



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE

**Reference: Fee rebate for the Australian Quarantine and Inspection Service export
certification functions**

FRIDAY, 11 SEPTEMBER 2009

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SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT

REFERENCES COMMITTEE

Friday, 11 September 2009

Members: Senator Nash (*Chair*), Senator Sterle (*Deputy Chair*), Senators Heffernan, McGauran, Milne and O'Brien

Substitute members: For the inquiry into the removal of the fee rebate for the Australian Quarantine and Inspection Service export certification functions—Senator Colbeck to replace Senator McGauran

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Furner, Hanson-Young, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Siewert, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Back, Boswell, Colbeck, Milne, Nash, O'Brien and Sterle

Terms of reference for the inquiry:

To inquire into and report on:

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

- a. the level of industry support for the removal of the 40 per cent rebate prior to the implementation of comprehensive reform of AQIS's export inspection and certification services;
- b. the adequacy of consultation by the government in the development of industry work plans;
- c. the capacity of the government, including AQIS, to implement efficiency proposals;
- d. the adequacy of government funding to implement industry work plans;
- e. any progress on meeting targets in industry work plans;
- f. the financial or other impact on industry sectors of the failure to meet reform targets; and
- g. any other relevant matter.

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Committee met at 8.30 am

CHAIR (Senator Nash)—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport References Committee. The committee is hearing evidence on the inquiry into management of the removal of the fee rebate for AQIS export certification functions. I welcome you all here today. This is a public hearing, and a *Hansard* transcript of the proceedings is being made.

Before the committee starts taking evidence, I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. The committee prefers all evidence to be given in public, but under the Senate's resolutions witnesses have the right to request to be heard in private session. It is important that witnesses give the committee notice if they intend to ask to give evidence in camera. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time.

On behalf of the committee, I would like to thank all those who have made submissions and sent representatives here today for their cooperation in this inquiry.

[8.31 am]

MELHAM, Mr Christopher Maurice, Chief Executive Officer, Commonwealth Fisheries Association

CHAIR—Welcome. The Commonwealth Fisheries Association has lodged submission No. 27 with the committee. Did you want to make any alterations or amendments?

Mr Melham—No, thank you.

CHAIR—Would you like to make an opening statement before we move to questions?

Mr Melham—No, thank you.

Senator COLBECK—Mr Melham, could you give us some background as to why the Commonwealth Fisheries Association is not a member of the seafood process?

Mr Melham—The Seafood Export Consultative Committee has a skills based membership. That membership is sought through an expression of interest process. It does not comprise any of the peak bodies at either state or federal level, hence the reason why neither the Commonwealth Fisheries Association nor the National Aquaculture Council nor any other state industry seafood council is a member of that particular committee. That is quite different to the membership of other consultative committees, such as the Australian grains industry consultative committee, of which I was a member for 12 years. It, in stark contrast, has membership comprising those peak bodies.

Senator COLBECK—After a period of time, you did finally become involved in the process that the government was conducting with respect to removal of the 40 per cent rebate?

Mr Melham—Yes. Initially the CFA, the Commonwealth Fisheries Association, had no knowledge of what was actually transpiring through this process upon its implementation because it was not a member of the committee. In addition to SECC, the government established a number of task forces to implement or initiate the reform process. Once again, the CFA was also not a member of the specific seafood task force. Hence, in our submission, we make the statement that, as far as the CFA are concerned, the process which took place was unsatisfactory, as proper and thorough consultation was actually not undertaken with the industry, in our opinion, because no information was passing my desk and therefore I had no opportunity to consult with the industry and stakeholders.

Senator COLBECK—What is the volume or value of export that is coming through your membership?

Mr Melham—The contribution in levies that are currently being paid by the CFA's membership is \$2.1 million. The total value of our industry is \$2.3 billion, and our total exports would be in the order of \$250 million per annum.

Senator COLBECK—\$250 million each year.

Mr Melham—And the association represents approximately 90 per cent of the total commercial fishers operating in the Australian fishing zone. But we are a member of a newly formed organisation called the National Seafood Industry Alliance. It comprises not only CFA but the peak industry bodies at state level. In November last year, each one of those organisations, under joint letterhead, wrote to the government, and we expressed our dissatisfaction and strong concern with the withdrawal of the 40 per cent co-contribution, because of its obvious impact on the small- to medium-sized seafood exporter.

Senator COLBECK—So, with 90 per cent of the fishery and \$250 million in exports, you were not involved in the process?

Mr Melham—Correct. Our knowledge of the government's decision to withdraw that 40 per cent co-contribution came about through the release of the Beale recommendations. That is how we became aware of this particular issue, not through any direct consultation on the topic itself. That forced our hand in November, when we wrote that letter.

Senator COLBECK—Was there any consultation with you or your members during the Beale process? Did Beale consult?

Mr Melham—We were invited to make a submission to the Beale inquiry regarding the terms of reference of that inquiry, but it was certainly not our view at the time that cost recovery policy was going to form part of the Beale inquiry, so we did not pay very close attention to it at that particular point in time.

Senator COLBECK—So you made a submission to the Beale inquiry?

Mr Melham—No, we did not.

Senator COLBECK—You did not.

Mr Melham—No.

Senator COLBECK—Is there a disparity in costs between larger and smaller elements of the industry—in the costs and the benefits of this process between the larger and the smaller players?

Mr Melham—I think the best way to answer that is that the larger companies are probably in a position to pass that cost back through to the producer and others further on at the start of the supply chain. But, to answer the question: to compare other industries, the grains industry, for example, historically has had single-desk selling arrangements. Those marketing arrangements are through one or two very large organisations, and these increases, in a relative context, are inconsequential. But in the seafood industry, where you have a large number of small- to medium-sized exporters, yes, they will absorb these costs directly and they will provide a large impact on those businesses.

Senator COLBECK—At what stage in the process did CFA come into the consultative process?

Mr Melham—Extremely late in the process. I had been lobbying probably since February this year for CFA—and, indeed, other councils—to be given a seat on the task force. Our first meeting was in July 2009. I attended the first meeting of the seafood task force in Melbourne. So it was at that point that I certainly became aware of the intricacies and the finer detail of what was actually going on here, but up until that point I was not in a position to consult the seafood industry on what they considered to be reforms and efficiency gains that could be had from the process that had been instigated.

Senator COLBECK—How far progressed is the process of identifying potential reforms, savings and efficiencies that might be there?

Mr Melham—In the seafood sector, it is in its infancy. They have not even appointed a consultant to look at where these efficiency gains may be had. We are actually in that very process right now. My understanding is that these reports have to be presented to the government by the end of October, so I do not have a whole lot of confidence, from a seafood industry point of view, that we are going to have any meaningful outcome through this process.

Senator COLBECK—So, under the current time lines, the report on what the potential efficiencies for the industry are should be presented to government by the end of October?

Mr Melham—Correct. This report hopefully will identify where those gains may be had, but the real process occurs after that.

Senator COLBECK—But at this stage there has not been a consultant appointed to do the work?

Mr Melham—Over the past three or four weeks the committee has been developing the terms of reference for the appointment of a consultant and I believe in the next week or two, as I stated earlier, that consultant will be appointed to commence work for the seafood sector.

Senator COLBECK—At this stage the potential efficiencies have not been identified through the reporting process, and that will be the case potentially until October. Given that you do not know what those potential efficiencies are, do you have a view on whether it is going to be possible to achieve this process by the end of the financial year?

Mr Melham—I do not think it will be achieved, and I say that because—and I will highlight one example—about seven years ago a similar process identified a new system of issuing export documentation. It is called the electronic export documentation system. At the time, it was being touted by AQIS and the government as the quick fix to reducing costs for inspection services. It was going to transfer from a manual system to an automated system where 24 hours a day any exporter could go online, fill in the documentation and get their certificates for their overseas customers. Through this process, I am led to believe—although I am ready to be corrected—that EXDOC is also going to be reviewed because it is not meeting its stated objectives of seven years ago. Now if that is the case then that has been a total waste of time and of cost both to the

industry and taxpayer. So the CFA does not have any evidence on the table to support it, and no faith that this process is going to deliver a meaningful outcome to the industry.

I have also stated in the submission that part of the success lies in the industry's ability to undertake reform. And that is going to mean a transfer of government responsibilities in the certification chain to industry. So I am talking about sampling, inspection, labelling and putting in place quality assurance systems. Now I think industry is going to be reluctant to move in the stated time because it is going to be a huge cost on industry. It is just shifting costs from government to industry. Secondly, it does mean jobs. Instead of AQIS staff conducting the inspections and drawing samples, it is going to involve the private sector. So the issue we have raised is: will the process take into account a possible loss of jobs and would the bureaucrats be prepared to move at such pace in the stated timeframe? I do not think it will happen.

Senator COLBECK—Are we talking about a cost saving or a cost transfer?

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

Senator COLBECK—Have there been any revisions to the timetable to date? Or are we still operating on an original set of timeframes?

Mr Melham—My understanding is that it is the original timeframes.

Senator COLBECK—Okay, thank you.

Senator MILNE—Thank you for your evidence. There are a couple of issues I want to follow up on. I notice, for example, that the following are listed in the consultation process for fish: Abalone Fishermen's Co-op, Tasmanian Seafoods, Ocean Foods, Australian Maritime College and Seafood Services Australia. What sort of coverage does that give fisheries exporters?

Mr Melham—Some of those organisations are exporters in their own right. I do not know the precise figures or coverage, but there are 30 Commonwealth fisheries and probably an equivalent amount at the state level. I cannot give you a precise answer. They are certainly legitimate players in their own right. Individually, some may have been consulted or sought consultation in the process.

Senator MILNE—Yes, they are all valid people to be consulted. I was trying to understand what sort of coverage of the Commonwealth fisheries export sector that provides. Does that mean only about half of them are covered in that consultation process with those particular people, because they are the people who have been consulted? Does that represent a fair number of them or would you say that that is not really reflective of the industry's—

Mr Melham—It is not reflective of the industry's view. I would not say they represent the majority. My recollection is that maybe some of them have been successful as individuals in gaining a seat on some of those advisory committees through the skill selection process.

Senator MILNE—Thank you. I notice that they have to have their priorities identified and the consultant organised by 30 October. There is meant to be an export fish supply-chain review working group. Are you on that or are you being consulted as part of this supply chain review?

Mr Melham—Since assuming a position on the seafood task force in July, it is the task force that is actually managing the appointment of the consultant for the supply chain project and, yes, I have since also managed to gain a seat on the working group managing the terms of reference for the appointment of that consultant.

Senator MILNE—So you will be consulted on the working group on the supply chain review? It seems to me that is the priority area of work, so you will actually be consulted on that?

Mr Melham—Correct.

Senator MILNE—I hear what you are saying about a cost transfer from the public to the private sector as opposed to real net savings as a result of the efficiency gains. I note in the submission that the Commonwealth has provided that they argue that there is quite a bit of duplication between the state and the Commonwealth in terms of its inspection processes and on so on and also that there is duplication between the certification processes in Australia and the importing countries. Would you agree with that? Obviously that is the area that has been identified in a preliminary analysis as being the place where, if you got rid of that duplication, you would actually have net savings; it would not just be a cost shift. Do you think there are opportunities there?

Mr Melham—Definitely opportunities. It is a fact that there is duplication between state and Commonwealth agencies, and the working group has identified that as high priority. If we can eliminate that duplication it will definitely deliver savings to the system.

Senator MILNE—So it is fair to say that there could be real savings if the duplication were aggressively addressed in the next 12 months?

Mr Melham—Correct.

Senator MILNE—What would it take to do that? Could you give me an example of duplication? I am not familiar with your certification processes.

Mr Melham—I think it is similar across industries. The classic example would be a state quarantine officer entering a quarantine approved facility and conducting an inspection for hygiene purposes at that facility and then the very next day the Commonwealth officer entering the same facility and conducting exactly the same inspection for hygiene of that facility for international trade purposes. There is the duplication.

Senator MILNE—Isn't it fair to say that, if some these duplications are pretty easily identified and clearly do not make sense, some of these efficiencies might be able to be delivered quickly? I heard you say that you were not confident that the efficiencies could be delivered within the 12 months, but it seems to me that is an example of something you could fix overnight.

Mr Melham—No, I disagree. Whilst I agree we can identify that as an inefficiency, to fix the problem requires state-Commonwealth government consultation and agreement and, again, I do not have before me any evidence to suggest that that can be achieved overnight.

Senator MILNE—Okay. One of the things for this committee to follow up with the government is how they are going to facilitate that kind of rationalisation that you are talking about in the time frame.

Mr Melham—Yes.

Senator MILNE—Thank you.

CHAIR—With respect to the issue of the funding, it seems that across the industries even with those that are keen on the changes happening—I am sure we will find out more about this during the day—they would perhaps prefer the reforms to be going ahead and the bucket of money not coming from within the industry changes to arrangements itself. That is something we will explore. I would be interested in your view on that. Also there is the issue of the quantum of funding that is going to the consultants to actually determine across the industries how this is going to be approached. For your industry, do you have a view on how much funding is going to be left for the actual reform process itself after some of that funding has been spent on the consultants?

Mr Melham—If I could answer the second question first, I think the seafood industry is the recipient of \$1.8 million. I think probably a third of that will go to the consultancy project, so we are looking at about \$1.3 million left over.

CHAIR—In your view will that be enough or will industry have to find more money to implement the reforms?

Mr Melham—If we include EXDOC I believe it will not be part of the current review, that is why I highlighted it earlier. I think the cost to industry is going to be far greater than \$1.8 million particularly if it is being asked to fund the EXDOC reform program on top of the issues that are identified in this program. It differs across industries and my take on why some of the industries are not going in as hard as CFA and seafood is that some of those industries are already well advanced in a co-management sense. They have been operating in tandem with AQIS and have been performing functions for the last 10 to 15 years. AQIS's role is simply a final step in the process. It actually verifies all the documents in the certification process rather than be out there performing functions as it does in seafood. That is why I believe you are not getting solid opposition from some industries. They are already performing in a manner that we want to get to, but seafood is going to take a little while to get there.

CHAIR—Thank you.

Senator BACK—Could you explore a little bit further for us where you think efficiencies could be gained by better cooperation between state and federal agencies in the overall process please?

Mr Melham—It relates to the entire certification process, so it relates all the way back to production and the legislation that is in place at state level as distinct from Commonwealth level. At a state level, for example, it dictates where you can process your product—whether you do it on the boat or on shore. At a state level it prohibits you from doing it on the boat, for example. So you have to bring the boat in, process and take it back out again. There is one example. I mentioned the duplication between state and Commonwealth inspection, sampling and labelling functions.

Senator BACK—As part of this process we have the Commonwealth government, AQIS and industry. Is there any indication that state agencies have to, want to or have any interest in the reform process? Even given that the industry and AQIS want to move together, where is the imperative for the states to do that and is it likely they will? If they do not, to what extent is it going to derail the process?

Mr Melham—At this stage I have absolutely no evidence to suggest that the states are going to come to the table. In the seafood program we have targeted that as high priority and for the consultant to actually get out there and talk to the states. I think we all understand that the states are not being driven at a state level by this process; they are being driven by the Commonwealth. So, no, I do not have any faith that the states are going to come across in the seafood industry. I cannot speak for other industries. Perhaps it will be different in a few other industries.

Senator BACK—In states that are remote—I am thinking of the crayfishing industry in Western Australia—the distances over which people have to travel to undertake this level of inspection certification are vast. If there is not going to be close cooperation, then I have to call into question where the efficiencies are going to be. Could you expand a bit more. I think you made the observation that there is a transfer. You were even talking about taking samples. A transfer from government to industry is going to be a greater cost to industry, and there is also a greater cost to industry in picking up the certification costs. As you see it, is it a double-plus dip, a double-plus loss?

Mr Melham—Correct. At the moment, if an AQIS staff member travels from, say, Perth to Dongara to draw a sample—

Senator BACK—Or to Port Gregory.

Mr Melham—and to test that sample for pests and diseases, anything that is undesirable, basically the meter is ticking. The industry pays for every kilometre that officer travels. I do not know the figure, but it is paying a fee per half-hour. If the industry decides that, through the development of its own quality assurance system and the employment of a technical consultant, it can draw that sample instead and send it off in a sealed envelope, the cost to industry is actually in setting up the QA program, employing the technical consultant and putting in the lab. The diagnostic facilities in many cases are simply not there, nor is the technical expertise. So when the consultant delivers their report, which may conclude that we can transfer functions to industry, it is not a given that industry is readily positioned to take on those functions. That is what I mean by a simple cost transfer from government to industry.

Senator BACK—Yes, at a time when the industry can ill afford it. Thank you, Chair. That was my final question.

Senator BOSWELL—Who do you represent? Chris, you were in the seed industry once, weren't you?

Mr Melham—Correct.

Senator BOSWELL—Do you represent all the fishermen?

Mr Melham—The Commonwealth Fisheries Association represents commercial fishers operating in the Australian fishing zone, which is between three and 200 nautical miles offshore. They are the fisheries gazetted by the Commonwealth in the Fisheries Management Act, and that is my constituency.

Senator BOSWELL—How do you get elected to that position?

Mr Melham—Me?

Senator BOSWELL—Is a vote taken by the fishermen or is it through the government?

Mr Melham—I am appointed by a board that is elected by the fishermen.

Senator BOSWELL—That is fair enough.

Mr Melham—I have no vested interest in the industry as such.

Senator BOSWELL—I am not suggesting you do have.

Mr Melham—No, I am not suggesting you are, Senator.

Senator BOSWELL—I see the Commonwealth Fisheries Association at a number of meetings and I have always wondered how it was set up. You have suggested that you had to lobby intensely to get a seat on the Seafood Industry Taskforce. You also suggested that the Seafood Export Consultative Committee does not comprise representatives from various peak industry bodies and you do not think that the industry groups are having much input into the bodies that assist government to make decisions. Could you expand on that.

Mr Melham—Yes. As I stated earlier, the Seafood Export Consultative Committee comprises skills based people sought from a public expression-of-interest process. For example, as a member of the CFA, I have never been invited to sit on the committee as a representative of Commonwealth fishers. The makeup and the terms of reference of that committee are such that it does not have to seek advice from the CFA in the lead-up to those meetings, nor do the members have to report the outcomes of those meetings to me or to any other seafood council at a state level. So we really do not know what transpires at those committee meetings in either a policy or a procedural sense. That is why I have been lobbying hard to get better accountability in that particular committee.

Senator BOSWELL—What reforms in efficiencies in the system has the minister signed off on to date?

Mr Melham—None that I am aware of. But to be fair, I do not think that the minister has been asked to sign off on any reforms to date. The process is still in train.

Senator BOSWELL—What reforms would you like to see implemented in the inspection service? Has the minister or the department considered any of your suggestions?

Mr Melham—The CFA has submitted a number of suggestions including one we were just talking about, which was streamlining the duplication of services between state and Commonwealth departments, and, yes, they have taken on board our suggestions. I just cannot recall off the top of my head what they all were.

Senator BOSWELL—In your submission you have suggested they should have the reforms prior to any implementation of reviewed fees and charges. Are you suggesting that the two issues are not linked?

Mr Melham—Our preference is for the reforms to be identified and implemented and then, in our opinion, a proper cost recovery impact statement produced to determine which functions of AQIS should be fully funded by industry and which functions should be either fully or partly funded by the taxpayer. In my submission I was afforded the opportunity as to whether there were any other relevant matters, and I appeal to the committee not to forget that all government agencies are supposed to undertake a proper cost recovery impact statement in consultation with industry when determining their cost recovery policies.

One thing that sticks out in this particular process is that that has not been done, and in my opinion that it is the issue that should be at the top of this process. Whilst I agree that we should be looking at reforms, I think that due process should also be followed. The CFA is currently going through exactly the same process with the Australian Fisheries Management Authority, another government agency, reviewing its cost recovery policy and in stark contrast to AQIS we are at the table with them and have been for six months. We are being presented with detailed budgets as industry, saying, ‘This is what we propose to charge in line with the government’s CRIS policy and this is why we are recommending this. What do you think?’

We have been negotiating and are now at the point where we will sign off, whereas if you bring it back to AQIS, we have not seen any budgets. We do not know whether the 100 per cent charge is justified, whether that activity is fully driven by the exporter or whether it is being driven by the department itself or other government policy. This is a really important issue that I think the committee needs to look at and take into consideration. CFA certainly believes that it has been negligent in that area.

CHAIR—As you have just said, the reforms have not been identified yet so in your view how can the government formulate an appropriate level of funding for the reforms if the reforms have not been identified yet?

Mr Melham—It cannot and it should not, and it is in breach of its own policy which sits on the Department of Deregulation and Finance website for all to see.

Senator BOSWELL—You have suggested that the Beale review does not follow the official cost recovery policy. Does this mean that you think the costs suggested are inaccurate, and could you expand on what you mean?

Mr Melham—As I just said, the decision to go to 100 per cent came out of the Beale inquiry. It was not an inquiry that followed the government's own Cost Recovery Policy Guidelines. That is exactly what I mean. We are fighting these increases because we do not believe the increase as a result of the Beale inquiry is substantive enough. The recommendations should have come out of the proper cost recovery review process. I should mention that the cost recovery guidelines were updated on 21 February 2008 and came into effect on 1 July 2008, so it was actually under the current government that these guidelines and policy were produced. That is what I mean by that, Senator.

Senator BOSWELL—How much is it going to cost your industry? You would be a fairly small industry compared with the general fishing industry. Who actually represents the inshore fishermen?

Mr Melham—In each state and in the Northern Territory there is a separate seafood industry council—

Senator BOSWELL—I understand that, but who represents them federally? Do they have a federal body?

Mr Melham—I mentioned earlier that, federally, we have recently formed a National Seafood Industry Alliance. It comprises the Commonwealth Fisheries Association, the National Aquaculture Council and all state seafood industry councils—

Senator BOSWELL—Who represents them down here?

Mr Melham—It does not have an appointed chief executive officer. The executive officers of each of the state and federal associations are actioning specific responsibilities that affect all seafood producers. For example, on 21 November 2008, we jointly wrote to the minister objecting to the increase for the reasons we were just outlining. As I say, it is a recently formed alliance and it is now meant to represent state and Commonwealth on issues of common concern like quarantine, the environment, welfare, trade and so forth. Over time, you will see the alliance grow into a more formidable organisation that may, in fact, appoint a full-time officer based here in Canberra.

Senator BOSWELL—It has always been hard to get a combined position of all the seafood industry councils on any issue. I have seen your association at many government meetings, but I have never seen the state body through them.

Mr Melham—They now fit in through the National Seafood Alliance.

Senator BOSWELL—How much do you think this proposal will cost your industry?

Mr Melham—I do not have that figure with me at the moment, and I would hate to put a guess on it. One of the reasons we cannot answer it is that we do not actually believe the full cost

is known by either AQIS or industry. There is another important factor that has not been taken into consideration here. Beale also recommended that Biosecurity Australia and AQIS now merge. Does that actually mean that, under a full cost-recovery arrangement, industry will also be paying for Biosecurity services? These are scientific functions that are currently conducted by Biosecurity Australia. We do not know what the true costs may be. From where we sit, the costs may double or even triple if industry, under a 100 per cent cost-recovery arrangement, is now going to be paying for the new organisation. Again, I come back to: why doesn't the government just wait until the new Biosecurity organisation is up and running and then after that conduct its proper cost-recovery process?

