces (MTFs) were formed in April 2009 'they have met face-to-face and via teleconference over 200 times'. The committee also acknowledges that some industry sectors found the MTF process to be a positive one. However, as noted above, the committee received mixed evidence in relation to the effectiveness of the (MTF) process and AQIS' ability to communicate and consult effectively with all stakeholders.<sup>109</sup>

2.90 Mr Phillip Clamp from GrainCorp considered that there had been significant gains available to industry as part of the export certification reform':

The taskforce deliberations have come up with some improvements in the service delivery arrangements, some improvements in the provision of choice and service delivery and they have improved AQIS systems and processes, including training support mechanisms for AQIS officers and approved officers undertaking AQIS functions.<sup>110</sup>

2.91 The CFA noted that the MTF process had 'worked reasonably well for seafood'. However, while the Seafood MTF outcomes have 'led to potential cost savings and reforms...at this stage they are untested and will take time to achieve, even if they can be achieved'.<sup>111</sup>

2.92 However, particular difficulties were highlighted in the activities of the Horticulture Ministerial Taskforce (Horticulture MTF). For example, some AHEA members considered 'they were being used by AQIS/DAFF to achieve their pre-ordained outcomes'.<sup>112</sup>

2.93 DAFF commented that 'in-principle' agreement had been given to a new service delivery model (which supported the roll out of AAO's across the horticultural export industry), but that some members of the Horticulture MTF had later withdrawn their support.<sup>113</sup>

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109 For example, Mr Phillip Clamp, GrainCorp, *Committee Hansard*, 8 July 2011, p. 1.

110 Mr Phillip Clamp, GrainCorp, *Committee Hansard*, 8 July 2011, pp 1-3.

111 Mr Brian Jefferies, Commonwealth Fisheries Association, *Committee Hansard*, 7 July 2011, pp 1-2.

112 Mr Alastair Scott, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 15.

113 Mr Greg Read, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 8 July 2011, p. 29.

2.94 However, AHEA considered the 'in principle' agreement was only to 'investigate the AAO model' and argued 'AQIS/DAFF ignored the fact the MTF did not agree to the rollout of AAO's':<sup>114</sup>

AQIS-DAFF have relentlessly pursued the concept of transferring phytosanitary certification from the government sector to private enterprise, even when this has been pointed out as being inappropriate or not cost-effective. This underlying agenda of AQIS-DAFF during this MTF, coupled with an intransigent approach to consultation and the continued pursuit of outcomes AQIS-DAFF regarded as beneficial, corrupted this ministerial task force and essentially rendered it a waste of time and money, yielding neither constructive, positive outcomes nor savings.<sup>115</sup>

2.95 Further, AHEA argued that minutes of the Horticulture MTF had been 'improperly kept' and that the 'inaccurate recording of minutes' has resulted in a formal complaint lodged with the Deputy Secretary of DAFF.<sup>116</sup>

2.96 Mr Greg Read, DAFF, noted that initially the Horticulture MTF was a very constructive and workable consultative forum. He also acknowledged, however, that:

... post that March period, for whatever reason, in terms of the model, in terms of the fee and in terms of the process nothing was seen as able to be taken forward. The fees model put forward by AHEA was not supported by particularly the citrus and other tonnage exporters within the hort sector, so it was not a model we could take forward in that regard. It was also that we do not have the legal powers in terms of tonnage fees to give effect to that sort of model, so it was one that did not give us a lot of scope or opportunity to sit down and go through in detail what other charging alternatives we had. Frankly, we as the department were open-minded as long as we could bring equity and transparency as part of that process as best we could.<sup>117</sup>

2.97 The committee remains concerned as to the number of AQIS clients who are unaware of the scale of the fee changes that may be applicable to their business. DAFF appears to be unable to provide this information to the committee which is also disturbing. Evidence provided to the committee demonstrates the reality of this concern. When asked whether they had been advised of any potential cost increases for dairy and fish, Mr Gabor Hilton, representing Oxford Cold Storage and the

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114 Australian Horticultural Exporters Association, *Submission 49*, Supplementary Submission 1, p. 3.