CHAIR—I just need to go to Senator Colbeck; we will come back if there is time.

Senator COLBECK—I want to go back to the issue that Senator Milne raised and that you discussed with her, which is the EXDOC system. I was at a meeting in Sydney last week where there was quite a deal of discussion about that and its interaction, particularly with Europe. Would you see reform of the EXDOC system as fundamental to achieving efficiencies as part of this process?

Mr Melham—It will play a part. I do not think it will solve the whole jigsaw puzzle. We have one issue: do our importing countries actually accept EXDOC, as distinct from a manual phyto certificate with a signature on it? I know when I was in the seed industry, many countries did not accept it.

Senator COLBECK—That is still an issue and it was part of the discussion.

Mr Melham—So it is only part of the solution.

Senator COLBECK—The work that is currently being done on identifying our export partners' documentation requirements is also going to play a part in this process?

Mr Melham—It is very important.

Senator COLBECK—Has any of that yet been reported back to the industry?

Mr Melham—I do not think we are at the stage where we have looked at that. Our focus on seafood has been on the appointment of the consultant to, as Senator Milne raised, the supply chain management project.

Senator COLBECK—But that would form part of that process, I would expect, because isn't the documentation that is required part of that supply chain process?

Mr Melham—It will be, but they certainly will not be ascertaining whether importing countries will accept the EXDOC documents.

Senator COLBECK—Or whatever new documentation is proposed under the system?

Mr Melham—Yes.

Senator COLBECK—But surely that would have to be fundamental to the process?

Mr Melham—Fundamental to the process, but we cannot achieve that in such a short time. We will be flat out trying to get this project complete by 31 October.

CHAIR—As there are no further questions, we thank you very much, Mr Melham.

Mr Melham—Thank you.

[9.10 am]

CULLEN, Mr Ron, Executive Director, Sheepmeat Council of Australia

INALL, Mr David, Executive Director, Cattle Council of Australia

CHAIR—Welcome. You have jointly lodged submission No. 22 with the committee. Do either of you wish to make any alterations or amendments?

Mr Cullen—No.

Mr Inall—No.

CHAIR—Would you like to make a brief opening statement before we move to questions?

Mr Inall—We have a joint statement.

Mr Cullen—Our position in this debate is based on the fundamental need for reform to the services provided by AQIS. We understand that the government's co-contribution to AQIS fees and services—that is, the so-called 40 per cent—is not in this year's budget. So we have developed our response based on that situation. Nonetheless, we do not rule out seeking a reintroduction of that co-contribution if the efficiency of delivery of AQIS services is not improved. Our priority at this stage is to pursue efficiencies and productivity savings in the delivery of AQIS services. Over a number of years, industry has sought such efficiencies but without success. The Beale recommendation has focused the debate and unfortunately we have now reached a situation where industry looks like being asked to pay for a lack of action in driving reform of a government monopoly service.

There are four significant issues. Reform is overdue and essential. Reform will take time, and that means years not months. Reform must not jeopardise producers' profitability, jobs in rural Australia or, critically, market access. Lastly, reform must be completed before full cost recovery is implemented. We are asking that the reform process is undertaken in a comprehensive and consultative manner, for government to recognise that such reforms must be all-encompassing and substantial, and for government to also recognise that it will take substantial effort and commitment from both government and industry and will take potentially an extended period.

If full cost recovery is introduced before there are reforms in service delivery, there is one sector, the producers, that will bear the eventual brunt of that imposition. Any increase in costs will be passed back to the production sector, and these costs cannot be shared as they will be transferred via reduced prices to livestock producers. The flow-on effect throughout rural Australia will be significant in terms of farm profitability, in terms of jobs, in terms of agriculture's ability to help Australia emerge from this current financial crisis.

The Australian red meat industry exports two-thirds of its production to more than a hundred countries worldwide. We must not be placed at a cost disadvantage relative to our competitors.

CHAIR—Thank you. Would you prefer that the reforms were taking place concurrently with the 40 per cent remaining in place?

Mr Cullen—We are not directly involved in the reform process. What we want to see is either the co-contribution continue or some other subsidy arrangement continue whilst the reform process is undertaken.

CHAIR—So do them concurrently until it can be absolutely identified that the reforms have been achieved to the complete level.

Senator BACK—Gentlemen, thank you very much. In the event that this is disallowed, the department will end up with a black hole from which they say they would have to then increase their fees and charges even further to come back to some form of neutrality, budget wise. Can you comment on that in terms of your respective industries and the impact that that might have on them? In other words, it is the opposite side of what we are talking about.

Mr Cullen—We take a long-term view, in essence. We want to see the reforms. We think that is a one- or two-year process. How we get there from our industries' perspectives is less relevant. If those efficiencies and reforms are delivered and we see them delivered then we can move to a full cost recovery which would be equitable for industry.

Senator BACK—Can you see from your perspective in your area of industry where these reforms can actually be achieved? As you say, you cannot pass anything on further down the line. You are at the end of the queue. But can you see from where you sit where these reforms should be achieved?

Mr Inall—It is difficult for us to answer that in any great detail. We understand that particularly the meat-processing sector has been involved in at least five years of negotiations with AQIS on reforms in-plant. They are quite sensitive negotiations and we are not privy to all of those. You will hear from the meat processors next and they can probably go into that area in great detail. The strategy that we have taken in the past few months on this issue has been to provide support behind the scenes to both the meat processors and the live exporters as they engage. We are all headed towards the same point—that is, delivery of a cost effective service—but both of the sectors that our members supply are on different journeys to get there, because they operate in quite different manners. I believe a lot of that work is about efficiencies in-plant and, with the live exporters, it is how they certify the cattle that are to be exported, with issues around certification and inspection. All the while, we do not want to compromise the excellent market access that we have at the moment.

Senator BACK—In a sense, you are very interested by standards but are 'by standards' and cannot influence the process at all.

Mr Cullen—To make the statement that I cannot influence the process would take us out of the game altogether.

Senator BACK—That is the question I am asking: to what extent are you in the game?

Mr Cullen—We do not have a direct influence on the process. We are standing behind the AMICs and the ALECs of the world to support their requests for reform, as well as the Australian Renderers Association, a third party that are part of our group that gives us the profitability that we enjoy.

Mr Inall—To augment Mr Cullen's answer, you can rest assured that we have a very tight structure within the red meat industry—that is, the Red Meat Advisory Council. We have five sectors operating within that, and this has probably been the biggest issue that we have been discussing over the past six months. Both the meat processors and the live exporters are fully aware that the producers are there to engage at whatever level is appropriate for us. We have our own issues on-farm that we are managing, such as R&D, marketing and those types of things. Whenever there is a chance for us to slot in and help out, we are there. But, understanding there are a range of sensitivities in any negotiations that involve money, there are times it is appropriate that we are involved and there are times it is not.

Senator BACK—Thank you.

Senator MILNE—I am interested that you are supportive of the reform process but want the money to continue while the reform process continues. That means that the government has to put more money in to do both. It is refusing to do so at the moment and saying you can get the ongoing compensation for 12 months—you will not get it any longer than that—and at the end of that time you will have no reforms and no money. So you can have some reforms and some money, all reforms and no money or all money and no reforms. That is where we are at the moment when it comes to this issue. Clearly we need the reforms. There are obvious ways in which efficiencies can be generated for the benefit of everybody. Given that they are the options on the table, I am interested to know how you think we can progress this matter. You say that you want the reforms to be implemented. We have had a few years to do that. Why hasn't any of this happened, given that the industry knew the subsidy was to phase out, as did the government? Has there been any active attempt in your sector to actually bring about any of these reforms up until now?

Mr Cullen—I have a couple of comments. We certainly do not see it as a subsidy; we see it as the government's co-contribution in the first instance. That is just a point of clarification.

Senator MILNE—Sure.

Mr Cullen—There have been various attempts to make reform within AQIS over quite a long period of time. I guess I should not speak for the Cattle Council, but from the Sheepmeat Council's point of view we have been happy to support AMIC's attempts, which have proven unsuccessful.

Senator MILNE—I will just stop you there. What have you tried to do that AQIS has effectively blocked you from doing in achieving reform? Can you give me an example of where the industry has tried to push for something and there has been no response from AQIS? We need to be able to put to AQIS how they have blocked reforms if, indeed, they have.

Mr Cullen—We talk specifically about the process since the Beale review came out. It is our understanding—and we have been supporting AMIC—that to date they feel they have not made

any progress in gaining any of the reforms. We have supported that AMIC process. We have not gone out into the public arena because we have seen publicity as being perhaps counterproductive to any attempt to achieve success. We have been trying to work with the government and industry, but we at the Sheepmeat Council have taken a back seat in this process. We have a very small staff and we have our hands full just dealing with the specific issues for farm productivity.

Senator MILNE—Okay, but maybe the—

Mr Inall—Yes, I think Ron Cullen has covered it. There were other issues within the Beale report that we did engage with, and I suppose it is a matter of sharing the load within our industry structure, which, as Ron says, is resourced only to a certain capacity. To answer your question directly, I cannot think of an example specifically with AQIS that we have pushed that has been blocked. That being said, we will certainly go away and consider it. This is a work in progress. We also see this inquiry as being an excellent contribution to the information gathering that we are all involved in because, as I mentioned in my previous statement, I believe that all sides of politics have the same objective, and that is the reform process.

Senator MILNE—I would really appreciate that, because it is important to us. The government says that the industry knew that this was being phased out, had the opportunities to implement reform and did not do anything. The industry says, ‘We tried to do things and were blocked from doing them.’ We need some really specific examples so that we can take that back to AQIS.

Mr Cullen—There is also an important issue here from an industry point of view in that this was not the first time that this three-year government co-contribution was to be phased out.

Senator MILNE—No, that is right.

Mr Cullen—We perhaps were lulled into a false sense of inactivity because, the last time it was rolled over, it was rolled over quite easily.

Senator MILNE—It was extended.

Mr Cullen—There were no indications that that was not going to be the case. Despite all due criticism that we perhaps dropped the ball on that, the precedent was that it was going to be rolled over.

Senator MILNE—Yes, sure.

CHAIR—I think that is an interesting point for you to make, Mr Cullen, because I do not think there necessarily was an expectation that it was going to cease. I think that is a very good point that you make.

Mr Cullen—I will try to confirm that to be the case. I am sure that from the point of view of both of our sectors we were not clearly aware that there was a definitive position that that was going to cease.

Senator O'BRIEN—But you never looked at it closely.

Mr Cullen—Even if we looked at the budget, we saw the precedent.

Senator O'BRIEN—Is it true that you never looked at the budget?

Mr Cullen—Certainly we have looked at the budget. As I said, it was there to say it was going to end, but we had seen that before.

Senator O'BRIEN—Can you show us any evidence of submissions from your organisations about the issue in the last three years?

Mr Cullen—No, not that I am aware of.

Senator COLBECK—So you have effectively made a strategic decision to take a back seat given that you have limited resources and had other things to deal with. But obviously, as those who you have indicated are the end receivers of the costs—because that is effectively the way industry works—you maintain an interest in ensuring this process continues.

Mr Cullen—We did get into the car, though, and we did make representations to AQIS and to Minister Burke directly in support of that process.

Senator COLBECK—You make the comment that you want the reform before the full cost recovery comes in, but effectively full cost recovery starts at the end of this month. So, as Senator Milne indicated, you are not going to achieve that at this stage unless the government makes a decision to change its mind on how much money it is putting into the pot.

Mr Cullen—Well, one of the difficulties that we have in trying to respond to that process is that we are not absolutely clear of all the time lines for the industry sectors, in terms of how those costs change and move over this 12 month period. We are aware of the money that the government has committed to the reform process, but it is the details of its expenditure that I am not aware of.

Senator COLBECK—But it has been relatively public that the meat industry, particularly through AMIC, had decided to use a proportion of its allocation—

Mr Cullen—Correct.

Senator COLBECK—to continue the 40 per cent rebate until the end of September. So full cost recovery commences as of 1 October and, at this point in time, there have not been any reforms put into place as part of this process.

Mr Cullen—Not that I am aware of.

Senator COLBECK—You say that you believe it is a one- to two-year process, which is effectively at odds with what the government is saying: that this needs to be done within 12 months. I suppose previous attempts at reform would suggest that one to two years is perhaps

even ambitious, given the difficulties that we have had before—without the fact that the circumstances that we now find ourselves in have certainly focused people’s minds.

Mr Cullen—Yes. I would be speculating if I were to try to make some estimate of how long the reforms would take, because I do not have the detail of what is necessary. I used the one- to two-year time frame in an attempt to indicate that we do not think it will be completed by Christmas this year.

Senator COLBECK—The defined time frame to complete this process under the government’s proposals is 30 June next year. Is that still an ambitious ask, from your perspective?

Mr Cullen—It is ambitious, but I do not know that it is not achievable.

Senator COLBECK—What consultation have you had with the key players—the live exporters and AMIC—recently in discussing this process?

Mr Inall—The communication we have is pretty well direct communication. We certainly are not privy to the industry work plans or some of the more financial side of the discussions, but we communicate through our group meetings. In the case of the live exporters we are in fact housed in the same building, so at any opportunity we continue the dialogue on these issues. It is essentially around the Red Meat Advisory Council structure where, during formal meetings, we update each other on our progress.

Senator COLBECK—So there is nothing formal, as part of this process, that prevents that communication that you are aware of? My understanding is that there were some confidentiality agreements around the industry groups. I do not know whether they exist or not. But that is not inhibiting communication?

Mr Cullen—Not that I am aware of.

Senator COLBECK—Okay; I will try to confirm that later.

Mr Cullen—We are aware that there have been some sensitive dealings that we have not been privy to, but it has not been obvious to me that that has impinged on our ability to engage. We have also had what we have called the loose coalition of industries, which has met by telephone and face-to-face on a few occasions. That has included a wide gamut of industries: the fish industry, the grains industry, horticulture et cetera, and red meat. We have discussed our position and how we might best manipulate the process to get the outcome that we were all desirous of. Of course there are differences between the industry groups, but we have tried to work our way through those.

Senator COLBECK—So, again, behind the scenes there is a broader process going on where all of the identified key players are effectively working on strategy together?

Mr Inall—Most certainly. The way in which that has materialised in terms of communication to the government is that, in areas where the different sectors of our industry have a uniform view and position and a common purpose, that information is then communicated under the Red

Meat Advisory Council letterhead. So where there are areas that we all agree on—areas where the different sectors are all on the same page—that information is communicated under an industry-wide banner. Then those two sectors that have the relationship with AQIS move on in their own paths to deal with their own sensitive issues.

Senator COLBECK—Have you developed any idea of the potential cost to industry or to your members of this process without the reforms being achieved?

Mr Inall—Yes, we have been apprised of some costs. I believe they are ballpark at this stage. With regard to cattle, if full cost recovery is implemented prior to substantive reforms being delivered, we have been advised that around the \$5 per head mark will be the cost for producers.

Mr Cullen—And about 50c per sheep.

Senator COLBECK—What does that stack up to in a gross sense?

Mr Cullen—About 33 million sheep are slaughtered per year

Mr Inall—And about 8.5 million cattle are slaughtered per year.

Senator COLBECK—You are talking about a \$16½ million cost to the sheep industry and well in excess of \$40 million to cattle producers?

Mr Inall—Those are the figures we have been told. We have only heard those figures recently so we have yet to sit down and better understand the maths and how that operates, but that is what we have been told.

Mr Cullen—And we would anticipate that AMIC may be putting that sort of information before the committee later.

Senator BOSWELL—Have AQIS suggested any efficiencies that you can implement for either sheep or cows? What efficiencies have they suggested or have they suggested no efficiencies?

Mr Cullen—It is my understanding that those discussions have been held with AMIC and ALEC, but they have not discussed that directly with the Sheepmeat Council. The only interaction we have had with AQIS is when we have gone in to support the process, both industry wide and within the red meat sector.

Mr Inall—In a general sense, our overarching engagement with AQIS and DAFF is a periodic roundtable meeting. The secretary of DAFF and others have chaired a number of meetings where we are updated on the progress of the Beale reforms, and in particular how the new legislation is coming along, the work required and where industry will fit into a consultation process. We feel quite well briefed on what is an enormous task in front of the government to implement those recommendations. Specifically to answer your question in regard to AQIS costs, no, we have not received any information.

Senator BOSWELL—Have you suggested any places where AQIS could lift their game?

Mr Cullen—From the Sheepmeat Council perspective, I think it would be presumptuous of us.

Senator BOSWELL—Do you think that would be AMIC's role?

Mr Cullen—That would be the direct line to AQIS for us.

Senator BOSWELL—Have the government given you any guarantees that they will actually implement any reforms? Have they told you what reforms they are going to implement?

Mr Inall—We are not aware of the specific reforms, but I can confirm what Senator Colbeck said that the timeline we were given was 30 June 2010.

Senator BOSWELL—You said in your submission that the removal of the government co-contribution is an incentive to progress badly needed reforms within AQIS. Could the government have reformed the inspection service of AQIS without removing its co-contribution?

Mr Cullen—Again, I would have thought absolutely. It is simply an issue of delaying the removal of that co-contribution.

Senator BOSWELL—So what you are actually arguing or what you would like to see is the government shaping up with the reforms, and when they have produced the reforms you pay the jack and jill.

Mr Cullen—Fundamentally, yes. The bill will be paid via the processes. We pay that bill indirectly by it being passed through the production schedule.

Senator BOSWELL—But you are going to get value for your money before you are charged?

Mr Inall—Correct.

Senator BOSWELL—As I said yesterday to Wes Judd of the Australian Dairy Industry Council, it seems to be a massive leap of faith to pay your money upfront and hope that you are going to get the reforms. They seem to be convinced that that is what is going to happen. I am not sure that most of the other people do, but they seem to think, 'We'll take a chance, we'll pay the extra money and hope the reforms come through.' You do not have that faith?

Mr Cullen—It is not a matter of faith, Senator. I think it is more to do with an appropriate process. We are competing internationally and our competitors do not pay these sorts of costs. We believe that the government should do the efficiency savings, produce a costing for the service, and then we can pay for it, because it is an appropriate cost based on value.

Senator BOSWELL—That would seem to me to be the way that normal business is done: you pay for what you get; you do not pay in advance for what you might get. This government seems to be putting that proposition to primary producers, that you make a contribution and you may get something, but it has not enunciated what you will get. No-one has actually put down the sets of reforms that are going to happen.

Mr Inall—If a list of those reforms has been prepared, we are not privy to that.

Senator BOSWELL—No, I have asked that question of everyone. The minister has not signed off on any reforms. Thank you, Chair.

CHAIR—Senator Heffernan.

Senator HEFFERNAN—Do the Sheepmeat Council and the Cattle Council really think that there is enough information now to achieve the savings that are required to make this a revenue-neutral exercise?

Mr Inall—We have not seen that information in front of us. If that information is in the industry work plans that are being worked through with the live exporters and the meat processors, the detail may well be in there, but we have not seen it—hence we have communicated to government numerous times that it is our ambition that, if we are heading towards the full cost recovery model, that should not occur until there is adequate reform in place. That has been our message, unequivocally, from the get go.

Senator HEFFERNAN—Would it be fair to say that the red meat industry, like the lamb and cattle sectors, would like to see some efficiencies gained but not have to pass the cost back to the producers?

Mr Cullen—Yes.

Mr Inall—Most certainly.

Senator HEFFERNAN—Isn't that what is going to happen if you do not?

Mr Inall—Yes, and we have communicated this numerous times. I think there were some options at the beginning in terms of what the strategy would be, and we gathered a very strong intention from the meat processors and the live exporters that the opportunity for reform was in front of them. We have gone down that path and we have done what we can as the people supplying those sectors to provide whatever support we can to the strategy. But, again, we are not privy to the industry work plans.

Senator HEFFERNAN—So, in terms of an abattoir that has domestic kill as well as export kill, is one subsidised by the other?

Mr Inall—We would respectfully ask that that question be put to the Meat Industry Council, who are coming up next, I think.

Senator HEFFERNAN—I am curious about this. Just yesterday I had a discussion with an abattoir operator, and one of the things you have not come to terms with as an industry is the branding of lamb across Australia with a harmonised view. This goes to the cross-subsidy of AQIS. That operator yesterday has evidence, in Victoria last week, of mutton, not hogget, going out branded as lamb. I have got the cost break-up of the mutton. Isn't part of resolving efficiencies in the system also about a harmonisation of things like what is a lamb?

Mr Cullen—I would think the authorities would be really glad to get that information so that they could pursue that through the proper legal channels, because we need—

Senator HEFFERNAN—I think something is going to happen pretty big-time, because I can tell you some of the operators in New South Wales are sick of this bloody turning a blind eye to sheep being branded as lamb. But getting back to the question, to give confidence to the government, to this committee, because obviously everyone needs to be more efficient, including me—

CHAIR—Can we have that in writing?

Senator HEFFERNAN—I am trying to cut down on the amount of bad language! If the industry could demonstrate that they have come together to at least describe what lamb is in New South Wales, Queensland, Western Australia et cetera that would help the job a bit. Do you think you will achieve some harmonisation? At the present time you are saying: ‘Ooh, it’s a bit hard. Go away. Look the other way.’

Mr Cullen—No, we are not saying that at all. We are attempting to get a whole-of-industry view. As you are only too well aware, it is not an easy process.

Senator HEFFERNAN—I am only baiting you a bit there. Thank you.

CHAIR—Thank you very much for giving us your time this morning.

[9.41 am]

BURRIDGE, Mr Gary Forbes, Chairman, Australian Meat Industry Council

DORIAN, Mr John, Veterinary Council, Australian Meat Industry Council

MARTYN, Mr Stephen John, National Director, Processing, Australian Meat Industry Council

CHAIR—Welcome. Is there anything any of you wish to add about the capacity in which you appear today?

Mr Burridge—I am the Chairman of the Australian Processor Council of AMIC.

CHAIR—AMIC has lodged submission No. 28 with the committee. Would any of you like to make any amendments or alterations?

Mr Burridge—No, thank you.

CHAIR—Would any of you like to make a brief opening statement before we move to questions?

Mr Burridge—I appear before you today representing the interests of the largest agricultural enterprise in Australia. Our members employ approximately 5,000 people and close to 3,000 member companies up and down the meat supply chain in many regional areas of Australia. In addition, there are, conservatively, at least the same number of Australians employed in supporting industries. It is an industry that was worth approximately \$17 billion to the Australian economy in 2007. We represent the largest contributor to AQIS's export certification charges, pay tenfold any other industry sector's contributions and receive 75 per cent of the total export rebate under review today. We have always opposed the removal of the 40 per cent export rebate, because it reflects the legitimate cost of government and export certification industry. Removing the export rebate without corresponding efficiency offsets is unacceptable to our industry when we have been led to believe AQIS's corporate overheads have increased in the order of 250 per cent in the last four years.

We are not scared of reform. In fact, we initiated the reform process with AQIS some five years ago and we proposed the concept of reform to the minister and the ministerial taskforce as a response to the decision on full cost recovery in February of this year. We clearly recognise from the outset that reform in the export certification area is a complex one, indeed. AMIC have committed significant industry funds over the last five years to actively engage the department on reform, with joint AQIS and AMIC strategic planning forums which were established in the year 2003. Through that process we identified a range of initiatives that would modernise the meat inspection and verification system in Australia and would lead to significant efficiencies and productivity gains for the industry. When the decision to return to full cost recovery was announced, we were in a position to put those five years of commitment and innovation on the table in the form of efficiency gains and productivity gains that if implemented would generate

savings to offset the cost increases proposed. Industry recognised these initiatives would take time to implement and to deliver in full. Industry openly accepted the additional responsibilities and the associated internal costs of this reform.