115 Mr Alastair Scott, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 15.

116 Mr Alastair Scott, Australian Horticultural Exporters Association, *Committee Hansard*, 7 July 2011, p. 15.

117 Mr Greg Read, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 29 November 2011, p. 43.

Refrigerated and Transport Association of Australia (RWTA) stated: 'we did not even know about it. As far as we knew, that was going to be unchanged'.<sup>118</sup>

2.98 Similarly, Mr Tony Klausner, Spiess Australia Smallgoods stated:

**Mr Klausner** – We received a letter dated 26 September signed by Greg Read from AQIS. We received the letter on 4 October, and that was the first time – basically three days after the introduction of AEMIS after that whole thing was signed off.

**Acting Chair** – So you had no understanding of what was going to happen as far as the costs to your business until after the process was completed?

**Mr Klausner** – That is right. I may say here as well that I have written proof and confirmation that all the smallgoods manufacturers in the greater Sydney area are in the same position as I am.<sup>119</sup>

### ***Ministerial Task Force consultation process – confidentiality***

2.99 Some submitters indicated that they had been requested to respect the confidential nature of the consultation process and suggested that this had discouraged MTF members from consulting more widely with their respective industries. The committee is concerned that this emphasis on confidentiality may have limited the scope for the dissemination of information to all stakeholders and discouraged wider debate regarding the issues under discussion.

2.100 AMIC's submission, for example, indicated that:

While in close discussion and consultation with Government for over two years on the reform process, it was only on May 11, 2011 that that it was confirmed by Government that they would not provide any contribution to the cost of export certification post July 2011. Prior to that we had respected the confidentiality requested of us and had not entered into any public debate on the issue.<sup>120</sup>

2.101 CGA described the consultation process surrounding the AQIS reform as 'inadequate with limited communication at peak industry body level',<sup>121</sup> and noted that the consultation process was subject to confidentiality:

... the Horticultural Ministerial Task Force has been suppressed in communication with industry due to the imposition of confidentiality restrictions on Task Force Members.<sup>122</sup>

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118 Mr Gabor Hilton, Oxford Cold Storage and Refrigerated Warehouse and Transport Association of Australia, *Committee Hansard*, 29 November 2011, p. 28.

119 Mr Tony Klausner, Spiess Australia Smallgoods, *Committee Hansard*, 29 November 2011, p. 14.

120 Australian Meat Industry Council, *Submission 61*, p. 4.

121 Cherry Growers Australia, *Submission 55*, p. 3.

122 Cherry Growers Australia, *Submission 55*, p. 3.



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***The appropriateness of the Ministerial Task Force consultation model***

2.102 During the committee's inquiry, criticism was levelled at AQIS regarding the adequacy of the consultation process. Members of several industry sectors suggested that because the consultation and communication was specifically focused on peak industry bodies (through the sole use of the MTF process) the consultation process was neither adequate nor inclusive.

2.103 The committee also heard from submitters who suggested that throughout the consultation process, the MTF model had not allowed for the complete consideration of all the key issues of concern to specific industry sectors.

2.104 For example, representatives from the dairy sector highlighted the emphasis placed on the meat sector during the consultation, and noted their concerns that efficiencies reform may not reflect the special needs and requirements of the other MTF commodity groups.<sup>123</sup> Ms Helen Dormon commented:

Our concern was that we did not find ourselves corralled into a meat model which would not actually achieve the dairy outcomes because of the differences in the scale of operations... There was a lot of discussion in the beginning about moving to the big end of town, which is meat, and getting a meat system sorted out. Then there is the tendency we have had in the past which, once we have a meat model, is just to roll it out for everybody. That has been a concern of ours.<sup>124</sup>

2.105 Similarly, representatives from the pork industry argued that they were being inappropriately grouped by AQIS with the 'red meat' sector in relation to export certification reforms.<sup>125</sup>