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

We have accepted a return to full cost recovery for the legitimate costs of providing the meat inspection service, but the industry is not prepared to pay the full cost until the initiatives and productivity gains have been implemented. To not do so will mean an immediate increase of 80 per cent in AQIS charges and in some cases close to 100 per cent for our members with no change in the service provided. At a recent meeting with the minister, three processing members were present and collectively they advised that they were jointly facing a cost burden to their business in the order of \$7.1 million. No organisation can absorb such cost increases without it impacting on throughput and jobs. Unless there are efficiencies to offset these increased government charges, the industry and our employees in rural communities will suffer. No industry wants to be put in that predicament.

Margins in the meat industry are traditionally between half of one per cent and two per cent. At present they are largely negative. The current 40 per cent rebate has been in place since 2001 and the industry has built its production capacity around this structure. The industry is already cutting back on production due to falling margins, tight livestock supplies, intense global conditions and the global credit crisis. The return to full cost recovery will come straight off our margin, which will force structural change to accommodate it. The fallout, especially in regional Australia, will have implications for all levels of government.

We advised government in December last year that we had engaged consultants to undertake sensitive and detailed research of individual processing plants to demonstrate the regional implications of the proposed changes. The data was apparently not sought by the Beale review during its deliberations. Our research identified that there would be significant impacts on processors, with profitability declining by up to 25 per cent, with smaller scale facilities suffering the bigger declines. As the meat industry is one of the major regional employers in Australia, this impact appears to be in total contradiction to the fundamental rationale of the government stimulus package. Initial calculations suggest that the removal of the 40 per cent export rebate without full reform could add up to \$5 per head for cattle and up to 50c per head for sheep. As the live trade does not face the significantly higher meat inspection charges, this further disadvantages the processing sector and assists in exporting Australian jobs.

At no time during the Beale review process was the 40 per cent rebate issue raised with AMIC as the representative peak body. We do not believe the Beale review made a case at any stage for the removal of the 40 per cent rebate or the return to full cost recovery, nor did Beale understand the commercial implications it would have for the industry. Many of our members will not sustain the sudden cost increases post 1 October, when our sector is scheduled to return to full cost recovery. Marginal players may well be forced to leave the industry and larger processors will defer or cancel plants and/or scale back or centralise their processing.

If our country is serious about reform and export meat certification then we should not seek full cost recovery for the service until the productivity gains and efficiencies have been delivered. We should not endanger market access by expediting the reform agenda faster than our key customers can absorb it. We should not be placing the Australian export processing sector at a commercial disadvantage compared to our global competitors, who are not required to pay 100 per cent for their export meat programs.

In closing, AMIC is committed to reform but not at the expense of current market access. AMIC is willing to accept full cost recovery, but not at the expense of jobs and at the expense of businesses both large and small. The ministerial task force has reported to the minister that the proposed reform agenda for our sector will take a minimum of two years, with the final objective possibly being delivered in three to five years. To support the objectives will cost in excess of \$57 million over two years inclusive of the \$29.04 million this year. With these timelines and no transitional assistance industry has no way of offsetting the cost increases unless we pass them back to primary producers. Senators, there is a solution for our industry sector. The question is: is government committed to reform and, if so, is it prepared to only remove the export rebate in line with the efficiencies that are delivered by the reform?

CHAIR—Thank you, Mr Burridge.

Senator HEFFERNAN—People out there tend to take it for granted that it is all pretty easy to be a successful exporter. Could you just describe some of the challenges you have met between the credit crisis and getting paid for meat you are sending overseas and also the rising dollar? Then I will go to some serious questions about this particular matter.

Mr Burridge—Obviously the rising dollar breaching 86c in the last few days has had a significant detrimental affect on our industry. Senators may have read the paper—and I am sure they have—that there have been plants in Far North Queensland pulling back to four days a week, cattle supply is extremely tight and the Australian dollar is going through the roof. We, whether we like it or not, compete against a number of other global players in a very difficult market. As our dollar rises and cattle supplies are short, we have to maintain cattle prices, and we cannot get a return from our global customers. Ultimately those in the middle wear the pinch at the moment, and that is the processing sector. As I said in my opening address, they are largely negative at this point in time.

Senator HEFFERNAN—The one thing that is superimportant to maintain market share and one of the key planks is that we have world-recognised AQIS supervision provided with full confidence of the industry. In recent days there was a report of an import into Australia of meat that had allegedly come from China but allegedly it came from New Zealand. How the hell could that happen if we have efficiency?

Mr Burridge—I am not in a position to answer for the department in that situation. I am not fully abridge of the—

Senator HEFFERNAN—Did that frighten the hell out of you?

Mr Burridge—It most certainly did.

Senator HEFFERNAN—So we will come to some answers from someone around the place. Why has the red meat industry only now sort the reform of the AQIS system?

Mr Burridge—We have been engaged with AQIS in our own right on reform for over five years. A number of the initiatives that we developed over those five years have placed us in very good stead with the opportunity in front of us for reform. We funded that out of our own industry pockets during that period. So we have been committed to reform for in excess of five years, and obviously there was reform many years before that as well.

Senator HEFFERNAN—Would it be fair to say that you initiated the desire for reform to remain competitive in the marketplace ahead of any, shall I say, inspiration from AQIS for reform?

Mr Burridge—Yes, Senator, we most certainly did. We initiated the reform discussions, which were difficult and protracted. We actually, with the assistance of one of our members, established a completely different inspection protocol which we engaged the US in. In fact we brought the US to our conference one year for them to inspect that particular inspection protocol. So, yes, we did do a lot of work and AQIS did assist us in those endeavours.

Senator HEFFERNAN—From your reflection of what this is all about, is there an enthusiasm at all levels in AQIS back to the inspectors on the floor for reform?

Mr Burridge—I would think there are different approaches in different sectors within AQIS. I cannot necessarily answer that.

Senator HEFFERNAN—I might have put you on the spot a bit.

Mr Burridge—I am not going to sit here and say too much on that.

Senator HEFFERNAN—Mr Dorian, what do you think?

Mr Dorian—I think my chairman has said it all.

Senator HEFFERNAN—Are you dodging the question?

Mr Dorian—I am.

Senator HEFFERNAN—I think that is the answer, if you are dodging the question. Why does the industry object to paying the cost of running AQIS when you make the profits?

Mr Burridge—It is a very good question. We have no problem whatsoever in paying for the cost of AQIS associated with meat inspection. We accept that cost. We do not see that we should accept the costs for what are legitimate roles of government. What is proposed is that we accept that today. The export rebate that we have received over the year has only been equivalent to the overhead costs of AQIS corporate offices or overheads in Canberra. We have always paid upfront 100 per cent for the veterinary staff and inspection staff on site.

Senator HEFFERNAN—So are you concerned that, if you were to get into this deal for reform and efficiency, the bureaucratic side of it might eat the head off the efficiency?

Mr Burridge—That is why we strongly link the removal of the export rebate to the efficiencies that are delivered. That way, there is a joint impetus to deliver the outcome, from both government and industry.

Senator HEFFERNAN—To make it clear, what would you consider to be the legitimate costs of government?

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

Senator HEFFERNAN—So are you saying that to compete internationally—which you obviously do, and we are bloody pleased you do—you need to be in line with other countries that differentiate themselves in this way? I saw a piece of paper about this yesterday. Unfortunately for the committee, I do not have it with me. Is there anything you can table to demonstrate—

Mr Burridge—We have a document that we can table that clearly highlights the differences between various export markets. I have it here in front of me. For example, the US processor only ever pays for the overtime of their inspection staff on plant. They do not pay any other costs. They only pay for the overtime of the inspectors. Their federal government pays for everything. In Argentina they pay for on-plant inspection staff only. From what I have seen, we are probably the only nation that expects the industry to pay 100 per cent. I have that document here.

CHAIR—Mr Burridge, would you be prepared to table that?

Mr Burridge—Yes, most certainly.

Senator HEFFERNAN—Thanks very much.

Mr Dorian—I would like to point out that that document has come from MLA data, because they have offices around the world, and also contains data from internet sources and so on. Therefore, it is not actually taken from country-to-country negotiations. So in the context—

Senator HEFFERNAN—It is an indicator. It is not the Bible; it is an indicator.

CHAIR—We will take it as indicative.

Mr Dorian—Thank you.

Senator HEFFERNAN—I have to say we are very grateful. I have been searching through the Parliamentary Library and other places.

Mr Dorian—It is hard to find.

Senator HEFFERNAN—It is hard to come up with it. Going back into a bit of history on this, on what basis did the previous government institute the 40 per cent export rebate? What was the history of that?

Mr Burridge—We understand that the 40 per cent export rebate was an outcome of the Productivity Commission review in 2001 which found that cost recovery was not intended to be a revenue-raising exercise by government and should be applied only to the use of government services that the industry directly uses. It was the Productivity Commission that recommended to government that there are legitimate costs of government. That was established at the 40 per cent.

Senator HEFFERNAN—So how was the new decision on the rebate brought to industry's attention? Did you get a letter in the mail or a phone call? Did you read it on the front page of the paper?

Mr Burridge—No, there were obviously—

Senator HEFFERNAN—Some negotiations?

Mr Burridge—rumblings out there. There was no official word. In fact, I met with the minister in Lismore in September of last year and clearly put to the minister that if government was in any way thinking of removing this rebate we would be deeply concerned. At no stage during the Beale review did Beale actually contact us for input. The first we knew about it was when Beale released his report.

Senator HEFFERNAN—So when Beale released his report, you had not been consulted. It was, 'Sorry old mate, we are going to dump the 40 per cent rebate'. Is that about how it happened?

Mr Burridge—Similar to that. We wrote to the minister. The minister assured us that we would receive consultation before anything occurred. When we finally met with the minister in February, we were told it was a fait accompli and the 40 per cent was gone.

Senator HEFFERNAN—That is pretty handy consultation.

Proceedings suspended from 10.01 am to 10.16 am

CHAIR—Mr Burridge, I understand the principle that you are putting forward—that is, unless those efficiencies are in place, that co-contribution should not come off. If we look at it hypothetically, though, that is actually not an option for us; we are looking at the disallowance, and, while the intention behind that might be good, from our position it is probably something that we cannot effect. So I come back to the basic question: should the regulations be disallowed? I think we need your view on this.

Mr Burridge—Unfortunately, I am not a senator and I really do not want to make your decision for you; that is a decision that only you can make.

CHAIR—That is true, but the wonderful thing about inquiries is that we have these terrific people giving evidence who have views that they put to us and that we can then act upon or not.

Mr Burridge—I can only reiterate what we have said all way through: our preferred position is not disallowance but a reform agenda that is appropriately timed, appropriately funded and does not compromise market access. It was a political decision to put this time frame around the funding arrangements for this year; it was not our decision. So the decision is, in our opinion, a purely political one. Whilst I am speaking, I will make one correction for the *Hansard* record: I think I mistakenly said that the meat industry employees 5,000 people; it is, in fact, 55,000 people.

CHAIR—Okay. I know it is your preferred option, but, if that option is not possible, would you prefer a disallowance or not?

Mr Burridge—As I said, I am not going to pre-empt what is ultimately a decision for the Senate and government. It is your decision; I can only put the facts in front of you and put our position and the mandate that I have been asked to carry. Our preferred position is a reform agenda that is appropriately funded and that has a realistic time frame. If the Senate has to make a certain decision to achieve that outcome, then that is up to the Senate; it is not up to me.

CHAIR—Thanks, Mr Burridge.

Senator HEFFERNAN—We were talking about the fact that the government had announced its decision on the 40 per cent rebate removal and that the first you knew about it, sort of, was the announcement; you had not been consulted. When you did get the announcement, did you meet with the minister?

Mr Burridge—Yes. We had originally arranged to meet with the minister in early January on consultation. That did not occur until February. I think it was in mid- to late February.

Mr Martyn—3 February.

Mr Burridge—3 February. I stand corrected. When we did meet with the minister, government had already made the decision.

Senator HEFFERNAN—When you met with him did you put the proposition which you have just told us, that is—

Mr Burridge—At that meeting we put a proposition to the minister. I think we were the only industry sector to do so. We put to the minister an opportunity to achieve the outcome of savings for government by introducing a reform agenda that could ultimately deliver efficiencies to industry and accomplish the end point the government was seeking. We openly said at that meeting that it was not a short-term fix. It was a more protracted and lengthy process to resolve.

Senator STERLE—I just want to clarify this, Mr Burridge. You have just said on the record that you had your meeting on 3 February with the minister and you made the statement ‘government had already made the decision’.

Mr Burridge—That was the understanding that we were given. It was handed down that that was the decision.

Senator STERLE—Who gave you that understanding?

Mr Burridge—The minister.

Senator STERLE—The minister himself actually said that to you?

Mr Burridge—Yes. Mr Dorian, you were present at that meeting.

Mr Dorian—That is correct.

Senator HEFFERNAN—Just to assist the committee with some background, I understand there is an Ernst and Young report in your submission somewhere. Could you tell the committee about that?

Mr Burridge—Yes. I am bound by confidentiality agreements within our ministerial task force because of the sensitivities associated with a number of aspects that we are dealing with. I can say there is a draft Ernst and Young report out there. That report was asked for and commissioned through the MTF. From memory, I think it set down four key objectives inclusive of a review of DAFF.

Senator HEFFERNAN—I do not want you to risk the breach of confidentiality.

Mr Burridge—I had no intentions of doing so. Essentially, it has set down four key elements. That draft report has answered those key elements at this stage.

Senator HEFFERNAN—Do you think that will become a public document in due course?

Mr Burridge—That will be a decision, I presume, of the MTF, and ultimately the minister. We as the MTF will go back to the minister with recommendations.

Senator HEFFERNAN—In terms of the impact without the savings, I was told there is one abattoir whose annual costs are something like \$700,000, which would then escalate to \$1.2 or

\$1.3 million under the present arrangement if what is proposed does actually happen. Are you familiar with those?

Mr Dorian—We did some internal modelling within AMIC. It was just spreadsheet type modelling and inputting various prices. You need to be careful here though. There are two factors at work in fee increases for the meat program. There is the factor at work associated with the 40 per cent export rebate removal. There is a factor at work which I think Rob Delane from AQIS mentioned yesterday—there are other sundry expenses and costs which will have to be included in new budgets moving forward, irrespective of the 40 per cent export rebate changes.

From the commercial point of view, any commercial entity is looking at the sum total of those results. In other words, they are not commercially separating out routine increases in costs associated with labour costs and so on from the 40 per cent. If you combine the 40 per cent rebate removal with the in-the-pipeline wage increases and so on associated with the service, AQIS fees will double. That is a fair, average statement. What component of that relates to the 40 per cent? Clearly, the 40 per cent, when you convert it back into the service charge, equates to approximately a 66 per cent increase in fees. So there is a 66 per cent increase in fees related solely to the removal of the 40 per cent rebate, and then there are other sundry increases which relate to normal business.

Senator HEFFERNAN—On top of the fact that the document you have supplied shows the anticompetitive nature of what is going to happen compared to what other countries are doing?

Mr Dorian—I will hand back over to the chairman.

Mr Burridge—That is correct.

Senator HEFFERNAN—Can I make an observation which you may or may not want to reflect upon: there are 28 submissions, with 19 submissions opposed, five slightly in favour and four strongly in favour—those are the grain people. I noticed yesterday that the ABB gave strong evidence in favour of the government's removal of the rebate, but I also noticed in the paper this morning that they probably do not care anyhow because they have sold out to Canada. You do not have to reflect on that

Mr Burridge—No.

Senator O'BRIEN—Senator Heffernan is giving evidence on the wrong side of the table again!

Mr Burridge—I would make one comment: the costs that the grain industry are exposed to relative to AQIS are miniscule by comparison to ours.

Senator MILNE—I asked a couple of witnesses earlier if they could give me some examples where the industry had pushed for reform in this period after the co-contribution was extended for three years, and where AQIS had either not responded to that or actively blocked it. Are you able to give me any examples where the industry had not just been sitting back for the last three years expecting the co-contribution to carry on forever, but had actually tried to bring about

some reforms that had not been actively received? In your view, what is the critical reform that would make the difference and is not just cost shifting, but would be a net saving?

Mr Burridge—I will break it down into a series of answers, if I may. In my opening address I pointed out that industry had been working for five years with the department pre this announcement to highlight potential areas of reform and opportunities for cost savings and efficiencies within the services that were being provided.

Industry, through one of our industry members, championed a new inspection model. That inspection model—

Senator BOSWELL—Who was that?

Mr Burridge—Nolan Meats of Gympie. That particular enterprise ultimately received endorsement of this inspection protocol from the US. Last year, I think it was—I will stand corrected—they finally received endorsement from the US to go to that market.

I am not going to sit here and say that AQIS in any way actively blocked anything. I have not made that assertion in any statement. We are dealing with a complex issue which has timelines set by the global marketplace, not necessarily the domestic, and some of those issues are intrinsically difficult to work your way through. We have invested our own money in the last five years, and paid, essentially, for AQIS to assist us because we do pay a fee for service and we ultimately paid for some of that work in our fees to achieve those outcomes. When the decision was made to return to full cost recovery we were extremely well positioned to table to government the reform agenda that we actively promoted in February of this year.

Senator MILNE—On the Gympie example that you gave a moment ago, you said that the company there had developed a new inspection regime or accreditation and had gone to the US and got that accepted. Does that imply you had to go around AQIS and go to the receiving country to sort this out and then come back and say, 'We've got the system, it's been accepted over there so it is time you accepted it.' That is what I am just trying to understand: did you have to go overseas to the receiving country first, or not?

Mr Burridge—No.

Senator MILNE—Please be frank about what has occurred.

Mr Burridge—The frankness is that industry, jointly with AQIS, developed a model. Industry was the driver. Industry fought quite strenuously for it and has done so for many years. The challenge is that you are dealing with various global communities and you have to get their acceptance of what you are putting up. What occurred was that we invited the head of FSIS in America to come to Australia. Whilst he was here, we introduced him to this plant and to this inspection model. He looked very favourably upon it, along with a number of other initiatives that we had developed in the same time frame—programs such as iLeader, which is an electronic audit tool. They were suitably impressed by that. I am not suggesting we could have achieved the outcome without the assistance of AQIS, because at the end of the day they are the international negotiators; we as industry are not. That is their role. Market access is their role and all we do is try to assist them in fulfilling that function.

Senator MILNE—That is very tactful of you, dare I say, but what we are trying to get out here is how quickly the reform agenda can be facilitated and how we can better drive this process so that we get a better partnership and faster outcomes.

Mr Burridge—I can assure you we are driving it as fast as we can get it to go. I think Greg Read said last night that they are meeting with various global regulators in the next few weeks. Everything is hinged on their acceptance or nonacceptance of the direction that we are going in. I can assure you that we have plotted out and programmed a reform agenda. That reform agenda will not be delivered in 12 months. We have stated that from the first day we started on this path. We have stated it repeatedly. It will take a number of years. We have said the bulk of this reform cannot be achieved within two years—or it will be achieved in two years if all the aces line up. If they do not, it may take three to five years.

Senator MILNE—Let us assume a best-case scenario and it takes two years. In the second year, the full cost recovery will come back to the industry.

Mr Burridge—No. Our industry will go to full cost recovery on 1 October this year, because we are expected to pay for the reform. That is something that we object to.

CHAIR—How is that particularly going to affect the smaller players?

Mr Burridge—I suggest it will put some of them out of business. It is as simple as that.

Senator MILNE—Can you be more specific about ‘some’?

Mr Burridge—I will give you an example. There are already plants scaling back to four days a week because life is not exactly pleasant at the moment. I will only comment about my own facility. I am already reducing my labour inputs. I am scaling my own operation back right at this moment because of the difficult circumstances this industry is in. That means people out of work. That means no income in people’s pockets when they go down to four days a week.

CHAIR—Do you want to ask a question, Senator Heffernan?

Senator BOSWELL—Madam Chair, I want to point out that this is his third lot of questions while I have been sitting here patiently waiting.

Senator HEFFERNAN—I have only got the one.

CHAIR—I know that, Senator Boswell, but he has one following on from Senator Milne, and then I am going to Senator Sterle.

Senator HEFFERNAN—Obviously Senator Milne is trying to get a position which is acceptable to the government and to the industry. I have just had a message from a major operator to say that the Greens are prepared to negotiate with the government on a position to resolve this, and they are negotiating. I am unaware whether that is right or wrong, but, if that were the case, what would the position be? What possible position could it be?

Senator MILNE—It is news to me.

Senator HEFFERNAN—It probably is, but that is what the message says.

Mr Burridge—I am personally unaware of any single entity negotiating with the government. I held a phone hook-up earlier this week. It was very clear to me what industry's position was. It is what I have put here today. Nothing precludes individuals and individual entities from talking to any political representative they may like to, but I am unaware of any entity putting forward a position any different to what I have put today.

Senator STERLE—Mr Burridge, I need to follow on from your statement about your first meeting, on 3 February, with the minister. I take you to page 9 of your submission, where you talk about the ministerial task force. During Senate debate yesterday, I quoted from your press release, which was glowing of the government's reform agenda. It certainly mentioned your name and AMIC. Let's get that very clear. Your submission says:

As part of the agreement in February, the Minister established a Ministerial Task Force (MTF) made up of AMIC and AQIS members to oversee the negotiation of ...

and it goes on. Then it says:

After 4 months of intense negotiations—

and goes on to talk about the outcome. To me it did not sound like you were told 'This is how it's going to be' by the minister. You have clearly said here: 'four months of intense negotiations'. Would you like to comment on that?

Mr Burridge—Could I reiterate what I said. The minister clearly made it known to us that there was to be no change in government possession with regard to the removal of the 40 per cent. That was the message that we took clearly from the meeting. What we asked the minister to seriously consider was a reform agenda that could deliver efficiencies to us that would compensate for that decision. Referring to the document that we put in front of you, yes, at a point down the path we thought we had a reform agenda. The model that was put to us by the department was found to be flawed and had critical issues within it that would be untenable to both industry and government. Hence, since then we have had numerous meetings to find a way through that. I think the document referred to sometime in June when we came out with a positive statement. I think we sent it to the minister pre this bill going to the Senate and, subsequent to that sign-off and that letter to the minister, the department came back to us with significant and real problems with the model they had put to us. We then had to go back as an MTF and develop alternate strategies. We always had alternate strategies on the table. As I said earlier, this is not a simple quick-fix.

Senator STERLE—I am mindful that I have jumped in, but there are mixed messages coming out and it is very confusing trying to decipher—in your opening statement—between AMIC's position on your media release and your position as other senators have asked questions. You can understand the confusion.

Mr Burridge—I am quite welcome to it, Senator Sterle. I will reassure you. At the first meeting we were told categorically that we were returning to full cost recovery. We put forward the opportunity for a ministerial task force with a reform agenda. The minister took that on

consideration. He was neither for that position nor against that position, and he took it on consideration. The first MTF meeting was in, I believe, April.

Senator STERLE—That is almost modus operandi of governments, when they say, ‘We have a position we want to reach. How can we do it collectively?’ I do not see anything evil with that. You have been part of the process.

Mr Burridge—Could I reassure you, Senator, that was not how it was conveyed to us.

Senator STERLE—Certainly, it does not say differently—

Mr Burridge—No, we did not come out and open—

Senator STERLE—It does not say differently in your submission to us.

Mr Burridge—I am assuring you that what I have put on evidence today are the correct facts.

Senator STERLE—I thank you, Madam Chair, for your indulgence.

Senator BOSWELL—I was visiting some abattoirs last week and heard that there is a new licensing fee being discussed with your organisation. Could you tell us how these new fees will be determined? How will they relate to cost per beast? And how will they affect smaller abattoirs?

Mr Burridge—Part and parcel of that Ernst and Young review that I spoke about earlier was to address that exact issue: how to develop an equitable fees and charges service that does not compromise any sector of our industry. That is still under discussion. No decision has been made at this point in time in relation to that matter. There have been recommendations put forward by Ernst and Young, but at this point in time the MTF has not met to discuss those recommendations, nor have we been in a position to put to the minister any alternate strategy other than what has been accepted at the moment.

Senator BOSWELL—Has the minister discussed new licensing fees with your organisation?

Mr Burridge—The minister has not directly discussed it with me, but I have received from the department a gazette of what the new fees and charges are at the moment. What I would like to assure the Senate is that we are using part of that \$29 million that exists today to offset those new charges. So the \$29 million we have been given for reform we have been using to hold the charges as they were last year whilst we try and develop a reform strategy. It had been our hope that we would have had a consolidated reform agenda agreed to and signed off by the minister at this point in time.

Senator BOSWELL—The fees and charges for licensing have gone up—is that what you are saying?

Mr Burridge—At the moment there is a gazetted notice out there for fees and charges and, as far as I am aware, they have been accepted and will be accepted if this bill passes.

Senator BOSWELL—You are saying that you are using that \$29 million to pay the increased fees; is that right?

Mr Burridge—We are using part of that \$29 million at this point in time to offset the new fee costs.

Senator BOSWELL—When do the new fees come in?

Mr Burridge—The new fee costs for our industry effectively would have kicked in on 1 July. We have used some of the reform agenda funds to get us through to 1 October. On 1 October the new fees and charges will start unless industry, via the MTF, decides to use more funds to offset the new fee increases. At this point in time, I do not see that happening.

Senator BOSWELL—I still do not understand. Why are you using the money now if the fees do not cut in until 1 October?

Mr Burridge—The fees effectively kicked in on 1 July. This is no difference, with all due respect—and this is not meant to be provocative—to the alcopops legislation. It runs the same way, as we understand it. If we were not using that and we were not paying the full cost recovery, we would be going into deficit and an equalisation reserve. That is what Mr Read referred to last night.

Senator BOSWELL—If the Nolan reforms—and let us call them that for want of a better term—were to cut in, what would that save the industry?

Mr Burridge—In reality, there are savings. We have not done the exact quantifiable numbers at this point in time. While I say that, there is still somebody there fulfilling those tasks but instead of being a government employee they are an industry employee. So the actual cost benefit to the nth degree has not been run out. There was a question here earlier this morning about just moving the costs from government to industry. Some of that is correct. It most certainly would not be 100 per cent, but there would be some industry absorption of those new costs.

Senator COLBECK—So costs to AQIS but not necessarily costs to industry?

Mr Burridge—That is correct.

Senator BOSWELL—I would imagine there would be a fair difference in cost between the meat inspectors required and the people doing it on behalf of the abator. Would that be correct?

Mr Burridge—There are opportunities for efficiency, yes.

Senator BOSWELL—Have you put any other cost savings to the—

Mr Burridge—Yes. We developed what is called a plant performance ranking tool, which will allow AQIS to diminish and reduce costs of verification based on plant performance. We developed it as an objective measurement. It is not a subjective measurements of the plant's performance. We have offered new and different ways of auditing. We have developed and are

enhancing new technologies which will let us move towards things such as electronic meat transfer certificates. We have developed a plethora of different opportunities for reform for the department.

Senator BOSWELL—Had you presented those to AQIS?

Mr Burridge—Yes.

Senator BOSWELL—And have AQIS agreed with it?

Mr Burridge—We need to roll it out and we need to put the definitive framework around it but, essentially, yes. We have also highlighted new scientific opportunities with regard to meat inspection that no longer requires Australia to undertake tasks that have no scientific validity in today's world.

Senator BOSWELL—What is the smallest amount an abattoir exports—200 head a day?

Mr Burridge—As you can see, I own a small one and a very large one. There are numerous small processors across Australia—down to 150, 200 head a day.

Senator BOSWELL—You can actually export 200 head per day?

Mr Burridge—Yes.

Senator COLBECK—King Island abattoir operate at 140 a day and their extra costs per annum are about \$100,000.

Mr Burridge—I am looking down the barrel of significant increases in both of my businesses.

Mr Dorian—That would be right.

Mr Burridge—I have had to make strategic decisions in relation to that.

Senator BOSWELL—The little abattoirs, of 140 a day, would be very severely penalised?

Mr Burridge—Depending on the new fee structure, they will be devastated.

Senator BOSWELL—We are saying the new fee structure is coming in and we are buying it on the never, never. We are buying the improvements on the never, never. They may come in some form, but there is no guarantee they will come in the form that will reduce the cost by 40 per cent?

Mr Burridge—I do not think the reforms in the initial few phases will deliver the full 40 per cent.

Senator BOSWELL—Let us take the smallest abattoir, King Island abattoir—I think it has gone now or is it still going?

Senator COLBECK—It is still there. King Island is currently negotiating with the government to try to save the abattoir. This is an additional cost it will have to consider as part of that process.

Mr Burridge—Can I reassure you of one thing: large or small, this cost will knock us around in a significant way and, at the end of the day, if these plants are to survive they have one option. The cost will not go forward to the global marketplace. The cost has only got one channel—straight back to the primary producer—

Senator COLBECK—Absolutely.

Mr Burridge—because the plants are already operating on negative returns and it is going straight back to a producer who can ill afford it. We have the lowest sheep flock in this country since 1972 and all we will do by pushing these costs down further is drive people out of livestock and primary producers off the land.

Senator BOSWELL—Have you assessed how much these increased costs per plant will be?

Mr Burridge—It is very hard to put an exact figure on it because of the variable stock.

Senator BOSWELL—Can you put a cost per throughput—say, someone does 140 a day and someone does 4,000 a day.

Mr Burridge—We have estimated that the cost will be around \$5 per head so, if you want to work that backwards, you can work out the numbers fairly quickly—50c for one sheep. I was corrected: the sheep flock is the lowest since 1916. So we are looking down the gun of some very serious problems. As I said, the cost will ultimately be determined by the new fee structure that has not been agreed to by the MTF. We are extremely mindful of making sure it is as equitable as possible.

Senator O'BRIEN—The fee structure from 1 July was agreed with AMIC, wasn't it?

Mr Burridge—AQIS put forward a proposal that that was the only option that they had in front of them. They had had an external consultant overview their potential charging mechanisms and that was the one they brought forward. Industry had no alternative at that stage, nor did we have the financial information to make a more informed decision; hence we asked for the Ernst & Young review. We were not in a position to make a decision. We as AMIC could not make a decision in relation to the charging structure because of the representation that we have, both large and small.

We were not in a position to either acknowledge it or not. We accepted that AQIS had to put it forward to government to promulgate. We had no choice. That was the whole reason for developing a reform agenda. But we did clearly put on notice that we reserved the right to review it once the independent review of the AQIS financial fees and charges and system had been concluded, which Ernst and Young has only recently concluded.

Senator O'BRIEN—What did it find?

Mr Burridge—I am not at liberty to comment. It is under ministerial privilege at the moment and the minister will have to make the decision whether that is released or not.

Senator O'BRIEN—AMIC's press release of 17 June says that AMIC announced:

... its agreement to the Terms and Conditions for a return to full cost recovery for AQIS Export Certification Charges based on a commitment by the Federal Government to implement a ground-breaking suite of reforms to the meat inspection system in Australia.

Is that agreement still alive? It is sounding to me as though it is dead.

Mr Burridge—As I said, the department came back after that was released and after we had given the minister that advice, and there were critical flaws in their proposal that would be untenable to government. They came back to us with a position that we had to go back and review the whole reform agenda in relation to key aspects of it. We have done that since that date. Our endorsement and acceptance in June or July of this year was subject to the same statement we have made all the way through, that the return to full cost recovery is conditional upon the offset efficiencies being delivered.

Senator O'BRIEN—I am just looking at the press release to see that sort of qualification.

Mr Burridge—No, that was in a letter to the minister.

Senator O'BRIEN—You did not put that in your press release, but it is in the letter to the minister?

Mr Burridge—It is in the letter to the minister that clearly enunciates that.

Senator O'BRIEN—Is the agreement at an end?

Mr Burridge—No. As I understand it at the moment, the minister asked us to develop a joint ministerial task force response to him on what was required to deliver the reform agenda. We gave that to the minister approximately two weeks ago.

Senator O'Brien—I am just trying to understand this. Do you have a continuing commitment to return to full cost recovery or is that agreement out the window?

Mr Burridge—No, we have a continuing agreement to return to full cost recovery subject to the offsets and efficiencies being made.

Senator O'BRIEN—Subject to efficiencies being made which you accept. Is that what you mean?

Mr Burridge—We have put that position back to the minister, yes.

Senator O'BRIEN—Your agreement was always conditional on you accepting whatever measures were able to be put in place. Is that what you are saying?

Mr Burridge—That is correct. Our agreement was always conditional upon the reform agenda delivering offsets for the return to full cost recovery.

Senator O'BRIEN—Given the conditions which apply in export plants are ultimately at the veto power of the importing nation, how does the federal government entirely control that process?

Mr Burridge—No differently, I suppose, than when industry has been asked to pay for it. At the end of the day it is a government department. Government does have the resources to drive these initiatives and government does have the opportunity to engage these global trading partners.

Senator O'BRIEN—And discuss with them and seek to persuade them.

Mr Burridge—That is correct.

Senator O'BRIEN—But they cannot tell them what to do, can they?

Mr Burridge—No, no-one can tell them. But ultimately it is a political process and it is a departmental process regulator to regulator and outside the control of industry. That is why from the very beginning we have held the view that we have, that the return to full cost recovery should be commensurate with the efficiencies that are made. For example, you gain efficiencies by reducing cost to industry; we automatically return that dividend to the government.

Senator O'BRIEN—You are saying your commitment was only to the extent that the cost increases, consequent upon return to full cost recovery, could be reduced by changing the system?

Mr Burridge—Yes.

Senator O'BRIEN—That was the principle which was clearly espoused when you reached agreement with government?

Mr Burridge—Yes, it was conveyed in a letter to the minister.

Senator O'BRIEN—And there can be no doubting that that was the position that you took?

Mr Burridge—We have reiterated that at all times through the MTF. We have held that view.

Senator O'BRIEN—So in the absence of that being possible, given that international markets have a significant say on what can and cannot be implemented in terms of the processing systems, is that in the hands of the importing markets?

Mr Burridge—I will just let Mr Dorian make a comment to that.

Mr Dorian—I think we need to separate two things here. There is the decision to remove the 40 per cent export rebate, which we practically do not agree with. We would say that the 40 per cent export rebate simply covered items that were the legitimate cost of government and were similarly covered in other countries that we compete with. That is number 1.

We were told by the minister—and I was present at the time—that the 40 per cent export rebate was non-negotiable and that the money was not to be returned. Put in that situation, the only solution in front of us was to seek some reform agenda. And I would say to the senators and members of the committee that it was the AMIC organisation that put reform on the table. The reform did not come out of the decisions by the government at some earlier stage.

Senator O'BRIEN—This is not an answer to my question. It is a statement which you might want to make but it is not an answer to the question. We have limited time, Mr Dorian, and I would appreciate it if you would either answer the question or let me ask another one.

Senator COLBECK—You should tell your ministers that at question time!

Mr Dorian—The answer to the question is that we support the reform agenda as long as the outcomes of the reform agenda are used commensurately with the fees and charges incorporated by the government.

Senator O'BRIEN—So what you are saying is that you do not agree with full cost recovery under any circumstances where it leads to additional costs.

Mr Dorian—I did not say that.

Senator O'BRIEN—I am trying to understand what you are saying, because in one press release you say certain things and it seems that you are now saying something significantly different. You are justifying it here, but in another document you qualified the agreement. I just want to understand what the nature of the agreement was, because on the public record you said you had an agreement.

Mr Dorian—Yes.

Senator HEFFERNAN—That's as bad as me putting words into your mouth!

Senator O'BRIEN—I think that is an exaggeration, Senator Heffernan.

Mr Burridge—Can I make one thing clear, Senator. We were asked for a press release. We did not volunteer it—we were asked for it. The letter that we had given the minister clearly enunciated our position. We were always supportive of a reform agenda. That press release said nothing less than that. The issue of global marketplaces setting the inspection requirements is correct. From the outset I have said that we do not object to paying full cost recovery for direct meat inspection. We do object to paying costs which are legitimate costs of government, which is what Mr Dorian was suggesting earlier.

If you look at the table that we supplied you, you will see that the vast majority of our global competitors accept that mindset, and in fact give far more assistance to their industry in the form of rebates for export. That document clearly enunciates and puts that position down.

Senator O'BRIEN—And that was prepared by Austrade, you said.

Mr Burridge—MLA.

Senator O'BRIEN—MLA, sorry. I would just like a clarification on one matter. You say that the costs will lead to an increase of 50c per sheep and \$5 per head of cattle. What are the costs per head now for each of those categories?

Mr Burridge—If Mr Dorian suggested that some plants are looking at 100 per cent cost recovery, I think that it would be reasonably academic to work out what the cost would be today. I am sure the department can give you the exact figures as they have the actual numbers in front of them. We are not in that position and, as I said earlier, we only got the Ernst & Young report very late last week.

Senator O'BRIEN—I am just trying to understand how you come to that figure and how it compares with current costs.

Mr Burridge—The figures that we quoted were up to those numbers and up to those end points. That was based on a fee structure that has been delivered by the department. That will ultimately be impacted by the physical scale of the operation. For example, if you have a fixed overhead cost on registration of 100,000 head and you only process 140 head a day, maybe the \$5 is appropriate. On the other hand, if you process 2,000 head a day, \$5 may not be appropriate.

Senator O'BRIEN—So they are not an average. They are the upper limits for a particular operation. The average would be significantly less than that?

Mr Burridge—It could be less than that and I certainly could not say they would be significantly less than that. I know that in my situation it is quite high.

Senator O'BRIEN—You cannot tell me what the average cost per head of cattle is?

Mr Burridge—I operate a large plant. My costs are likely to be close to \$3 to \$3.50 per head.

Senator O'BRIEN—For cattle?

Mr Burridge—And, by the way, a number of the animals I process are very light animals; they are vealers. On a cents per kilo rate, it is significant.

Senator O'BRIEN—I hope you get more for veal than you do for beef.

Mr Burridge—I wish I did.

Senator BACK—You made mention in your opening statement that there has been a 250 per cent increase in the cost of running AQIS in the last four years. Was that correct?

Mr Burridge—That was the statement I made. We have been led to believe corporate overheads have gone up by that sort of figure.

Senator BACK—That was going to be my question. Where has this massive increase come from?

Mr Burridge—We are yet to find out, Senator.

Senator BACK—Are you trying to?

Mr Burridge—We will be.

Senator BACK—It seems to me, in the running of any organisation—be it government or private sector—it would appear that unless they have taken on new roles, responsibilities and staff from other organisations, to have a 250 per cent increase in the cost of running an organisation in a four-year period, if in fact the organisation has not changed, is massive and out of control.

Mr Burridge—We as an industry have a so-called charging review committee that is encompassed within the EMIAC, which is an industry consultative forum. It is our intention to follow through on a number of these issues in that forum now that we have this information available to us.

Senator BACK—I ask the question, because if inspection outcomes et cetera are not compromised then you would have thought that the scope for the savings may well come in reducing or reversing that 250 per cent blow-out to a level where savings can be made and passed on.

Mr Burridge—I suggest that, given the quantum and the size of this budget, overheads and their relative size to the overall budget, that may or may not be possible. There may or may not be significant numbers. It will certainly require us to have a very close scrutiny of what is occurring, given it is our belief that industry has actually reduced in size during that same time frame.

Senator BACK—Reduced in size?

Mr Burridge—Yes.

Senator BACK—I asked the department last evening whether or not the figure quoted for this exercise included redundancies, planned or possible, and the answer was yes. Can I ask your view on whether industry should or should not be supporting, effectively, the cost of redundancies of a government agency?

Mr Burridge—I would make one comment. The decision of what government does or does not do with excess staff may include redundancies or redeployment. That is a decision of government. But what we do hold fast and firm to is that we do not believe industry should pay for it.

Senator BACK—This is my final question because time is against us. You did make mention of the fact that there was data available at the Beale committee which it did not avail itself of. Did your industry offer that data to Beale?

Mr Burridge—No. We as industry went out—and this was prior to the Beale release—and, given the press at that point of time were suggesting that Beale may make recommendations in relation to the 40 per cent, we did that research and paid for that research ourselves. I would have thought if Beale was making a recommendation to remove the 40 per cent, it was only appropriate it would give due consideration to the impact that that might have. Nowhere in the Beale review could we find anything that referenced that.

Senator BACK—So your feeling is that Beale did not avail itself of the same information that you found available to you by paying for it yourself?

Mr Burridge—That is correct. Nor did Beale ever contact us and ask for direct input from us.

Senator BACK—Even though you represent 70 per cent of the actual overall cost structure?

Mr Burridge—That is correct.

Senator BACK—As a Western Australian I have a lot of concern for the viability of Harvey Beef, south of Perth. From your knowledge of the industry, is it the case that, if you go around the west coast to the north, across the top and down the other side, after Harvey the next cattle export abattoir in Australia is at Townsville?

Mr Burridge—If you move in that direction, yes. If you come back towards South Australia, I think the next one is Murray Bridge in Adelaide.

Senator BACK—So if Harvey Beef were not operating?

Mr Burridge—You would have a problem. There may be problems—

Senator BACK—We would—those of us who enjoy red meat. I have a lot more questions, but time does not permit.

Senator COLBECK—Mr Burridge, you said you were asked for a press release. Who asked you for the press release?

Mr Burridge—From recollection, the department actually asked us for a press release.

Senator COLBECK—The department asked you for a press release?

Mr Burridge—That is correct.

Senator COLBECK—Were you given a reason as to why a press release was required?

Mr Burridge—We were, and still are, supportive of reform. That press release was asked to reflect that support and I think we came out with that position. We are supporters of reform.

Senator COLBECK—As I think we all are.

Mr Burridge—We have driven it for years and we do not step away from that responsibility. At that point in time we believed we had a solid reform agenda. So we were comfortable in giving a press release to that end.

Senator COLBECK—We now come to the reform agenda. Have there, in your view, been significant slippages in that reform agenda process?

Mr Burridge—Proposals were—

Senator COLBECK—Let's come at it another way. We were told last night by the department that they were confident that this process could be dealt with within 12 months. You have said to us today it is at least two years for the majority of it but potentially three to five years.

Mr Burridge—I would suggest that the ministerial task force, which included AQIS, supplied the minister with a letter that clearly put a time line down extending over two years and potentially three to five years.

Senator COLBECK—It has been put to me that there are things that have been agreed at meetings and then, once officials get back to Canberra, it becomes a little bit more difficult. Is that a fair comment? The negotiating process is difficult—

Mr Burridge—I would say that there have been reform agendas put to us, and I would put it in the context that people are trying to deliver an outcome in reforms.

Senator COLBECK—I understand that.

Mr Burridge—At the time those opportunities are put before the task force, they may not have necessarily been fully evaluated. At a later date, when that evaluation has commenced, they are found to be critically flawed. Hence we have had to come back to the table and start again.

Senator COLBECK—How far advanced would you say that you were from when the process commenced?

Mr Burridge—I would say we have at least got to a position that we have jointly agreed is achievable. We believe at this point in time it is not critically flawed. We believe it will still have challenges with acceptance, ultimately, by our global trading partners in totality, because we as an industry cannot afford to lose even one export market. Losing one just puts pressure on others. We are price takers, at the end of the day, and any loss of a market just diminishes that opportunity to move product around. In today's world we optimise every possible aspect of an animal. The loss of a market can have quite a significant effect on the total production costs.

Senator COLBECK—That was pretty clearly demonstrated six or seven ago when there were changes in the supply when mad cow disease was floating around.

Mr Burridge—That is correct. You lose one market and it cascades right through.

CHAIR—Are any of the projected efficiencies likely to have any impact on those markets—say, the US or Japan—that you can see?

Mr Burridge—The efficiencies—and this is why there is a two-year time rollout at the minimum to achieve the outcome—require conveying to the customer and the overseas regulator the new system. We need to engage them. We need to get the new models in front of those overseas regulators and get their acceptance of them. The models we have designed are Codex compliant; they are internationally acceptable. Saying that is one thing; getting acceptance of it is another.

Senator COLBECK—I go back to the comment you and a couple of others made that there was no inkling through the Beale process that this might be an outcome from it. The Commonwealth Fisheries Association said they did not engage Beale on this because they did not see it as an issue. It is very difficult to engage on something that is not actually raised as an issue during the process.

Mr Burridge—That is correct and the point you make is completely appropriate. Beale was commissioned post the equine influenza outbreak. Its primary function was to look at importation and importation risks to this country. We are not aware of how that transferred to cost recovery from AQIS. It was never on the radar screen. When it started appearing in the press, we certainly became alarmed, but at no stage did Beale contact us, as AMIC, for input.

Senator COLBECK—So it is difficult for anybody to engage or make a submission on an issue that is not necessarily part of the terms of reference or on the radar as part of that process.

Mr Burridge—That is correct. We put in a submission earlier in the year supportive of the department and supportive of AQIS and their role. We openly suggested that forums such as EMIAC, which we use as an industry consultative mechanism, should be used with those importing sectors that also use AQIS services. We were actually supportive of Beale in their inquiry. Not for one moment did we recognise that the removal of the 40 per cent export rebate was on the radar screen.

Senator COLBECK—I want to go to the capacity of smaller abattoirs. I think you said that you have a small plant yourself. Senator O'Brien touched a little on the cost fluctuating based on who you are, where you are, the size of your plant and what you are putting through. One thing that has come through in the submissions we have received, particularly for smaller abattoirs, is their capacity to mitigate some of these costs. Again, I go back to King Island, where, for example, if you are an export abattoir on an island and you need an export inspector then there are not too many other places you can send one. The capacity to mitigate costs in that circumstance is really limited. In respect of King Island, whose circumstances are precarious at best at the moment, an additional \$100,000 a year, it has been put to me, would make life pretty difficult.

Mr Burridge—I agree with you. The only way a processing plant can mitigate the cost impost of this decision is to pass it back to the primary producer. If they wish to survive and keep their head above water, they have no choice but to reflect this decision in the price of the cattle they procure. There seems to be concern that our reform agenda may not be accepted by overseas trading partners. We have been assured repeatedly by the department that our reform agenda will be accepted by overseas countries given an appropriate amount of time.