In negotiating the new AEMIS model with international markets, AQIS have failed to distinguish between the red meat and pork models, with the result that they now expect us to move to a more costly AEMIS model, completely unnecessarily and for absolutely zero benefit. The new fee structure for AQIS export certification services, to apply under the standard AEMIS, will add, we estimate, between \$250,000 and \$400,000 in additional costs for each pork export-certified abattoir.<sup>126</sup>

2.106 The committee received evidence regarding a lack of communication from AQIS regarding the reform process. The committee also heard that a significant number of businesses had received little or no information regarding the consultation process being undertaken by the various MTF's. Specifically, representatives of several small export businesses indicated that they had been unaware of the consultation process being undertaken by the Meat MTF and that they had received

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123 Ms Helen Dormon, Dairy Australia, *Committee Hansard*, 8 July 2011, p. 13.

124 Ms Helen Dormon, Dairy Australia, *Committee Hansard*, 8 July 2011, p. 13.

125 Mr Andrew Spencer, Australian Pork, *Committee Hansard*, 8 July 2011, p. 21.

126 Mr Andrew Spencer, Australian Pork, *Committee Hansard*, 8 July 2011, p. 19.

notification from AQIS (about the increased fees and charges) several days after the start of the new scheme.<sup>127</sup>

2.107 The committee also notes that there are a number of industry sectors, organisations and businesses that were not included in the negotiations, or represented by any of the six MTF groups.

2.108 Dr Peter Morgan from the ACWEP told the committee that wool industry had been excluded from the MTF process and was being considered as part of the Meat MTF.<sup>128</sup> He noted that the wool industry had initiated 'just about all the discussions' with AQIS and would have preferred to 'see much more consultation'. Further he noted that '[w]e are not part of any of the groups, so we are not privy to any of the deliberations'.<sup>129</sup>

2.109 Mr Daryl Young, Manager of Australian Agricultural Commodities Pty Ltd, told the committee that the ECRP Work Plan had noted that, particularly in respect of resources, 'small-container exporters, container packing facilities and small-parcel exporters would be consulted'. Mr Young went on to say:

From my point of view, that has not happened. Within the terms of AQIS's role, the definition of 'industry' includes some of the governing bodies. From my knowledge, only one of those parties – Rod Wolski – would have any experience on the physical side of grain packing and the logistics that might be involved in moving that forward. From a number of incidents that have happened and which I am quite happy to talk about later it is clear that there has been a lack of real industry involvement in this whole process, which is not effective or efficient in trying to get a model that is going to work in the long term.<sup>130</sup>

2.110 Mr Brett McDonald, Bankstown Cold Store and Homebush Export Meat Co. Pty Ltd, told the committee that when he had asked an MTF member for an update on the reform process, he had been told "Don't worry, the minister is going to look after small business". Mr McDonald suggested that far from being 'looked after', it appeared that small businesses had been overlooked. Mr McDonald told the committee:

I suggest that the AEMIS reforms and the fees and charges stand for the big slaughter establishments and big business. It appears to me AEMIS is what

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127 For example, Mr Tony Klausner, Spiess Australia Smallgoods, *Committee Hansard*, 29 November 2011, p. 14 and Mr Brett McDonald, Bankstown Cold Store and Homebush Export Meat Co. Pty Ltd, *Committee Hansard*, 29 November 2011, p. 25.

128 Dr Peter Morgan, Australian Council of Wool Exporters and Processors, *Committee Hansard*, 8 July 2011, p. 6.

129 Dr Peter Morgan, Australian Council of Wool Exporters and Processors, *Committee Hansard*, 8 July 2011, p. 6.

130 Mr Daryl Young, Australian Agricultural Commodities Pty Ltd, *Committee Hansard*, 29 November 2011, p. 30.

they wanted and negotiated, and they can have it. The talks AQIS had with big industry were only always about the inspectors, vets and overtime. How my small business crept into it with 800 per cent increases I believe is a government oversight. AQIS should consult with small businesses in my industry, understand our situation and design a fair charging system that does not destroy small business.<sup>131</sup>