Senator COLBECK—Where has that assurance come from?

Mr Burridge—From the department.

Senator COLBECK—So the department is assuring you.

Mr Burridge—The department, through the MTF, is giving us that assurance. I would not have gone back to our members had I not received the assurance that these were deliverable.

Senator COLBECK—In effect, you are asking for the time and the adequate resources to actually implement that reform process so that you can gain the best benefit out of it.

Mr Burridge—So that our country can gain the best benefit. At the end of the day, it flows across the whole country. The government has seen fit to assist the car industry by some \$6.2 billion in the first handout. The car industry employs 50,000 people whereas we employ 55,000. I am uncertain of their exports, but I believe they are in the order of \$2 billion. Our exports are in the order of about \$8 billion. I question the equity in some of these decision-making processes.

Senator COLBECK—So you are being offered \$40 million for your AQIS reform process, in comparison to what the car industry is getting.

Mr Burridge—No, we will be taxed the \$40 million. We will be charged that amount and be expected to pay for the reform ourselves. That is the way it is structured.

Senator COLBECK—That is the point that I tried to make last night. Your fees are being put up by some \$50-odd million a year, and you should be gracious enough to accept \$40 million back as part of that to reform the industry!

Mr Burridge—And the reform agenda will take a number of years to deliver.

CHAIR—Senator Colbeck, we are going to have to wind up.

Senator COLBECK—I have just one more question. Have you had any indication as to when there might be a review of the current fee structure?

Mr Burridge—That is a decision for the MTF, obviously. The whole process of the MTF will be determined by the deliberations of the Senate, and, whether the Senate decides one way or the other, we have been categorically told that all reform is off the table if this bill is blocked in any way.

Senator COLBECK—So the threat is that if the Senate disallows the new regulations, the new cost structure, the government will close down any reform process.

Mr Burridge—That is what we have been told.

CHAIR—Thank you very much, gentlemen, for making your time available this morning. I now call the Australian Horticultural Exporters Association and Cherry Growers of Australia.

[11.16 am]

RANFORD, Mr Trevor Munro, Executive Officer, Cherry Growers of Australia Inc.

REID, Mr Timothy James, President, Cherry Growers of Australia Inc.

SCOTT, Mr Alastair Lascelles Hannay, Executive Member, Australian Horticultural Exporters Association

SMITH, Mr Andrew Geoffrey, Vice President, Cherry Growers of Australia Inc.

SUMMERS, Mr Maxwell, Chief Executive Officer, Chief Executive Officer, Australian Horticultural Exporters Association

CHAIR—I welcome representatives from the Australian Horticultural Exporters Association and Cherry Growers of Australia Inc. The AHEA has put in submission No. 21 and the Cherry Growers of Australia has put in submission No. 28. Do you have any alterations or amendments to either of those submissions?

Mr Reid—No.

Mr Scott—We have one, which we have provided a copy of. It includes the addition of Appendix 16 for greater reference, and we also some tidied up the presentation, insofar as we include the guidelines for the work plan that the ministerial task force for horticulture put forward. It was in the document but not on the right page.

CHAIR—Thank you, Mr Scott. Would any of you like to make a brief opening statement before we move to questions?

Mr Reid—May I, on behalf of the Cherry Growers of Australia, make a couple of comments. Firstly, we represent an industry of around 700 cherry growers across five states of Australia, who are running a very labour-intensive operation. We are a growing industry. Entities of all sizes operate in the cherry industry, from lifestyle growers to some pretty large corporate investors. Because we have rapid increase in production in our industry, we are heavily reliant on export and we will be more and more reliant on export in the future. Our industry is already under immense pressure internationally against countries whose cost of production is lower. We are working very hard to seek new markets, and I can assure you there is a great deal of gratitude amongst our members for the fact that the Senate has seen fit to conduct this inquiry. We have been asked to pass on our thanks for the consideration you have shown in doing this. There is a lot at stake for our industry.

I do not want to go into detail about what we have written, but clearly Cherry Growers of Australia is absolutely opposed to full cost recovery being introduced ahead of any efficiencies being gained in AQIS. We have quite a lot of concerns that we would like to go through with you over the next few minutes. We also would like to draw your attention to the guidelines. We have attached a copy to our submission of the guidelines surrounding the principles for full cost

recovery that should apply to Australian government agencies. We believe we have a very important point to put in relation to those guidelines. We really wanted to draw that to the attention of the committee. We believe the guidelines have not been followed, specifically in regard to one clause which states that it is inappropriate for government agencies to be collecting cost recovery based on actual cost when those services are not provided in an efficient manner. It is stated quite clearly in the guidelines.

There are also in the guidelines comments in relation to a need to develop a cost recovery impact study. We have not had any opportunity to be involved in any such study. We are concerned about whether or not government is fully aware of the impact that this is going to have on industries such as ours, because that has not happened. There are a number of other issues that come up in those guidelines. That is where we are coming from, and I thank you for the opportunity.

Mr Scott—Thank you for this opportunity. The Australian Horticultural Exporters Association is against the removal of the 40 per cent federal rebate for the AQIS services. The AHEA regards this proposed removal of this rebate as poor economic policy, especially during times of global financial crisis and economic hardship in many of the importing countries we supply, particularly those phytosanitary countries where we see an increased cost burden by the proposed removal of the subsidy.

There is ongoing drought and water restrictions in major horticultural production areas, urban drift from our rural communities, a decline in exports of fresh fruits and vegetables from Australia and increasingly difficult phytosanitary measures being engaged by many of our horticultural trading partners—typically Thailand, Taiwan and, most recently, Malaysia. The Australian dollar is strongly appreciating, making farm gate returns lower and competing on an international stage more difficult.

The result of this poor economic policy of removing the 40 per cent rebate will be a decrease in investment in the horticultural industry, a decline in or nonreplacement of participants currently operating in the horticultural industry—such as producers, packers, transport operators and exporters—and lower exports in total, especially air freight, where the increased costs of quarantine are a great burden because of the small consignment size compared with sea freight. The fees are apportioned over a greater number of cartons in sea freight versus airfreight. There will be a decreased total take from the horticultural industry as fewer exports will mean more produce will stay in Australia, oversupplying the local market and providing less profitable returns to producers and therefore a lower take collected from the sector.

In short term, Australian consumers may enjoy cheaper prices with decreased exports but the reduced profitability of the horticultural producers will speed the exit of producers in the medium term, resulting in much higher costs of fruit and vegetables to the Australian consumer. This will be because of many economies of scale being lost from the efficient and desirable access to overseas markets. This loss of production and higher local market costs in the medium term will stimulate the demand for cheaper imports of fruits and vegetables and bring with it some food safety issues that foreign importers of cheap fruit and vegetables are currently experiencing.

Compounding the negative effects of this removal of the federal rebate for AQIS export services to horticulture is that there is absolutely no chance of the Australian Quarantine and Inspection Service making significant improvements in service delivery to address the 40 per cent rebate loss, which amounts to an average 67 per cent increase in fees across the entire horticultural program.

The Australian Quarantine and Inspection Service has demonstrated often that they do not take industry seriously, most recently in the work plans they have put forward to cover off the horticulture industry ministerial task force efforts. Rather, AQIS suggest what they want in a manner to suit their desired agenda and outcomes. This is clearly detailed in the AHEA submission to the inquiry. The horticulture industry has no form of redress or appeal for AQIS's actions, as any appeal by industry for any actions AQIS deem unsavoury is simply met with a wall of silence or an erroneous excuse.

Therefore, this policy by the federal government is flawed in its negative impact to exports from the horticultural industry. Also, there is no way the horticultural industry can attempt to realise the small improvements and cost reductions from the Australian Quarantine and Inspection Service's service delivery because of their cloaked, recalcitrant culture and policy when addressing industry-desired improvements. For these reasons the AHEA requests that this poor policy of the federal government be stopped.

Senator MILNE—Thank you very much for coming today and putting your point of view. We have read this submission, so rather than go to some of the detail in that I would like to begin with some sort of overview of where we are in horticulture generally. The difficulty for the parliament—I think I can speak for everyone in this sense—is that the horticulture industries have not got a united position on this. You will have seen submissions from other sectors of the horticulture industry saying that they are supporting what the government is doing.

I have seen your comments on the work plan that has been signed off and I have also seen that you withdrew from the ministerial task force. One of your criticisms seems to be—and you just reiterated it then—that the reform agenda encapsulated in the work plan does not reflect what the horticulture industry really wants or needs. One aspect of that was the recommendations around the AAs. With the work plan that is there now, what is the most offensive thing about it as far as you are concerned, given that you have made a number of criticisms?

Mr Scott—We need to address that in a number of parts. We first say that the work plan, while it addresses some of the issues, is not sufficient in its own right to actually address any significant cost savings in the horticultural export certification program. We say that because the proposals that are in the work plan have been put forward on the basis that we want to evaluate whether those proposals from AQIS will actually generate any savings. That is a quintessential difference between what AQIS have in their work plans versus what we say in this.

We would certainly like the opportunity to address some of the divergent views from within the horticultural industry, which I would like to speak to. But, in a nutshell, our issue is that we do not believe that there are significant savings to be had and our fear is that we will quite simply be transferring the costs from the public sector to the private.

Senator MILNE—That has been a pretty constant criticism from just about everybody: that, whilst there are cost savings, the cost savings are not to the extent of a 40 per cent cost recovery and so the growers are going to pick up a fair percentage of that, even with the so-called efficiencies in place.

The other issue you raised was that, even if you got the efficiencies in place, some of the export markets would not accept those anyway. I have not been able to get a straight answer on how this works, so maybe you can give me one. You claim that Japan and other markets will not accept anything other than a government inspector. Are you saying that they will not accept even a government-accredited process? Does that apply in New Zealand as well? Just explain to me how that happens.

Mr Scott—At the moment Japan, Taiwan, China and South Korea will not accept anything other than a government inspector. We have been advised that they will not accept the approved arrangements that people have suggested. AQIS have had discussions with New Zealand regarding the uptake of approved arrangements. We understand that is work in progress. Some people were saying that is in place and ready to go but, insofar as there has been an approved arrangement drafted and put out for general circulation, it is my understanding that it has not actually been taken up for many of the products.

Senator MILNE—Can the cherry growers respond to that? This is a critical issue. I was of the understanding, maybe incorrectly, that approved arrangements were a mechanism for cost savings over time. But if they are not acceptable they are not acceptable. I would like to know what the cherry growers think about this.

Mr Reid—I would like to confirm what has just been said. Approved arrangements are simply a process of transferring the cost from government to private enterprise. We have to ensure that we have accredited people and maintain those staff. We are a seasonal industry. One has to wonder about the efficiency in actually training people up for a period of three months activity in our industry and carrying staff that are accredited all year to perform a task that should be able to be delivered by a third party provider such as AQIS in a very efficient manner but at the moment is not. In relation to your comments about what Japan or other markets to which we are exporting might think, I have had long experience working on matters to do with market access for horticulture. By their own admittance, it takes the Australian government agencies Biosecurity Australia, or BA, and AQIS anything up to 18 years to negotiate market access to a new market for a horticultural product. That is being addressed by industry at the moment. In fact, I have been asked to chair a new organisation called the office of market access to try and streamline the process to make it more competitive with our international competitors.

Also, after those outcomes have been achieved for international market access, it seems that AQIS has always been landed with the responsibility for conducting the inspections to satisfy the requirements of the importing country. It is quite different in New Zealand. In New Zealand a lot of exporters in horticulture are accredited to do a lot of those inspections for those protocol countries where they have concerns about a particular pest or disease. That has been built into the negotiations from the beginning. I am not being critical of AQIS, but there has not been lateral thinking in relation to the development of those protocols in the past. As a consequence, we are stuck now with AQIS as the service provider in export. So it is really difficult for us to see how you could shift that across to an efficient service through a third party provider or to

accredited exporters doing their own stuff with those protocol countries. I think you are looking at a 10-year program to negotiate that. All this talk about trying to make cost savings in a couple of years is just totally impossible.

Senator MILNE—So the key difference between us and New Zealand, as you have pointed out, in terms of the same countries that we are exporting to, is that they have protocols which allow for the accreditation process, whereas our protocols say that AQIS must do it. You do not think that could be renegotiated in anything like the time frame that is being spoken about. That is essentially what you are saying.

Mr Reid—In a word, it is impossible.

Senator MILNE—The meat industry were talking about having developed a process in the private sector: going overseas, more or less getting the market to accept an arrangement and then coming back, with AQIS almost conceding to it. Is that the same experience you have had with cherries, where you have had to go and do it yourself and then come back and get AQIS to more or less agree to it?

Mr Reid—There are two levels in the market. We talk about the quarantine related issues and AQIS's role and responsibility in providing the service. There is another dimension in those export markets that is critically important and seems to be overlooked by a lot of people and that is the concern by our actual consumers—mainly supermarket directors and the companies buying our product for end consumption—about food safety, particularly in Japan nowadays after some of the horrific things that have happened with imports from countries such as China. To be making changes to the way in which the service is delivered here is going to create a two-tiered issue for us in those import markets. It is not only going to be with quarantine officials, but is also going to be with the people who actually accept the product. That is not going to be negotiated in five minutes. We have to have time to win the faith of those people and fulfil their quality assurance programs and whatnot. AQIS inspections are built into AQA programs to satisfy the big importers and consumers like the Aeon company in Japan and others who look very closely at all these processes. It is a broader aspect than just quarantine inspection we are talking about here; it is Australia's image in overseas markets.

Senator MILNE—I read what you had to say about the guidelines and also about the Beale inquiry. Would you like to comment on, for the benefit of the committee, recommendation 80 of the Beale inquiry, because we have heard a lot about that inquiry and the recommendations, but only some of them?

Mr Reid—I was fortunate to hear presenters in the last session talking about Beale and the fact that there was no mention during the process about costs. I had the opportunity to meet on three occasions with the Beale committee. In our opinion it was all about biosecurity and issues to do with Australia's acceptable level of risk and ensuring that we do not import pests and diseases into this country. Never at any time was the matter raised or were we questioned about costs and cost recovery.

This recommendation that we move to full cost recovery has come as a bombshell for us, bearing in mind that we have been plodding along since 2001 on the basis that the 40 per cent was introduced to compensate. We do not see it as a subsidy. We see it as compensation for the

inefficient way in which the government of the day recognised that AQIS was delivering the service. Obviously the government saw it as a community obligation or a community service that needed to be provided and funded. This has come as a complete bombshell. We have had no opportunity to talk about costs and cost recovery with Beale.

In answer to your question, recommendation 80 refers to some funding being made available to AQIS or to industry for the use of developing markets and market access. Whilst the government on the one hand is taking away the subsidy, there has been no talk about whether or not recommendation 80 is going to be upheld in regard to providing substantial funds to assist us to gain new markets and develop our export opportunities. That is a huge one-sided affair from our perspective.

Senator MILNE—We have a work plan in front of us that was signed off by 1 August. What is the status of that work plan as far as the horticultural exporters and a subset, the cherry growers, are concerned? What is your attitude? Do you reject that work plan, and, when you pulled out of the working group, was that saying that you reject it? Or should it be improved? I would just like to know where you think it should be. Where to from here? What is the ideal scenario from your point of view because I am assuming that none of you reject the notion of a reform agenda?

Mr Scott—We definitely do not reject the idea of a reform agenda insofar as we wanted a review and that work plan is heavily focused around a review to be able to identify appropriately areas of reform and potential cost improvement. Insofar as the HEA is withdrawing from the ministerial task force, we did so because there were some concerns that, not only would it be difficult for us to counter some of the rubber-stamping that we expected was going to be in the process in terms of the management of that, but we looked at it and said that if that is the case we are better to stand back and criticise it from outside rather than being caught up within it.

I need to take you back to a point that you made earlier. Being a substantial exporter of horticultural produce out of New Zealand as well as Australia, I am in a very well-informed position to talk about approved arrangements and the way that they work out of New Zealand. New Zealand primarily has a small number of very large-production export-focused products. On the basis of that, we have very large throughputs from, essentially, a relatively small number of sheds—with a few exceptions but in the vast majority of cases without the high seasonality that we see in Australia given our geographical diversity and certainly product diversity.

To compare the New Zealand phytosanitary certification arrangements and their suitability with those of Australia is a dangerous thing. We export to Taiwan out of New Zealand. While it may appear on the surface that the phytosanitary certification fees are very cheap in terms of raising phytos under approved arrangements, what actually exists in the background is that we pay a licence fee, and every horticultural export and horticultural packer pays a licence fee, to the New Zealand MAF to be able to go to Taiwan that actually supports the fees of MAF running the service. Last year that was \$5,000 per exporter or packer. If you want to be involved in the apple export program to New Zealand, that is what you have to pay—otherwise you cannot get a phytosanitary certificate—albeit at a grossly reduced rate compared with Australia. When you look at that the phytocertification does seem a lot cheaper, but in the background there are these fees attached to the market. So it is a very dangerous thing for people to draw the comparison between how Australia works and how New Zealand works. The other thing is that in New

Zealand they do not have critical quarantine pests such as fruit flies, which means, as Tim alluded to, that it is much easier for New Zealand to negotiate access under approved arrangements, whereas with the significant economic pests such as fruit flies that we have here it will be a hell of a lot harder to get over the line.

Senator COLBECK—I just want to go to you to start with, Mr Reid. You mentioned that the current process is built into your QA systems. So a part of this reform process, if it were to go ahead, would be the rewriting and recertification of your QA systems?

Mr Reid—Certainly with regard to fulfilment of quality assurance requirements for some of the major retailers throughout Asia, particularly in Japan, where they cite the AQIS inspection as an important part of the whole quality assurance program. So we would have to be negotiating with them on that part—absolutely.

Senator COLBECK—But the rewriting and recertification of your QA systems would also bear a reasonable cost with it, wouldn't it?

Mr Reid—We have invested personally—and, I know, across the industry—thousands of dollars to develop quality assurance programs. Any time you revisit them it costs a lot of money. As you would know, it involves new audits being run and all sorts of other processes. It is a big cost across industry to rewrite quality assurance programs.

Senator COLBECK—And time consuming.

Mr Reid—Absolutely time consuming.

Senator COLBECK—The department told us last night that it was confident it could sort out this process within 12 months. You are saying that you do not believe that that is possible. What sort of time frame are you talking about?

Mr Reid—I have to be very careful. I have worked on advisory committees and things for the current minister. I was the deputy chairman of the Quarantine and Exports Advisory Council until I resigned only a couple of weeks ago in order to come and present here on behalf of industry. I have to be careful that in what I say I maintain the integrity of the positions I have held, but I must say that I have a degree of sympathy for the people within AQIS given the pressure that they are under to perform the task they have to do. They have a huge task. They have diminished resources. They have had all sorts of distractions such as the avian influenza, equine influenza and all sorts of other side issues that have had an immense impact on that organisation. I have seen morale in the organisation drop to rock bottom, and there has been a great deal of difficulty in the organisation maintaining staff, especially when the economy was booming prior to the economic crisis. The inspectorate numbers were dropping. Of course, people were defecting to the mining industry and wherever they could earn bigger money. I just think it is totally unrealistic to expect the organisation to take on the task that is being thrust upon them now and to find these efficiencies in the time frame that they are being asked. I just think it is an impossible task. With all due respect to the upper management of the agency, who do their best to fulfil the requirements of their minister, I know they will make their best endeavour but the reality is it simply will not happen. I am absolutely confident in making that statement.

It could take 10 years to do some of the things that are being talked about, and we are going to be put out of business by the damage that will be caused in the interim to industries such as ours, across all of horticulture and, I hear, in other industries. I am getting beyond answering your question, but you know the consequences that we are facing for employment and whatnot. In the last 12 months we have seen a massive hike in exports of Australian horticultural products due to the lower value of the Australian dollar. We think that the rise in value alone of the Australian dollar as we come out of the economic crisis is going to put immense pressure on us. We really think that, out of 130,000-odd supposed jobs in horticulture, it is not unrealistic to expect that we could lose 20,000 jobs over the next 12 to 18 months or maybe two years, and this is just exacerbating the problem.

We are fighting fires on several fronts, not only with the value of the dollar but also with another debate we have got going on with government over the modernisation of the awards, issues to do with these AQIS charges in markets that are already financially fragile and growers out there who are suffering drought and paying a fortune for water. How much can we stand?

I will tell you quite seriously that my company is looking at the moment at whether we should be entering into joint venture cherry production in China. We wrote out 650 group certificates last year. We are just about at the end of our tether. I cannot express how important the task you have as a committee is. It is a heartfelt expression, but I really do mean it. It is a really important issue for us.

Senator COLBECK—The minister's comment was that a 1c rise in the dollar would basically eat up the additional cost to the industry, so it is effectively an additional impost, given that the dollar continues to rise.

Mr Reid—Let me give you one example of cost at the moment: back in June, prior to the implementation of full cost recovery, some of us—I am involved in the apple industry—sent some apples to Japan. There were four sea containers only. It cost \$6,000 to bring a Japanese officer down from Japan, which is part of the protocol, to supervise the fumigation of the apples in order that they could be sent off to Japan. The AQIS charges in Hobart to inspect that fruit before it left were \$5,800—almost as much as it cost us to bring a Japanese officer over from Japan. That is the current cost; what we are talking about now is a 60 per cent increase on that. Forget that market; we will not be doing that again. It is finished. We just cannot do it.

Senator COLBECK—So it is effectively going to mean withdrawal from markets because it is just not going to be economically feasible to do that?

Mr Reid—Horticulture is in a far different circumstance, particularly our cherry and stone fruit industries, where we do a lot of airfreight. It is just-in-time air delivery with fresh product, servicing Chinese New Year and other things. It is entirely different to a shipload of grain, for example, being inspected, where the cost can be amortised over such a large volume. These are small consignments where you have to bring people in to do the inspections. It is rather horrific. We have not yet seen what the charges are going to be, and I suspect that that is the case across a lot of seasonal industries—they have not yet come to the point where they are operating, which is when they will be able see what these charges might actually mean. In the case of cherries to Japan, we are paying about \$400 per tonne in inspection costs. I hear that that is going to go up to over \$800 under the new regime unless there is some levelling mechanism put in to amortise

it across other sectors of industry. You are looking at pretty high charges which really make it difficult on marginal airfreight product. So, to answer your question, we will lose some markets.

Senator MILNE—I would like some clarification on the answer to Senator Colbeck's question about those markets: is there any potential for displacement for import replacement or do you have to be in the export market?

Mr Reid—You really have to be in the export market. Australia became a net importer of horticultural products back in 2006, and that includes processed products as well as fresh products. So, in Australia, we have reached the point where we are essentially not sustainable in horticultural products any longer. That is a great disappointment in a country as agriculturally as efficient as we are, and, of course, it is purely based on cost—the opportunity for replacing import is all based on cost. In our industry, we are talking about premium quality product for premium markets around the world. That is all we can afford to serve out of Australia. We cannot provide what we call a commodity product in the fruit industry. We just cannot compete.

Mr Ranford—In the case of cherries, the only imported cherries at the same period of time are small quantities from New Zealand, so it is an insignificant aspect in relation to talking replacement for imports.

Senator STERLE—When I was going through the agenda last night I noticed there were a couple of horticulture groups. I do not expect you to comment on the Horticulture Australia Council, because they will be here later today, but I see that Cherry Growers of Australia are members of the council. Is the Horticultural Exporters Association members of the council?

Mr Summers—No.

Senator STERLE—I just noticed that the Horticulture Australia Council is supportive of the reform package and supports the return to full cost recovery. Would it be fair for me to assume that the Cherry Growers of Australia and the Australian Horticultural Exporters Association would be a minority view within the horticulture industry?

Mr Scott—I believe that that is not the case. In fact, if you refer to page 6 of our submission, you will see that the HEA would be in contact with Apple & Pear Australia, Citrus Australia, which represents, obviously, all the citrus growers—

Senator STERLE—It is in the submission, as the chair says, but our numbers are nowhere near your numbers.

Mr Reid—Can I take the opportunity to make some response to that?

Senator STERLE—You can. Can you tell me which page it is on?

Mr Summers—Page 6.

Senator STERLE—That is why I am confused—it is page 24 in our copy. It is all there. Thank you; I am happy with that.

Mr Scott—I would like to ask for a moment of confidentiality so that I could present something to you.

CHAIR—We are a bit constrained with time.

Mr Scott—This will take one minute to address.

CHAIR—We can accommodate that. We will keep going now and at the end of the session we will clear the room and go in camera and you can certainly have your time.

Mr Scott—Okay.

Mr Reid—I have to be careful what I say here. There is an issue going on with the horticultural industry about finding an appropriate industry representative organisation to represent all of horticulture. At the moment, it is the Horticulture Australia Council. The Horticulture Australia Council is currently going through an issue in regard to finance which is centred on the fact that a number of industries that have participated as members and funded the Horticulture Australia Council in the past have withdrawn from the organisation, mainly due to dissatisfaction over some of the directives that have come out of the organisation. With the cherry industry, we are committed to ensuring that the Horticulture Australia Council continues because we want to see horticulture have a single representative body. But we are clearly at odds with the recommendation that is coming out.

Senator STERLE—Just for the purposes of time, without being rude, I have worked that out. All I wanted to clarify is, quite clearly, I see the intensive membership list of the HAC and you have brought to my attention that a couple of the members have different views. So you are saying very clearly that your view is not the minority view of the horticulture industry?

Mr Reid—I would go as far as to say we hold the majority view of the horticulture industry, in great confidence.

Senator STERLE—That is fine. You do not have to go into it because we are restricted by time. I will ask the same question of the HAC. That is all I wanted for clarification, thank you.

Senator BACK—Mr Scott, you would hopefully be in a unique position to advise us on this because of your activity in the New Zealand market as well. Based on that experience, can you tell us whether efficiencies can be gained in the horticultural industry in Australia that can pick up or exceed the 40 per cent that we are speaking about?

Mr Scott—Most definitely not. I say that insofar as the approved arrangements that AQIS are proposing have been available to a lot of countries for a considerable period of time. So the appropriate question to ask is: why hasn't the industry picked up on them and used them to date? If the savings are as significant and rewarding as they suggest and as touted by some industry groups, why wouldn't those approved arrangements be picked up by an export company such as mine? When we had a look at it, our AQIS bill was in excess of \$90,000. Under the new regime, what will be the situation? When we looked at that, we saw that we would probably have an AQIS bill of \$120,000 to \$140,000 at a minimum for this year. We would have to put on a new staff member. We would save in the vicinity of \$10,000—maybe \$15,000, if we were lucky. The

issue there is that, given the seasonality of products and the fact that mother nature can come along and damage some crops and so forth, the likelihood of us being able to recover that cost—because that was on the best use of all markets—is severely limited insofar as we have only got to have one crop taken out and our ability to pay our way, so to speak, and to generate some savings would be very quickly lost. Plus, there is a very big trend in terms of foreign markets that is happening now.

When you have foreign interceptions of pests or diseases, the national plant protection organisations are now reporting them back to Australia. A consequence of that is that, under an approved arrangement, you have an audit policy and, wherever you have a breach of your phytosanitary certification and inspection program, AQIS will put you into audit mode. Depending how that audit goes, it will cost you in the vicinity of \$500 if you are lucky and \$850 to \$900 if you are unlucky. With foreign countries now reporting more and more back to the Australian Quarantine Inspection Service on interceptions of products exported from Australia into those markets, the cost of approved arrangements is actually becoming less attractive. Any minor interception, because AQIS have to act on it under the audit regime, means that they will be into the facilities to review the performance again.

So, on that basis, the trend of overseas NPPOs and what AQIS is suggesting here in terms of approved arrangements being the desirable cost savings approach are, I believe, not there. In fact, I think what people will find with the process of foreign NPPOs is that, for a lot of organisations, approved arrangements will become a more expensive way of doing business than utilising AQIS inspectors, who are there even at the current rates—that means the new 100 per cent recovery rates.

Senator BACK—I have one other quick question, Mr Reid. You made comment about the loss of markets. I have some very small knowledge of the Japanese market. If we were to exit a market, particularly one to an importing country as difficult as Japan is, what would be (a) the opportunity and (b) the likely cost of trying to re-enter it at some time in the future?

Mr Reid—That is a difficult question. I can only answer it on the basis of the cost associated with gaining market access in the first instance. I have given a lifetime to working on market access, including in a voluntary capacity on behalf of the apple industry and, more recently, the cherry industry in Australia. It normally takes five to seven years. Five to seven years is a practical time frame. The science involved and the provision of science to fulfil quarantine protocols, which would all go back to base—you would have to start from scratch—could be millions of dollars. It is not unrealistic to expect that, for its cherries, it will cost the Tasmanian fruit industry in the order of \$2 million to gain access into Japan. That is with AQIS, BA and everybody else. In addition to that, those countries prioritise the projects or the applications that they will accept. Sometimes it can take years to get to the point where the country will even examine your application. I do not think you would be dealt with too kindly if, after all the work they had put in from their end and the cost and expense they had incurred to get you in, you drew away to suit some new arrangement on our end and then you tried to go back again. I do not think you would get a great deal of sympathy and you might never ever get back in again.

Mr Ranford—I think an ideal example is the loss of the Taiwan market for apples, cherries and stone fruit which occurred in December 2005. The cherry and stone fruit industry may be lucky to reopen that market this current season, so we are looking at four years out of the market.

It has probably cost us, BA, the industry and research at least \$2 million. Then we will look at a lot of money to reinvest and try to reposition ourselves in that marketplace.

Senator BOSWELL—Mr Scott, in response to a question by Senator Milne you said that you would come back to a position and talk about the horticultural industries that do not support your stand. You have not touched on that yet.

Mr Scott—Part of that I want to address in confidence.

Senator BOSWELL—Okay. Let's address it in confidence.

Senator STERLE—Mr Scott, just a yes or no will suffice. Does the Australian Horticultural Export Association support disallowance?

Mr Scott—Insofar as you are saying that we want to block this?

CHAIR—Yes.

Mr Scott—Most definitely we do. We have from the very outset. We have not wavered in our position on that and it has been known publicly basically since the 100 per cent recovery was proposed.

Senator MILNE—Something I am trying to get from everybody is whether in the last few years the industry has tried to implement various reforms with AQIS and whether you can give me any specific examples of where the industry has tried and been blocked or stalled. In relation to that you mentioned a \$5,800 fee, \$6,000 to bring a Japanese inspector, \$5,800 to get AQIS and this is before containers. Is that an alternative to the \$5,800 fee? What could be done? We are being told that the reform process is being facilitated and I want to hear whether from your perspective that is the case leading into this decision to go to full cost recovery.

Mr Reid—With respect to the first part of your question in regard to whether we have attempted to do anything to find efficiencies the quick answer is yes. In Tasmania for three years we have had people trained by AQIS. We have just done one company for the third time and about 14 other companies for the second time. We have had them trained to be accredited for approved arrangements on sites where they are packing cherries permanently. We have never been able to get AQIS to complete the process to allow us to implement those AAs.

Senator MILNE—What does completing the process mean? Is it paperwork, a training course, what are we talking about?

Mr Reid—It means the paperwork to register you and then performing the audit. They have to come and perform the audit on site as part of the process. Then you are accredited assuming that you pass the audit. But AQIS has not been able to come and complete the process. They have led us to believe that we could achieve AAs. Industry in good faith has trained their staff, AQIS has given instruction at those seminars and what not and then the whole process has failed to go through despite the best endeavours of industry to get AAs in place. Now we are being told that AAs are going to be all the rage but we are caught without them in place. We would have

thought if they were going to be accepted, they would have been accepted two years ago when we first started training people.

Senator MILNE—Is this done by business or by individual people? How many are being held up at the moment because AQIS has not finished the process.

Mr Reid—Last year, over 12 months ago, about 12 companies in Tasmania completed the course to become accredited and AQIS failed to come and conduct the audits and issue the certification. We have no excuse as to why that happened, despite constant badgering from industry we did not get there.

We have been assured that that will happen now, so everybody has had to be retrained, at industry cost, this year. They have run through a refresher course. We have to wait until we start harvesting and packing cherries before they can do the audit. It will be interesting to see whether they turn up this year, at our request, to complete the process. So that answers the question about whether we have tried. We have done our best. The second part of your question, Senator Milne, was in relation to how we might cut the costs—

Senator MILNE—The \$5,800 for a consignment like that.

Mr Reid—There is only one way that that could happen at the moment. Just remember, that cost was under the current arrangement for a 40 per cent subsidy. The only way we can do that is to have a third-party service provider accredited to fulfil that service on realistic charge-out prices. They need to be realistic in terms of industry related prices. We are paying huge fees to AQIS on an hourly rate at the moment, covering administration and all sorts of other costs that are just blown out of the water. The only way we could do that would be to follow through, as we have been questioned about before. We would have to get approval from the Japanese government for AQIS to be able to allow that to go out to an accredited third-party provider. That will not happen in 12 months or two years. That will take a long time to negotiate. The Japanese government has to be convinced that we can get appropriately accredited people to conduct that work.

Senator MILNE—In terms of the fees, then, since the option is not there to go to a third-party provider because it is not acceptable with the overseas export protocols, is there an analysis of why the fees are so high? Who is doing the review of the fees?

Mr Reid—The review of fees for the Horticulture Export Program has been traditionally done by the Horticultural Export Consultative Committee, who have always been charged with ensuring that the cost of running that export program is fully recovered—less the 40 per cent, of course. So those fees and charges are set in discussion with the Horticultural Export Consultative Committee, who have no option in these cases but to accept the AQIS charges that are put on the table. AQIS go and tell that committee what the costs have to be, and then that committee has to find a mechanism to apply that charge. It is a bit like all of this with the 40 per cent. We have not had any opportunity to discuss costs. We have been told, ‘There’s no way back. The 40 per cent is going. You’ve got to approve this program.’ That is what the task force and HECC have had to deal with. They have not had an opportunity to argue anything else.

Mr Scott—We need to add one thing there, and that is that the Horticultural Export Consultative Committee was always heavily confined in so far as it was committed to absolute confidentiality. As a consequence of that, it made it particularly difficult for members within that consultative committee to go out to industry to canvass their thoughts, because they would essentially be breaking some confidentiality of their process. So what you have is a self-serving entity that is very difficult to get accurate and concise industry input into.

Mr Ranford—There is a model in our submission in relation to what the South Australian industry and the department did in the review of costs for plant health services there. I chaired that committee on behalf of the minister. It was a transparent process. I think if we saw that type of transparency we would get to the root of some of the costs and be able to better understand those processes. We think there is a model there that could be taken forward.

CHAIR—Thanks, Mr Ranford. Mr Reid, could I get you to clarify something for the committee. What was the body that you said you were on that you resigned from two weeks ago so that you could appear today?

Mr Reid—The Quarantine and Exports Advisory Council.

Senator STERLE—You spent a bit of time bagging AQIS. I think that was a bit rich.

CHAIR—Hang on. It was a clarification, not a question.

Mr Reid—I have acted with all propriety, I can assure you, Senator.

Senator STERLE—It was just the way you bagged the AQIS people.

CHAIR—Senator Sterle!

Mr Reid—We support AQIS.

Senator STERLE—It sounds like it.

Mr Reid—I have just explained that.

CHAIR—You behaved like this last night, Senator Sterle. Do not do it.

Senator STERLE—I apologise.

Mr Reid—I did explain that we support AQIS and I explained the concern about all the pressure they are under.

CHAIR—You cannot pick and choose, Senator Sterle.

Mr Reid—They are under an immense amount of pressure.

Senator STERLE—I have said to the chair that I will keep my comments to myself.

CHAIR—Good. You cannot pick and choose.

Evidence was then taken in camera but later resumed in public—

[12.20 pm]

McIVOR, Mr Ian Kemball, AM, Chairman, Australian Livestock Exporters Council

MacKINNON, Mr John Lachlan, Chief Executive Officer, Australian Livestock Exporters Council

WINTER, Mr Edmund Simon, Project Manager, AQIS Reform Agenda, Australian Livestock Exporters Council

CHAIR—I welcome representatives from the Australian Livestock Exporters Council. You have lodged submission No. 4 with the committee. Would you like to make a brief opening statement before we move to questions?

Mr McIvor—Yes, just a very brief statement. You would have read our submission. We do support the 40 per cent being withdrawn but very much subject to the reform process taking place. We have given you details of our proposed reform agenda and are quite happy to answer any questions you may care to ask us.

CHAIR—Thank you, Mr McIvor. Senator Boswell?

Senator BOSWELL—It seems to me that we have heard a lot of evidence that it would be very hard to get these improvements in place in the time—some people say it will take two, three or four years. You are supporting the reforms but have you been given any assurances as to when these reforms will take place?

Mr MacKinnon—We have set ourselves a 12-month time line, starting 1 July 2009 through to 30 June 2010, to complete those projects that are in the attachment to our submission. We firmly believe we can do that and AQIS believe they can do it as well.

Senator BOSWELL—It has been put to us that people are probably happy to pay for the improvements as they take place. If they get some benefits and if there are some savings, they are quite happy to pay for those savings. But yours seems to be—as I said to the dairy industry—a huge act of faith, where you are prepared to pay for these reforms before they even take place.

Mr McIvor—We have already commenced doing that. We have already incurred some costs in setting up the proposals. We believe the cost savings that will come from it will be considerable and the faster we can get it in, the better for all concerned. As Mr MacKinnon said, we believe it is possible within the 12-month period.

Senator BOSWELL—If they all eventuate and AQIS goes along with them and the countries you sell to accept them, what will the savings be to your industry?

Mr MacKinnon—We are looking at about a 20 to 25 per cent FTE reduction within the LAE program. This is our belief.

Senator BOSWELL—How much in money is that?

Mr MacKinnon—I could not tell you that.

Senator COLBECK—What was that percentage?

Mr MacKinnon—Twenty to 25 per cent reduction in FTEs—full-time equivalents—within the Live Animal Exports Program is what we would be looking for. As far as an actual exporter is concerned and the time taken for them to do it, with these projects in place—especially project 1, the automation of our systems—we are looking at probably a 25 to 30 per cent time saving for the exporter to prepare their consignment. Currently, our live animal export system is unable to use EXDOC; our entire system is paper based. Our submissions for notice of intention to export and our critical risk management plans are all paper based. We are unable to use the EXDOC program. Hence, project 1 of that attachment is entirely set up to develop an online/automated system for the submission of NOIs—notices of intention—and critical risk management plans.

Senator BOSWELL—What reforms has the minister agreed to give to your Australian Livestock Exporters Council?

Mr McIvor—In dollar terms?

Senator BOSWELL—No, in terms of reforms.

Mr MacKinnon—The project that we have submitted there, the seven pillars—

Senator BOSWELL—I understand what you want. I am asking what he has agreed to give you—or is this just an act of faith? Do you think that because you have asked for it you are going to get it?

Mr MacKinnon—The submission that we have put forward, we firmly believe, will be delivered. We have had no formal confirmation in the form of a letter, but we firmly believe, having worked with AQIS to develop these seven projects—and they are on board—that they will be delivered.

Senator BOSWELL—How much does AQIS inspection cost your industry now?

Mr MacKinnon—There is a total cost of about—give or take; these are not definitive figures—\$6 million of which, when the subsidy was in place, the government picked up about \$2 million.

Senator BOSWELL—So you were up for \$2 million?

Mr MacKinnon—Yes.

Mr McIvor—Yes.

Senator BOSWELL—That is not a huge amount of money; you could take a punt on that. Some of the other industries are up for a lot more.

Senator COLBECK—Can you give me a rough cost per head from that?

Mr MacKinnon—It depends on the type of animal and where that particular animal is going. To use cattle to Indonesia as an example, the fee from 1 July 2009—and I am using a beast going to Indonesia—is \$1.55. For a sheep going to a country in the Middle East, depending on which country, the cost is 20c or 22c per head. For cattle going to other markets, such as China and the more difficult breeding markets, the cost is about \$3.90, also as of 1 July 2009.

Senator COLBECK—Those are the new charges?

Mr MacKinnon—Yes.

Senator COLBECK—Do you have a schedule which you can give us?

Mr MacKinnon—It is on the AQIS website.

Senator COLBECK—Thank you; I will check that.

Senator BOSWELL—Have AQIS agree to your timetables?

Mr MacKinnon—Yes.

Senator BOSWELL—We have a disallowance motion down and whether we move it or not is up to Senator Colbeck.

Senator COLBECK—I wish it were that simple.

Senator BOSWELL—Could the seven industry reforms have taken place if the rebate were still in place?

Mr MacKinnon—I need a bit more clarification on that question.

Senator BOSWELL—You have seven reforms that can take place and AQIS have agreed to these seven reforms. Could they have taken place without the rebates or with the 40 per cent rebate still there?

Mr MacKinnon—It is a difficult question because the reason these seven projects have been put forward is the removal of the rebate.

Senator BOSWELL—Why couldn't the reforms go ahead with the rebate still there?

Mr MacKinnon—We need the money—and you have seen what it is costing us—

Senator BOSWELL—How much money are you getting?

Mr MacKinnon—About \$1.97 million or \$1.96 million.

Mr McIvor—It says \$1.902 million.

Mr MacKinnon—I think it is going to cost us about \$2.1 million.

CHAIR—It is not that you support the removal of the 40 per cent; you support it as the only mechanism available to get the funding you need?

Mr McIvor—Yes, to trigger the reform process.

Senator COLBECK—I note that you do have some confidence in your process, but effectively, from what I can gather, you have largely taken hold of the reform process yourself and are doing a lot of the work yourself, such as the development of the new IT program. My understanding is that the industry is actually driving that process—

Mr MacKinnon—That is correct.

Senator COLBECK—They are dealing with that process, so it is not something the government is actually doing. You have said, ‘We are not sure you can do it.’

Mr McIvor—The government is supportive of it—

Senator COLBECK—I understand that.

Mr McIvor—but we are driving it.

Senator COLBECK—You are driving it.

Mr McIvor—The current system, as Mr MacKinnon has said, is a paper based system. About 80-odd per cent of our business is repetitive—that is to say, if you take animals going to Indonesia, the only thing that differs from one shipment to another is the number of animals on board, the name of the boat and the date it sails. Yet, under the current system, it still takes eight hours for them to manually give us the approval to make one of those shipments—eight hours at a charge-out rate of about \$400 an hour. If we can just get a software system put in that will give those approvals automatically, obviously the savings are going to be enormous. I repeat: you can take cattle to Indonesia or you can take sheep to the Middle East, but the process is just repetitive all the time. Yet each one is treated as a single item—as if it is the first time they have ever seen it. We put in for a notice of intention to ship followed by a certificate of approval. It is completely repetitive, but it is very time-consuming and extremely costly to the industry.

Senator COLBECK—So, in your particular circumstance, there is potential for relatively significant savings to your industry from this automation process.

Mr McIvor—Yes.

Senator COLBECK—Are there any issues with this new documentation in relation to receiving countries?

Mr MacKinnon—As we see it, no, because the protocols have been set up. We are not looking at adjusting a protocol or at the way that that protocol is adhered to. The projects that we have set up do not go into the altering of any trade market access issues.

Senator COLBECK—So all you are really doing is changing the way that you generate a document.

Mr MacKinnon—Exactly.

Mr McIvor—Mainly. That is the principal—

Senator COLBECK—The documentation is effectively the same. It is just a much more efficient way of producing a document. The documentation is effectively going to be identical to what it was before, but there are significant savings in the generation process of that documentation.

Mr McIvor—Yes.

Mr Winter—It does actually go quite a bit broader than that in that it also picks up the auditing system, which is fundamental to it, and the current licensing system for exporters. Exporters have to be licensed annually at the moment and there is an audit involved with that as well. A lot of those processes, which are very time-consuming and very costly, will also be picked up in the process.

Senator COLBECK—So the compilation of documents to undertake an audit process can be managed through this, which will save time through that cycle as well.

Mr Winter—Exactly.

Senator COLBECK—You have an industry plan and Senator Boswell asked about guarantees. You effectively agreed and signed off the industry plan and the time frame for it between yourselves and AQIS?

Mr MacKinnon—That is correct.

Senator COLBECK—And then, as I said before, you have taken hold of that process and started to run with it. The development of the IT process would have to be the key element of the whole reform process?

Mr MacKinnon—That is our main driving project. As you will see, it is a considerable part of the budget. I would agree with that. That is our main project, but the others around it feed into it as well.

Senator COLBECK—Could you just clarify that you are effectively meeting the milestones and the completion dates that have been set up as part of the work plan?

Mr MacKinnon—Yes, I think we could. I will pass that over to Simon. He is dealing with the project management.

Mr Winter—Senator, I guess the issue there is that all those projects were developed based on the original 1 July kick-off. Obviously that has been delayed. Because of the importance of the IT project, we have been able to access a small amount of funding to get it started, but it is being delayed. It is behind in relation to milestones.

Senator COLBECK—What is causing the delay?

Mr Winter—The industry does not have the funding itself to do the work. We are reliant on funding coming through the reform agenda process from government to fund it.

Senator COLBECK—Have you started paying the additional fees yet?

Mr MacKinnon—Yes, we have. Our additional fees kicked off on 1 July 2009. To clarify what Simon just said then, the reason we have not been able to reach any more milestones is that we do not have the funding to continue these projects. We are basically banking on the reform money coming through to fund these projects.

Senator COLBECK—So the government is not paying you the reform money because it is not sure that it is going to get its new fees passed?

Mr MacKinnon—I could not answer that, Senator.

Senator COLBECK—So why are you not getting the money?

Mr MacKinnon—Because the reform has not been allowed to pass through the Senate yet.

Senator COLBECK—It has not been stopped either. You are paying the extra money. You are already paying the additional fees. There would have been a significant amount of money paid into the department so far as part of the process. So the government has effectively put the whole process on hold pending whatever happens next Tuesday.

Mr MacKinnon—That would probably be a fair point.

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

Senator COLBECK—That goes to the point that AMIC made earlier that the industry does not mind paying for the cost of the actual service provided, but it is not necessarily into paying for the administrative overheads of AQIS.

Mr McIvor—Correct. We agree entirely with AMIC on that.

Senator COLBECK—You have flummoxed me a little bit because the expectation that I had, and I think the industry generally had, was that we were looking for a leaner process that would provide cost savings. Yet it appears that it might be heading in the opposite direction with the increased overhead costs.

Mr McIvor—That is what was indicated to us at the consultative committee three weeks ago.

Senator COLBECK—Thanks for the good news!

Senator BACK—So the gap is running faster than the horse. The costs are increasing faster than the savings.