2.111 Mr Gabor Hilton, representing Oxford Cold Storage and RTWA, also expressed concern about a lack of consultation with small businesses, particularly given his membership of an industry association:

The only thing I wish to state is that we have no idea about the discussion between the meat industry and AQIS about the changes in the system towards full recovery. The first time we heard about it was in July this year. We are very upset that our industry association, which has over 200 members, has not been consulted by AQIS at all. We seem to be on the mailing list when we get AQIS notices and bills, but when it comes to consultation they seem to miss us altogether.<sup>132</sup>

2.112 During the committee's inquiry, DAFF indicated that it had noted the concerns raised by many industry representatives regarding consultation, and acknowledged 'that whilst current consultative frameworks have been extremely effective, consideration should be given to broadening the scope of these frameworks'.<sup>133</sup>

2.113 The committee also notes that DAFF has also stated it would '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'.<sup>134</sup>

2.114 The committee also notes DAFF has made the commitment to consult with those sectors of industry and businesses that have not been represented by industry bodies or involved in the MTF process (including those in the cold stores and poultry sectors). The committee also notes that DAFF proposes:

... delaying those invoices until we actually go through the consultative process in the next two weeks and develop the models for each of those sectors so that we can then retrospectively fit these charges to the most sensible model for those sectors.<sup>135</sup>

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131 Mr Brett McDonald, Bankstown Cold Store and Homebush Export Meat Co. Pty Ltd, *Committee Hansard*, 29 November 2011, p. 25.

132 Mr Gabor Hilton, Oxford Cold Storage and Refrigerated Warehouse and Transport Association of Australia, *Committee Hansard*, 29 November 2011, p. 26.

133 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 6.

134 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 7.

135 Mr Greg Read, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 29 November 2011, p. 39.

2.115 The committee was also told that DAFF is proposing to develop a model for those industry sectors, and retrofit it in a cost sense back to 1 October:

... So that deals with all those structural things. In terms of the certificates themselves at that end, the certificate charge has not moved since 2009. It is a 2009 fee; it has not moved. What has moved is that 40 per cent had been overlaid to that. But if we can find other smart ways within the system to offset a bunch of costs, and equally keep the strategy as I alluded to earlier, which we are driving forward on, on reform on those certificate costs, there will be compensating balances there.<sup>136</sup>

2.116 The committee acknowledges that DAFF proposes to consult with these industries with a view to developing an appropriate model. The committee notes however, that DAFF's proposal does not appear to have come about as part of a thoughtful and planned response to these issues, but rather, as a result of having to provide an expedient solution to the problem.

### **Efficiencies and reform**

2.117 A number of submitters were concerned that the reform of export certification fees and charges was proceeding without substantial efficiencies or cost savings being identified.<sup>137</sup> Others commented that, in their industries, there were no easy cost-reductions or efficiencies to be identified.<sup>138</sup> Other submitters suggested that AQIS had only achieved efficiencies by cutting services.

2.118 Many submitters considered the move to full cost-recovery for export certification by AQIS (without a corresponding improvement in the systems and processes used by AQIS) would significantly disadvantage exporters.<sup>139</sup>

2.119 A number of submitters expressed frustration regarding the progress towards achievement of reform of AQIS service export fees and charges.<sup>140</sup> Citrus Australia commented that progress had been 'slow' and noted 'the mounting pressure to find 40 per cent saving in a relatively short time is unrealistic'.<sup>141</sup>

Citrus Australia is committed to working in partnership with the Australian government in identifying and implementing reforms but seeks a

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136 Mr Greg Read, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 29 November 2011, p. 39.

137 For example, Sunraysia Table Grape Growers Association, *Submission 57*, Fp. 1; Victorian Farmers Federation, *Submission 60*, p. 1.

138 For example, Commonwealth Fisheries Association, *Submission 51*, p. 1; Ms Helen Dormon, Dairy Australia, *Committee Hansard*, 8 July 2011, p. 11.

139 For example, National Herd Improvement Association of Australia, *Submission 2*, pp 2-3.

140 For example, Citrus Australia, *Submission 20*, pp 5-6.

141 Citrus Australia, *Submission 20*, p. 5.

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commitment to retain the 40 per cent rebate until reforms demonstrate equivalent savings and efficiencies.<sup>142</sup>

2.120 The National Herd Improvement Association of Australia (NHIA) noted that it is supportive of the need for AQIS to be adequately resourced. However they also stated that:

... [they] are not in favour of underwriting the current inefficiencies inherent in AQIS especially when it comes to areas such as document processing and the current poor state of the ANIMEX system.

2.121 The NHIA also argued that:

If this move is about cost-recovery, and the new charges are based on real costs, then AQIS should be investigating the possibility of sub-contracting some of this work to organisations that have lower costs.<sup>143</sup>

2.122 The AHEA made the following comments on AQIS' proposed reforms:

The return to 100% full cost recovery and AQIS fee and charges increases on 1 July, goes against the spirit of the bipartisan agreement between Government and industry which was dependent on the achievement of meaningful AQIS reforms. Such reforms should have resulted in savings of as much as 40 % of AQIS total costs.

At this point it is questionable as to whether AQIS have in fact identified any increased efficiencies and/or cost reductions as they were required to do when there was bipartisan agreement to full cost recovery.<sup>144</sup>

2.123 DAFF noted that it was 'committed to ensuring that a culture of reform extends past the life of the ECRP' and would 'continue to work with export industry sectors to ensure regulatory involvement is the minimum required to meet the needs of government, industry and trading partners'.<sup>145</sup>

2.124 A number of submissions and witnesses argued that a full cost recovery was inappropriate in a situation where a government agency had a service monopoly as there was no incentive for further improvement or efficiencies.<sup>146</sup> Riverina Citrus commented:

AQIS monopoly in export certification, no incentive to innovate, drive down costs or find efficiencies.

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142 Citrus Australia, *Submission 20*, p. 5.

143 National Herd Improvement Association of Australia, *Submission 2*, p. 2. ANIMEX is AQIS's live animal and reproductive material export conditions database.

144 Australian Horticultural Exporters Association, *Submission 49*, p. 8.

145 Department of Agriculture, Fisheries and Forestry, *Submission 65*, p. 7.

146 For example Mr Andrew Spencer, Australian Pork, *Committee Hansard*, 8 July 2011, p. 21.

Exporters have no say in the charges levied by AQIS and there is no attempt to justify escalating fees. Many farmers and exporters are beginning to ask why compliance tasks undertaken by AQIS shouldn't be scrutinised and open to tender.

If government expects 'User Pays' from exporters, surely there should be an expectation that their services are open to competition? Perhaps the future is a range of private compliance providers that are accredited by DAFF for example.<sup>147</sup>

2.125 Some support was also expressed for new opportunities to utilise private sector third party services for export certification.<sup>148</sup> The Tasmanian Farmers and Graziers Association provided the committee with a paper prepared by Primary Industry Biosecurity Action Alliance for the Tasmanian Government. The paper noted that '[t]hroughout the globe government services are being discharged to commercial providers who can deliver services more cost effectively without compromising the integrity'. It requested the Tasmanian Government review all fee-for-service activities and look at options for other service providers to potentially deliver the services. The paper noted:

In countries such as New Zealand most of the quarantine and biosecurity services have been discharged to independent entities. In some cases service providers include local councils and other specific regional service providers.

With our high costs of production compared to our international competitors, as well as our high costs of freight compared to many mainland producers it is vitally important that all costs be minimised. It is important that any change of service provision does not compromise the integrity of our international obligations nor minimise the service delivery.<sup>149</sup>

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147 Riverina Citrus, *Submission 5*, p. 4.

148 For example, Mr Phillip Clamp, GrainCorp, *Committee Hansard*, 8 July 2011, p. 2.

149 Tasmanian Farmers and Graziers Association, *Submission 18*, Attachment 1, p. 23.