Mr MacKinnon—We have not had a chance yet to input our projects. We are hoping that they will make up some of that gap.

Senator BACK—I wonder what would then happen to those increased charges that Senator Colbeck has correctly identified. In the event that this is disallowed, do those funds return to your industry or not?

Mr MacKinnon—Are we talking about the project or are we talking about the fees?

Mr McIvor—We are talking about the fees.

Mr MacKinnon—I do not understand the intricacies of what actually happens in that circumstance. I am sorry.

Senator BACK—It is to everyone's credit that you have been able to start the process early. You have clearly identified that it is the move from paper based to electronic based that has given you the capacity for these savings. The move to dealing electronically with data and the transfer of information is not new; it has been around for quite some period of time. As an industry, are you comfortable with the fact that you are actually paying for that transfer from paper to electronic form? I would have thought that efficiencies would have driven this anyhow.

Mr MacKinnon—I would make the comment that we see this as an opportunity to make these reforms. If it were left to the devices of others to drive it in other departments, we feel that we probably could not get the results that we need to get. We have been given the opportunity to drive it and to get the results that we are looking for. That would be my answer.

Senator COLBECK—Would it be fair to say that there has been a recognition on your part and on AQIS's part that they cannot do this, so this process is the best way to go?

Mr McIvor—Yes.

Senator BACK—In a sense that is probably a good outcome—that is, industry and government working together. One should not criticise that. We should put it up in neon lights.

Mr MacKinnon—I would agree.

Senator BACK—That is a point that your group has made. However, I ask the question, with the efficiencies being driven across government and industry, whether a move from paper to electronic should actually come down as an imposition on industry. Thank you for your clarifications.

CHAIR—The support that exists for the removal of the 40 per cent is being very clearly shown by the government. Is the support for the removal of the 40 per cent really there because it is the only option on the table to access any funding to do the reform? To put it another way, if the government were to come along to you and say, ‘Here is a bucket of money; it has got \$2 million in it,’ would you still support the removal of the 40 per cent?

Mr MacKinnon—This is solid questioning! I suppose the industry’s answer to that is that we have taken this as a one in—pick a figure—10-, 15- or 20-year opportunity to get the reforms that we are looking for. If the removal of the 40 per cent is what it takes to get those reforms, we support that.

CHAIR—So, if the removal of 40 per cent equates to the only way to get the bucket of money?

Mr McIvor—Or to get the reforms.

CHAIR—You need the money for the reforms.

Mr McIvor—That is true.

CHAIR—Thank you, gentlemen.

Senator STERLE—In your submission at page 1—the introduction—

Mr MacKinnon—The first page of the letter or the first page of the submission?

Senator STERLE—The first page of the submission where the graphs are. Just for clarification, at dot point two you say that key features of the industry include, ‘adding to farm-gate prices at least 9c per kilogram live weight for cattle, 17c per kilogram live weight for sheep and 7c per kilogram live weight for lambs.’ Could you explain what that all means?

Mr Winter—There was an economic analysis done of the live export industry back in, I think, 2006. That looked at the whole industry. The report is publicly available and it basically said that if you removed live exports then that is how much the farm-gate prices would reduce by because of decreased competition in the market place.

Senator STERLE—I assumed that but I just wanted to clarify it.

CHAIR—Mr McIvor, I believe you wanted to make a couple of comments with your Red Meat Advisory hat on.

Mr McIvor—You are aware of the function of RMAC. I understand RMAC was mentioned in the earlier submission by the Cattle Council and the Sheepmeat Council. The function of

RMAC is collectively to get together all the peak councils to debate industry issues. We have a meat industry strategy plan. RMAC have put in a submission in writing and the executive director of RMAC felt that, as I was coming here today, I could just endorse the submission. That is really all I am doing. You would have read the submission.

There is a line of demarcation. I ask my colleague, Steve Martyn, who is at the back here—he is on the RMAC board with me—if he would care to join me, because RMAC works with the whole of industry. Obviously, within the whole of the industry different peak councils have different views on different subjects. Certainly, that would be shown in the submissions that you have received today from AMIC, the Sheepmeat Council, the Cattle Council and from us. I think it is fair to say, though, that we are all, collectively, in favour of the reform process. That is the one area of commonality that we all agree on. How we get there, and how it is done, boils down to the various needs of the various areas. I would just like to say, on behalf of RMAC, that it does support very much the reform process. I will just leave it at that.

CHAIR—Thank you very much Mr McIvor. Gentlemen, thank you for your time today.

Proceedings suspended from 12.43 pm to 1.1 pm

CAVEDON, Mr Robert, Chief Executive Officer, The Game Meats Company of Australia

HASTINGS, Mr Michael, President, Australian Ostrich Association

MOIR, Mr Jim, President, Deer Industry Association of Australia

MORGAN, Dr Peter, Executive Director, Australian Council of Wool Exporters and Processors

THOMPSON, Mr Peter, Queensland State Councillor, Emu Industry Federation of Australia

Evidence from Mr Cavedon, Mr Hastings and Mr Thompson was taken via teleconference—

CHAIR—Welcome, Mr Cavedon and Dr Morgan. We are intending to have three more witnesses join us by teleconference, but it might best utilise our time if we kick off and then bring the others in as they become available. Mr Cavedon, you have lodged submission No. 1. The wool exporters submission is No. 19. Do either of you wish to make any amendments or alterations?

Dr Morgan—No.

CHAIR—Would you like to make a brief opening statement before we move to questions?

Dr Morgan—Thank you. I think from a wool exporter's perspective we have been outside the process most of the way—in fact all the way. We have tried very hard to get inside the process, but that has been very difficult. We certainly acknowledge and respect that the AQIS has chosen to deal more closely with the big six food industries where a veterinary presence is required, which it is not in the case of the wool industry.

As with a lot of things, our concerns have been about the process perhaps rather than about the issue. Some relate to the logic of the explanations or answers we have been given when we have challenged AQIS on various events. By way of example, we were told that we were not beneficiaries of the \$40 million subsidy; then we found that our fees were increased by up to 1,500 per cent. The response came back, 'There are some links between meat and wool then within AQIS, and you are a beneficiary.' Either way, there have been a series of answers like it. It has been process, process, process, as far as we are concerned.

We are also very concerned about the level of the charges. In absolute terms, we acknowledge that they are not at the same sorts of levels as the food industry, but the relative increases are very high. As we put in our submission—and as AQIS is well aware and Minister Burke has been made well aware—the sorts of fees they want to charge are high for what they deliver, which is very small. If an exporter is using an electronic health certificate, he or she does all the data entry, or nearly all of the data entry, in their own office, transmits it to AQIS and then actually has to intervene again themselves to get it processed. It comes back, they print it in their office and they get a bill for \$64. As I have said in our submission, and I have said this to AQIS

and to the minister, the Australian Wool Testing Authority can supervise sampling of the lot, test the wool—both physical and chemical tests—enter the data, process the results and transfer the results electronically for \$40, instead of the \$64 that AQIS want.

We find that level of charges very hard to sustain, and they are charges which are difficult to absorb in the industry because they are less than a cent a kilo—when bidding in the auction takes place, it is a cent a kilo. So, in effect, an exporter has to either absorb those costs through his office or subtract a cent off his bid price, and no-one knows whether they do or they do not. That would cost the industry about \$3½ million if that happened.

CHAIR—Thanks, Dr Morgan. Mr Cavedon?

Mr Cavedon—We are situated in Myrtleford, in north-east Victoria. Our company started in 1996 with the sunrise emu and ostrich and deer industries. It has been a real battle for our company just to survive. There were five companies that started in 1996 as the farm game industry and we are the only one left standing. That shows the degree of difficulty and hardship, and it is because we are dealing with animals that are seasonal. What has kept our company above water is that we diversified into skin on goats. So we are processing deer, emu and ostrich in season and then we are filling the troughs, when those animals are not available, with goats. The goats are the bread and butter of the company at the moment. But the thing is that the emu and ostrich industry and the deer industry have been just decimated by the drought, with high grain prices and stuff like that. It seemed like we were just getting out of that and over the rise and we might see a little bit of light on the horizon, and then we get this sort of stuff here happening, with the dropping of the 40 per cent subsidy.

I cannot really understand how the 40 per cent subsidy is levelled at us—we have worked it out, you can see the figures there; these charges are up to 130 per cent. You can see the figures there. If we just have a look at the points of concern that our company has, the withdrawal of the 40 per cent subsidy is just an anti-stimulus to our industry. We are talking about all this money going around stimulating the economy. It is a nail in the coffin for us anyway. It affects 30 per cent of all the low-volume plants up to 130 per cent. It is not 40 per cent; it is 130 per cent. The issue is: if you are talking about efficiency, I look at efficiency as being cost-effective, not cost-increasing. That is my understanding anyway. It threatens the survival of the deer, emu and ostrich industries, after many years of drought. There are 5,580 registrations—we never used to pay that. The registration sits in a desk at AQIS or in a file and we have got to pay \$50,000 to keep No. 2019 registered in a file in the AQIS office somewhere. How is that going to benefit our industry, just the registration number? There are veterinary inspection charges. They will go from \$92,000 to \$173,000—so there you go.

Senator O'BRIEN—Is that the meat processing—

Mr Cavedon—We have got a veterinary officer. This past year he cost \$92,604. The proposed charges are \$173,000, an increase of \$81,000. I know that the veterinary officer on the plant does not get all that as take-home pay, but AQIS will send out a monthly invoice. An \$81,000 increase for a monthly invoice? For goodness sake!

CHAIR—Mr Cavedon, I might put you on hold there to allow plenty of time for questions. I believe that our other witnesses have just joined us on the line. Welcome, Mr Moir and Mr Thompson. Do either of you want to make any amendments or alterations to your submissions?

Mr Thompson—Not that I can think of. The only thing that I need to mention at the moment is that I am going to have to leave the conference early for personal reasons and if you hear any gurgling in the background that is part of the personal reason—and if it is important for the Senate inquiry to record that gurgling in *Hansard*, I would like to know how you spell it.

Mr Moir—The submission we put in was a very short one because we only found out about this Senate hearing on the morning that the submissions were to close. We do not have a basic formal submission, if you like, but I do have numbers and I can supply them to the Senate committee if they require them.

CHAIR—That is fine. Mr Thomson, in the interests of the time, would you like to make some brief opening comments and then we will have questions directed to you first?

Mr Thompson—I am in exactly the same position as the deer industry. I also spoke on the morning of the 4th. Since speaking to AQIS, the only thing that I would like to add is that from our point of view I would like the emu industry to be considered as an emerging industry. Because we only have one processing facility for emus in Australia, there will come a time when there will be a need for AQIS certification for one-off processing in some of the other states in Australia. The problem that we have is the prohibitive cost associated with that AQIS requirement or whatever it is. So the only plea that I would make, apart from what I have said in the submission, is to ask that we be regarded as an emerging industry and hopefully some concessions can be made when we finally manage to get processing facilities to process the birds we are producing.

CHAIR—Thank you, Mr Thompson.

Senator COLBECK—Mr Moir, you said that you had some figures that you could provide to the committee.

Mr Moir—Yes, I can. At the moment the Australian deer industry, like most other farming industries, has been affected by the climate and the financial conditions to the point that approximately 50 per cent of the farmers are no longer in the industry compared to a few years ago. Those numbers are backed up by the fact that we used to have about 100,000 kilos of venison a year. Last year we were down to 47,500 kilos, so we have approximately halved the number of processed animals that go through the system. The charges that we have been advised that we will be charged extra is approximately a 10 per cent increase as far as costs per kill per kilogram. That 10 per cent increase varies on the species of animals but overall that is about the average. That will probably push a sizeable number of farmers, who are borderline and were just looking at getting increased returns for their animals with the financial system returning to normal, out of the industry and we will lose even more of a percentage. I can send you the number of animals killed, kilograms killed and percentage of domestic versus export.

The other thing that the export abattoir does is that not all the kilograms of the animal go to export. Possibly about 20-odd per cent of the animal is sold domestically. These increased costs

will not only affect our export industry but have a large impact upon our domestic industry, which is a bit of a problem to us because our biggest competitor domestically is New Zealand, who do not have a lot of the charges that we have and have a lower dollar and a lower unit man-hour cost. Overall the impact that I see it having will be a double-whammy on our industry.

Senator COLBECK—What you are saying is that an animal has to be inspected fully if part of it is going to the export market so some of that cost flows back into the domestic market?

Mr Moir—Yes, it does, definitely. The abattoir gets charged on the total number of animals and kilograms that are put through. That is my understanding anyway.

Senator COLBECK—Okay, so it is charged on kill numbers. I suppose that makes sense in that context. You mentioned a percentage that was sort of marginal or that there were a percentage of the suppliers that were marginal. Can you give us an assessment of that?

Mr Moir—I deal with venison farmers so I would say that it is definitely up around the 65 per cent that are marginal. That is a very tough figure to come up with. I am just doing that on personal knowledge of the people I know that are looking at the increased costs for fodder et cetera especially up north.

Senator COLBECK—What you are saying is you have had roughly a 50 per cent reduction over recent years including from 100 kilos down to 475, and a further 65 per cent of those that are left are finely balanced as well?

Mr Moir—There are farmers who are in both venison and velvet, which is the other arm of high returns. To give you an idea, with RIRDC we are now an emerging industry. We have moved from an establishing industry to an emerging industry. So like the emu we are going backwards at that point, according to RIRDC anyway.

CHAIR—While Senator Colbeck is considering his next question, can I ask each of you, perhaps starting with you, Mr Thompson—

Mr Hastings—I came in very late on the phone hook-up.

CHAIR—Sorry, Mr Hastings, we did not hear you come in. Welcome, and would you like to make any very quick, brief comments?

Mr Hastings—Most certainly. I just had a few comments in relation to the impacts, although I have put in a written submission. Seeing the rollout, it has been very difficult to ascertain the true impacts of not only the cost recovery of the 40 per cent but also the repackaging of AQIS costs. The Australian ostrich industry is approximately 99 per cent export, so this has significant ramifications for our industry. I have also heard a couple of comments in relation to the emu industry in that there is now great pressure on emu oil to go through AQIS accredited processing facilities as well, whereas historically there was not.

My comments are really that our industry has also shrunk dramatically due to the drought, with very high feed costs. A lot of our product is sold in US dollars, so with the very strong dollar over the last three years it has been quite catastrophic to our industry and we have lost a

great number of producers. In addition to that we lost processing plants in Queensland and Western Australia prior to the 40 per cent rebate on AQIS costs. Part of that loss of those processing plants was due to the high AQIS costs.

Our industry has now shrunk from being a national industry to one that is centred in Victoria, primarily because we are down to having one export processing plant left. That is the Game Meats Company at Myrtleford. So at the moment we are facing increased costs of around 14 per cent per head with processing due to these AQIS costs, and that is without looking at the direct costs of exporting with other documentation as well. This could be the final peg that could pretty well shut down our industry.

CHAIR—Thanks, Mr Hastings. Mr Moir, I do apologise; I forgot to ask you at that beginning if there were any particular brief comments you would like to make. Would you like to do that now or do you feel you have already done that in your answering?

Mr Moir—I think I have already done that in my answering.

CHAIR—Terrific. One of the things that is going to be in front of the Senate very shortly is whether or not to disallow the regulations that relate to this, which effectively means stopping the removal of the 40 per cent subsidy. Can I ask each of you to give your view on whether the Senate should take that decision or not? Could I start with you, Mr Thompson?

Mr Thompson—I am certainly favour of the subsidy being retained because I think in our case we do not have any viable emu farmers. Any assistance that we can get is going to be appreciated, so I do not want to see any subsidies removed.

CHAIR—Okay. Mr Moir?

Mr Moir—I am of the same opinion. We, like the other two, are down to basically one export abattoir in Australia and we are already facing extremely high transport costs just to get to that abattoir. If we lose that subsidy that abattoir may close down, which will decimate the industry.

CHAIR—Mr Hastings?

Mr Hastings—I am certainly in favour of returning the 40 per cent subsidy. Our competitor countries, such as South Africa, Saudi Arabia and a number of other countries have if not 100 per cent then a large portion of those costs borne by government. It basically reduces the impact of our competitiveness in the international marketplace and becomes a trade barrier for us. I very strongly feel that it is in the common interests of all Australians to retain that cost recovery as a stimulus rather than an anti-stimulus.

CHAIR—Good point. Thank you. Dr Morgan?

Mr Morgan—In the wool industry we accept that perhaps that subsidy is going to go at some stage. Our view is that if that is to occur, it should be staggered so that industries have time to absorb what additional costs they have. Also, there is a bit of putting the cart before the horse in this in terms of the reform process. We would argue strongly that the reform process should be put in place before there is any consideration of other things to find out what the actual costs are

to various industries. As I said, that is the wool industry, but we also see that other industries where there is a bigger cash component certainly need to have time if that subsidy is going to be withdrawn. It was due to expire on 30 June but none of us really knew, and no-one likes surprises.

Mr Cavedon—My understanding is that the large meat processors are in consultation with government and there seems to be a working relationship with the government there, but we smaller fellas seem to have been left right out of the picture. You can see the impact that it is having on us. I would strongly suggest that the subsidy remain. If the others want to go with it, that is fine, but there has to be a concession made for game plants like ours, because it will decimate us.

Senator COLBECK—Mr Cavedon seems to have a fair bit of pressure on him from a number of people involved in the current conversations. You seem to be a fairly central player in all of this, providing services to a number of industries and the only one who does. In your understanding, is there any capacity to mitigate any of those costs through any of the processes that we have been talking about today, which you might have seen—that is, the reform process that the government is talking about as providing some reductions in costs. Obviously, you are effectively on the outer of that process but are there any things that you see could reduce your costs.

Mr Cavedon—For us as a company to absorb these costs?

Senator COLBECK—I think that is one thing you are going to have to consider as part of the process if it continues but, more importantly, can you see efficiencies in the way that AQIS operates in your dealings with them?

Mr Cavedon—Absolutely not. We look at these charges and we have looked at services provided from Canberra, because this is where it is coming from, and we have the on-plant vet. I am not sure what his take-home pay is.

Senator BACK—It would not be much.

Senator COLBECK—Declaring an interest as a vet!

Mr Cavedon—Let's be transparent. An 81,000 increase for what? To send out an invoice, for goodness sake! We did not pay any registration before, but for 'two-zero-one-nine' sitting in a file here in Canberra it is: 'Fifty thousand dollars registration, thank you very much.' For what? These are all barriers to export for us. We are getting penalised for exporting.

Senator BACK—If there is only one veterinarian, where can savings of 40 per cent be achieved? If in a big meatworks, where you have large numbers of inspectors, you can presumably achieve efficiencies by reducing some. If there is only one, how do you achieve an efficiency or a reduction and still have the person there still fully inspecting the chain as animals are being slaughtered?

Mr Cavedon—There is not. We have no room to move.

Senator BACK—I just wondered if there was some other mechanism.

Mr Cavedon—We are talking about efficiencies, but how do you make all these efficiencies? Our fees are going from \$106,000—that is the inspection fee, all up—to \$244,884.

Senator COLBECK—So it will be well over double.

Mr Cavedon—Yes. It is no longer 40 per cent, is it? See how it is impacting us? And it is going to impact all the other guys, like Michael Hastings there. His competitors are in South Africa and they have no export charges. They process their birds for leather and export the meat. How can you compete against them? So it is a really big concern. I make the point: what would these guys, as service operators, do to us if we turned around and put all our service fees up by 130 per cent? Isn't that a fair question? If any commercial business in this climate put their fees or products up by 130 per cent, what would you say to them? Let's be honest here.

Senator COLBECK—Your problem is that you are locked into a monopoly supplier.

Mr Cavedon—Exactly.

Senator COLBECK—By law you are locked into a monopoly supplier and they are saying this is the cost.

Mr Cavedon—Exactly. But I am saying let us be in a reality world. What planet are they on? We are all on planet earth.

Senator O'BRIEN—What was the registration fee?

Mr Cavedon—Zero.

Senator O'BRIEN—So there was no fee?

Mr Cavedon—There was no fee. So this \$50,000 has been just plucked out of the air. It is totally unfair.

Senator MILNE—That is one of the issues that I was going to follow up. Earlier today we had advice from various witnesses saying that there had not been an opportunity to really comment on the fee structure before anyone agreed to what the reform agenda might be and that everyone had been asked to talk about savings but actually had no opportunity to really examine that. I am hearing from you, Mr Cavedon, about your \$50,000 registration fee, which did not exist before. Dr Morgan, I see as well from your submission that there are some real anomalies in addition to a new fee. I see here, from your submission, that you were previously advised that you did not receive any benefit but then suddenly got increases and you challenged AQIS to explain how that was and then they said there were some internal linkages between wool and meat within AQIS and somehow you would get a flow-on benefit. I also see from the tables that you got one set of fees based on what AQIS had said was the real cost and then, very shortly afterwards, another set of fees which then became the real cost. Would you like to explain a little bit more fully about why you feel so dubious about AQIS striking these fees?

Dr Morgan—I would be happy to. As I said in my opening remarks, the AQIS answers to our questions change according to the questions. Right at the start, when they had said we were not beneficiaries of it we then asked how could our fees go up by that level—by 519 and 1,300 and 52 per cent—and they vowed and declared on their bible—pardon me, I probably should not say that in here—

Senator MILNE—We understand the intent. That is okay.

Dr Morgan—I am very passionate about this, I can tell you, about all its aspects. As a business person, as I have been in business before, I just cannot follow the logic of the things that they have been telling us, for them to say one thing and have the goalposts moving all the time from whether we were beneficiaries or not beneficiaries to whether the first set of fees were justified or not. Then we were told the second set of fees were going to be assessed—and that came after a Senate estimates hearing back in April, from a Senate estimates query, when they were interviewing AQIS; there were some questions that were asked by Senator Boswell in relation to the wool industry—and then we were told that the second model was correct and then, when we asked, they said it was a different veterinary officer input. My members and I find it all, as I said, quite incredible. We told AQIS that. They are in no doubt as to what our views are. I could not run a business like that. As Mr Cavedon said, you could not run a business like that. We do not know that they have got the right model now.

Senator MILNE—So basically what you are saying is you need an explanation of the fees and charges that provides some logic. Mr Cavedon, as far as your abattoir is concerned, if that abattoir were to close, given that it is the only abattoir now operating for this number of businesses, effectively how many people would be out of the export market? Mr Hastings, Mr Moir and others, what happens to people if this abattoir closes?

Mr Cavedon—It really does not—

Mr Hastings—I would like to comment on that.

Senator MILNE—Please do.

Mr Hastings—Our meat markets are Japan, Canada, America and Europe. The Australian domestic market has not been developed because we have had such strong export markets. If the game meat plant shut down, we would have nowhere to process that product, which would make our livestock effectively worthless overnight. It would mean that the stock would have to be either euthanased or paddock killed to try to salvage the skins. It would become quite a barbaric situation for our industry just as it was starting to rebuild.

Senator MILNE—Can you give me an idea of how many people are involved across these industries, both directly and indirectly?

Mr Hastings—I think that would need a little bit more investigation because of the indirect nature of the industry—for example, currently in the emu industry not all emus are processed through the game meats plant because some emu meat is sold domestically. If the game meats plant in Myrtleford were to shut down, we would have meat that could not be sold, which would then have ramifications for the other processing plants and emu farmers that are directly putting

their meat into the domestic market, let alone those on the oil side. Personally, I think there would need more investigation. I also have an exotic tannery that relies on those industries. The impact on regional areas would be far wider reaching than I can answer directly.

Mr Thompson—I would like to endorse what Robert Cavedon has just said. We in Queensland are facing that situation now because it is not practical for us to send emus to Myrtleford. The reality is that we have to find other processing facilities anyhow. I think it was Mr Hastings who said that we have to put emus through export accredited facilities because of the oil. If we finish up with a massive charge, we are going to just stimulate more production of emu oil or more emu farming in other countries in the world. There are currently many more emus farmed outside Australia than there are inside Australia. Another cost imposed on us, which is not imposed on our competitors, plus the removal of an abattoir like Myrtleford for those who are supplying in Victoria, is going to be huge.

To answer your question about the number of farmers: at our peak we had 2,000; at the present time we have probably less than 40, and all of them would be reliant on other income to support themselves effectively at the present time. Having said that, I am still optimistic, and equally passionate, about pushing the future of the emu industry, but there is a helluva lot of work to do. Any imposts will make it just that little bit harder. That is my parting comment. I will leave it to the deer industry and the ostrich industry to keep battling our cause, because we are all in the same boat. I unfortunately have to go and collect a little boy from school, so unless there are any questions for the emu industry I will make my departure.

CHAIR—Just a quick question from Senator Milne.

Senator MILNE—You said that your competitors do not have to meet the same requirements. Are you not selling into the same markets? I do not quite understand why the South Africans do not have to impose the same costs as we do.

Mr Thompson—I am sorry, you might have misheard me. I am talking about the producers having to wear the cost of their government authority.

Senator MILNE—I beg your pardon. Thank you.

Mr Thompson—We are also involved in live genetic exports. I have recently competed against Saudi Arabia, and for one small export shipment we had to cover all of our export costings, which cost us over \$6,000 for that shipment, whereas Saudi Arabia was fully funded by the government. With processing in South Africa and a number of other countries it is deemed as being for the good of the country to earn export dollars; therefore, a very limited amount, if any, of the costs of their government officials are actually borne by industry. This current proposal is looking at transposing all of the government costs into a private sector and there will be a flow-on effect down to producers where there is no free market to control those costs. Because AQIS is a monopoly, we can be forced out of those markets and it can shut down our export earners.

Senator BACK—I will also be asking the others this particular question as well. Just putting the inspection fees to one side, can you tell me what the viability of the industry is anyhow.

Mr Thompson—The viability at the present time is very marginal, unless you have major export markets. Viability for meat is nonexistent. There are several producers who are supplying oil internationally and they are doing quite comfortably, but the numbers we are talking about are less than 10. Having said that, I am in the process of negotiating markets into China at the present time with a colleague in Victoria, and there will not be enough emus in Australia to supply the markets that we are talking about. So we believe we are on the cusp of a rebirth of the industry. We do not want you to take into account the way it is today.

Senator BACK—Thank you. I did not understand that and I just wanted to know whether it was an industry that was naturally dying anyhow or whether in fact there was some potential.

Mr Hastings—The last two to three years for the ostrich industry have been very difficult because we have seen drought feed prices that have been over 200 per cent of normal prices. Also, we sell in US dollars. As you would be fully aware, we have seen the dollar get up to a peak of 97c against the US dollar. So we actually got hit doubly with those. Over the last two years we have been impacted by losses. But the current meat markets have grown dramatically, particularly in Canada, the US and Japan, to where the ostrich meat market is now totally undersupplied, which makes it a highly viable position, even with our skin markets. Because skin is in the luxury market in Italy, with the global recession we have seen the skin prices halved. In the current climate, although they can break even, they are struggling mainly because of the skins with the global recession. The meat prices have increased and, on the question of long-term viability, it is a very solid industry with growing markets. There is another group that has just entered into the Australian industry that is hoping to increase the number of ostriches to 250,000 within five years, which shows the commitment. If the model can be put together, there will be positive growth again in our industry.

Mr Moir—I will just answer the original question, which I think was about the impact to our industry if we lose Myrtleford. With the deer industry, we are having the problem in Victoria that most other abattoirs do not want to take on the export end because the rules here are that you have to have dual inspections. You have to have the state inspection and the AQIS inspection—and each of them will not accept the other's inspection. So we are very lucky if abattoirs take it on because they will be doubling their costs, even at the old rates. So that is why we are stuck with just one abattoir. It is just ridiculous. I talked to AQIS about trying to get over this anomaly, but nothing ever happens. We are just stuck with the abattoirs saying, 'Nope, we don't want to talk about it because it is an extra cost for very little return.'

Senator BACK—I would be interested in Mr Cavedon's response to my question also about the liability of the industry from his point of view, with or without this imposition we are talking about.

Mr Cavedon—Which is that; the emu industry?

Senator BACK—Just the game meat industry.

Mr Cavedon—Absolutely. We have a close affiliation with all these industries. We are a multispecies abattoir. As I have said, with a multispecies abattoir and with the game industry, it is seasonal. We have managed to keep all of our 36 workers fully employed all year round. So all

our staff are multiskilled. They can do the three species in one day; that is how versatile our plant is.

Everything is geared for ostrich, deer and emu. And the goats flow through quite well also. As with Michael Hastings, the main priority is skins. So the taking off and the handling of ostrich skin is paramount. They have gone to other abattoirs and they have only had one session there and that was it, because they had probably 50 or 60 percent damaged skins. That is the difference: we are a specialised, multi-species abattoir that will handle these animals and know how to handle them.

Senator BACK—Do you have this experience of both state and federal inspectors being involved?

Mr Cavedon—No, it is only federal. It is only AQIS. With AQIS there, whatever goes domestic goes domestic; it is fine. But we cannot do without AQIS.

Senator O'BRIEN—What category does your registration fall under?

Mr Cavedon—It is 750 to 10,000 tonnes.

Senator O'BRIEN—What is the actual volume of exports that go through your facility, roughly?

Mr Cavedon—About 90 per cent is exports.

Senator O'BRIEN—I mean, how many tonnes, roughly, to fit you into that category? I am just bearing in mind some other evidence about how these fees were structured.

Mr Cavedon—Probably 1,000 tonnes.

Senator O'BRIEN—So you are coming in at the bottom of that category?

Mr Cavedon—The bottom, yes. To step up on that there would have to be a major plant upgrade. We do 600 goats a day. As soon as you go into 1,000 you need another inspector.

Senator O'BRIEN—I was just looking at your registration fee and the category of less than 750 tonnes, before the rebate, is \$8,300, but then over 750 and less than 10,000 is \$50,580 before the rebate applies. So it is a big jump for you because of the way the categories are structured. We had, I think, a concession from the Australian Meat Industry Council that they had a hand in the setting up of the structure of these fees together with the rebate that exists. I take it you had no input or knowledge of that.

Mr Cavedon—No input.

Senator O'BRIEN—In terms of the other fees, other than registration fees, meat inspectors and veterinary fees, I am taking it you do not think they are unreasonable?

Mr Cavedon—As at 2008-09?

Senator O'BRIEN—The current fees.

Mr Cavedon—The current fees, with the 40 per cent subsidy, we could live with, but not with these here. No-one can justify them, let us face it. You cannot justify these increases.

Senator O'BRIEN—Do you have a meat inspector there?

Mr Cavedon—No, we have a vet.

Senator O'BRIEN—Year round?

Mr Cavedon—Yes, all year round.

Senator O'BRIEN—The current structure with the rebate, which is temporary, is \$82,000, according to the AQIS website.

Mr Cavedon—Last year our fees were \$92,000.

Senator O'BRIEN—Okay. I am just looking at the AQIS website at the moment for export meat inspection charges. For a veterinary officer the annual fee is \$83,000, let us say, and then there is extra for overtime, which might explain the difference.

Mr Cavedon—Our on-plant vet charges were \$92,604 last year.

Senator O'BRIEN—Just one vet?

Mr Cavedon—One vet, yes.

Senator O'BRIEN—The before-rebate annual fee is \$159,000 and the rebate built into the current structure, which I think would only apply for a year, is \$76,000.

Mr Cavedon—Since last year, what has changed? We were still in the 750 to 10,000 ton range and there was no charge. So what does that say? They have snuck it down to pick up someone else.

Senator O'BRIEN—I do not know how or why this structure arose but it seems that if you are at the bottom of one level compared to being at the top, it has a more significant impact.

Mr Cavedon—It is like throwing a dart—that will do. There is no justification. Let us have a look at all these fees and charges to charge our company. What is the justification for that? In the current climate you would say to any business that would put up these charges like this for the products they are producing: 'Go away. Close shop. See you later.' No-one would attempt even to go near you, would they?

Senator O'BRIEN—Do you say that, because we are looking at the 40 per cent rebate issue as distinct from full cost recovery—which is what the government is ultimately pursuing with a policy to try to institute reforms which will make savings against current full cost recovery

rates—we should approach this on the basis that it should be dealt with like some sort of economic stimulus in the current climate? Are you saying there should be some permanent—

Mr Cavedon—There should be a permanent concession. We are a low-volume multispecies abattoir. It is a specialised industry. No-one will touch ostriches. They tried. We have trained and skilled our workers. They are precious to us. They are local people and they do a fantastic job. Michael Hastings will vouch for that.

Mr Hastings—I will make one comment here. I hear what is being said in reference to the two different segments of consideration. Firstly, one is looking at the 40 per cent rebate. On that, I think it is very difficult to look to AQIS, which is a government organisation that is not exposed to free trade or free market, to keep a competitive pricing structure in place. I think it is very difficult to expect industry to pay full cost recovery on an entity such as that. It actually has a lot of responsibility to government in other areas as well. Secondly, looking at the rollout of the stimulus, I think removing the rebates is an antistimulus package which is going to reduce exports. I have also been contacted by a crocodile farmer who has just surrendered his AQIS accreditation. Therefore, you are also reducing the number of AQIS plants or catchment zones in order to spread those funds. So it is an antistimulus package. I also do not think that, even if we were considering this for full cost recovery, it should ever be considered 100 per cent cost recovery, particularly when trying to spread the government overheads from Canberra down into the industry sectors.

Senator COLBECK—I was interested in the duplication thing, but obviously you do not suffer that. That was one of the key areas the AMIC guys were saying was an opportunity for efficiency, but it does not exist in your case.

Mr Cavedon—There was a question to Mr Thompson about the viability of the emu industry. We have a market in Malaysia that will take all the emu meat in Australia. So it is a matter of them getting on their feet again.

Senator BACK—As a matter of interest, if it were not possible to export the meat because of containment of costs et cetera, what about emu oil? Would the export of emu oil require the same level of veterinary and other inspection, certification and documentation?

Mr Cavedon—It would, yes. But the meat itself is a saleable product. I know a lot of people have not had any success with meat, but we have. Malaysia will take all the emu meat that we produce.

CHAIR—As there are no further questions, gentlemen, thank you very much for joining us by teleconference. There was not a lot of notice of this, so we to appreciate your being able to give evidence for us today.

[2.10 pm]

NEWTON, Ms Kris Anne, Chief Executive Officer, Horticulture Australia Council

SWADDLING, Mr Stuart, Chairman, Horticulture Australia Council

CHAIR—Welcome. You have lodged submission No. 5 with the committee. Do you want to make any amendments or alterations to that?

Ms Newton—No, thank you.

CHAIR—Would you like to make a brief opening statement before we move to questions?

Ms Newton—Yes, please. At the beginning, I would like to say that some other representatives of the horticultural industries were here this morning and, in essence, we agree on almost all of the points that they made. Horticulture is vehemently opposed, as we put in our submission, to the removal of the 40 per cent rebate in advance of the promised reforms. We think that is poor policy and poor timing, particularly in relation to some of the points that the other agricultural industries have been making here today. Horticulture employs something like 130,000 employees around the country. That is approximately a quarter to a third of those employed in agriculture. There are around 30,000 growers. We are price takers, not price makers, which means that every time a policy decision is made, whether it is about labour costs, which are approximately 50 per cent of the input costs in horticulture, or whether it is in relation to fees and charges for export, it all adds to the price squeeze on growers.

Most horticultural producers will tell you that their price returns for approximately the last 30 years or so have not changed. It is only the input costs that keep going up and up, enforcing the efficiencies that we have within our industry. There is vehement opposition to the removal of the rebate and the way it has been done, because it was always our view that the efficiencies should come before the removal of the rebate—that is what was intended to be done—to cushion industry against the acknowledged inefficiencies in the system. Like most of the other agricultural industries and agricultural exporting industries, we have been calling for these reforms for decades.

I guess the major point of difference between Horticulture Australia Council's submission and those that you heard this morning is that there is a degree of cynicism. We certainly understand why, given that we have been calling for reform for decades and have not had that achieved. There is a degree of cynicism within some parts of the industry and amongst some growers as to the capacity of AQIS to deliver those reforms or deliver them sufficiently or within the time frames. We have had assurances from senior AQIS officials and the minister's office that those reforms will be undertaken and that they will be expeditious, but at this point we have to take that on trust.

We have been on the horns of a dilemma, as most of you will be aware. Effectively we were given an ultimatum, in a sense, as all the agricultural industries were, that we could either have a rebate on the fees for the current financial year or we could have the reforms. The horticulture

industry as a whole has chosen to go for the reforms and we have put our faith in the AQIS assurances that we will be able to achieve those. I want to reiterate the point that Tim Reid made earlier today, and that is that AQIS has been woefully under-resourced and there is some concern in industry about whether we will be able to achieve those reforms in the time frames that we have been given.

Senator COLBECK—Going directly to the resourcing issue, do we effectively have the same people in AQIS dealing with all of the six major players in the industry trying to drive all of the reforms from each of the sectors? Is that pretty close to the mark? That is how it appears to me.

Ms Newton—At the senior level that would be my impression, although I cannot speak to that from personal experience.

Senator COLBECK—I will have to confirm that with the department shortly. We had pretty graphic evidence from the industry this morning about AQIS's capacity to meet the time lines, which is a concern that has been expressed in a number of areas. AQIS told us last night that they were confident they could take the time lines. Senator Boswell has described it, I think fairly, as a leap of faith. You seem to be prepared to accept the leap of faith—to achieve things within the 12 months. But the guys who are actually working in the industry, some of the exporters themselves, are having a bit of a hard time with that. How did you come to the decision, as an organisation, that you thought the 12 months was achievable?

Ms Newton—Based on the feedback from our industry members. Again, we can only go on those who have hands-on experience in the field. Their expectation was that the reform agenda that we had proposed to AQIS back in March and April, and agreed in early April—of an industry self-regulated, market-driven approach, that relied on independent third party auditors that relied on revised and expanded approved arrangements and so on—was the best method for effectively moving AQIS as a monopoly service provider to industry in a competitive environment. It was thought that that was the best way forward and that, if there were a genuine chance that the government's commitment to these reforms was real, the resources would be put towards those reforms and they could be achieved in the time frame, we were happy to go with that.

One of the reforms that we have been looking at is the removal in legislation of the requirement for AQIS to inspect and certify all horticultural produce, regardless of whether that is going to a phytosanitary or a non-phytosanitary market. Quite a large number of our markets which take large amounts of horticultural produce require no phytosanitary certification at all. Unfortunately, the one-size-fits-all regulations that apply to AQIS at the moment oblige them to undertake that inspection. We think that is, frankly, a waste of time and money on everybody's part, and it would clearly be a major saving in the system if that could simply be removed.

We understand that a change in legislation will take some time, but we expect that that will happen expeditiously. Unfortunately, the horns of the dilemma I referred to earlier are that the AQIS officials tell us that no progress has been made on these reforms to date because the moneys for those reforms, for the horticulture export and the other export programs, is actually contained in the bill that you are discussing at the moment. So the export charges and orders legislation would also free up the moneys to enable these reforms to go forward. That is what we have been told.

Senator COLBECK—So the industries affected are being asked to pay for the reform of AQIS in that context? If the government will not hand over any of the money that it has allegedly got on the table for this process until it starts collecting money—which it already is, by the way; the charges are in place. It is, as was described this morning, like the alcopops tax. They have announced it. It started on 1 July. Some businesses or industries are currently subsidising that process through an agreed use of this \$40 million—so I am not sure how that is working. But effectively what is happening is that government is whacking up costs to industry by something in the order of \$50 million to \$58 million a year, and then saying, ‘We will give you some of that back to undertake your reforms.’ So you are being asked to pay for government’s reform of itself.

Ms Newton—That is certainly one possible interpretation.

Senator COLBECK—So, effectively, through this process, you have got to a certain point and now everything has stopped?

Ms Newton—Correct.

Senator COLBECK—How long has that been going on? At what point in time did everything just come to a shuddering halt?

Ms Newton—At the completion of the task force work plan. Once that was agreed and passed through to Minister Burke, as I understand it everything is now on hold until such time as the moneys are available to conduct the reform.

Senator COLBECK—So when was that agreed?

Ms Newton—Senator Milne might be able to help me out there.

Senator MILNE—The 1st of August.

Ms Newton—Thank you.

Senator COLBECK—So it is a month, effectively. Were you asked by the government or the department to put out a press release supporting this process?

Ms Newton—No.

Senator COLBECK—I only ask because I know that another industry sector was.

Ms Newton—Okay. No, we were not.

Senator COLBECK—You actually may have been out there a little in advance of that, I think. How much of the money goes to identifying reforms and how much goes to implementing reforms, bearing in mind that I think you are going to use 50 per cent of your \$2½ million on subsidised charges—is that correct?

Ms Newton—Not to the best of my belief, no. My understanding is that—

Senator COLBECK—That fell through, did it?

Ms Newton—My understanding was that the industry's vote was effectively for using the money for the reforms. If there are any moneys left over at the end, then we would consider a rebate, but at this point the priority is conducting the reforms. I do not have an exact figure because, to the best of my knowledge, no funding allocations have actually been made within that work plan as yet, although I am sure there are some notional figures being attached to that by AQIS. As you would be aware, one of the first elements of that is to actually conduct an audit of all of AQIS's costs—corporate recovery costs as well as program costs. That, I guess, is to set a benchmark to decide on what basis we are then making decisions about reform, what cost savings there might in fact be in that reform process and so forth.

Senator COLBECK—So you could not tell us what cost savings you expect might be achieved as part of this process?

Ms Newton—No, because the second part of the reform process is actually the economic modelling against the benchmark and the proposed reforms to see what sorts of cost savings there might be in that process.

Senator COLBECK—You have entered into a reform process to try and recoup the removal of a 40 per cent rebate. There is no identification yet of what the level of cost savings might be.

Ms Newton—The answer to the second part of the question is: no, that is correct. The answer to the first part of the question is: no, we did not enter into this reform process to offset the 40 per cent rebate removal; we entered into this process to get the reforms industry has been calling for for decades in AQIS.

Senator COLBECK—You have no idea how much you expect to recoup? The government said there is going to be the removal of the 40 per cent rebate, and yet you go along with the process without having any concept of what you might actually save?

Ms Newton—In dollar terms, no. We believe that there are potential significant savings in the system. I outlined one earlier involving the removal of inspection and certification for non-phyto markets, which I understand in some of our commodities is up to 50 per cent of our exports, so that is a significant saving. Clearly, as you would have heard this morning, there are some individual exporters, and one export industry in particular, who are concerned because, as they see it, they cannot believe that AQIS will in fact find significant cost savings in a reformed process. Therefore, if the costs are amortised across the remaining growers, clearly their percentage of the costs will go up in addition to the 40 per cent. We understand their concern, but, clearly, charging people for a service that is not required is an inefficient way of conducting a service.

Senator COLBECK—I do not think anyone could argue with that. At what stage did the \$40 million appear on the table?

Ms Newton—That was at some significant point after the announcement by Beale. You would have heard here this morning that that was a bolt out of the blue for most of the agricultural exporting industries anyway. It certainly had not been raised. Subsequent to making our

submission, I have heard that that has not in fact been raised, even at the Horticulture Exports Consultative Committee, certainly within the last four years. So this is not an issue that has been raised by industry.

Senator COLBECK—The \$40 million appeared about the time the opposition stuck a disallowance motion in and the minister decided he had a real problem on his hands.

Ms Newton—That is one interpretation.

Senator COLBECK—As Senator O'Brien said, there was no money in the budget for this; you should have known when it was not in the budget. Senator O'Brien has put that on the record already. There was no money in the budget for this—

Senator O'BRIEN—No, that is not what I intended to say at all.

Senator COLBECK—the opposition moved a disallowance and—

Senator O'BRIEN—That is all your assertion.

Senator COLBECK—lo and behold, there is \$40 million that appears.

Ms Newton—I cannot honestly recall the exact date when it happened, but I need to point out to you that our discussions with AQIS around the reform process started in February-March this year and came to an agreement on 3 April this year, well before any discussions or announcements about the \$40 million reform package.

Senator COLBECK—Well, obviously there was discussion from industry about the situation, because Beale threw out the time bomb—

Ms Newton—Indeed.

Senator COLBECK—and, as Senator O'Brien said, there was no money in the budget for this reform process.

Senator O'BRIEN—No, I said there was no money for the rebate. I wish you would not misrepresent—

Senator COLBECK—There is no money in the budget for the reform process either, Senator O'Brien.

Senator O'BRIEN—Well, I did not say that. You are trying to verbal me, so I am making the point of saying that I did not say what you suggested I said.

Senator COLBECK—Thanks, Senator O'Brien.

Senator BOSWELL—While you are getting—

CHAIR—I have just got a bit of a process.

Senator COLBECK—Go for your life; I'll move on.

CHAIR—Senator Sterle.

Senator STERLE—You've got the all clear, Chair; thank you! Your colleague has ticked off on letting you do that. Thank you, Chair. Ms Newton and Mr Swaddling, I refer to the introduction of your submission, where you clearly tell us that Horticulture Australia Council, HAC, represents over 97 per cent of the Australian horticultural industry, which is very impressive for a national body. As you would know—or I have to confirm—there are some big-name groups that are members of your association. Earlier today we heard from one of your members, who was holding hands with the Australian Horticultural Exporters Association. I asked them, 'I believe HAC is the peak body, and it represents the majority of industry?' to suggest that their view was the minority view of the industry. It is on the *Hansard*; it is there for everyone to see. To that, they came back and said, no, they represent the majority. I am not speaking out of school; that is what they said, and they referred us to page 6 of their submission, where there are some of your members and some other groups out there that are not obviously members of anything. Would you like to reiterate your representation of the industry on this matter?

Mr Swaddling—I will answer that one. Clearly, Horticulture Australia Council represents a very diverse group of growers and industry, something like 40 commodity sections, 20-odd peak industry bodies. It is very difficult to get a concise and 100 per cent agreement on any policy, in fact, but we do have a process which has been signed off by the industry and by our members where we go out to them with the issues and they come back to us with feedback. So we have been through a process that gives us the right to come here and say exactly what we are saying—that we represent a majority of it. We respect the right of individual growers to put in their own submissions, and I think that is self-evident, in that the only additional one is from the cherry people. We do not believe we are that far away from their point of view, in fact. It is very close. It is just, I guess, arguing over whether the government can actually achieve the reforms that need to be achieved to get a positive result.

Senator STERLE—Thank you for that clarification. Last night, when questioning the Department of Agriculture, Fisheries and Forestry, we asked what the total impact on the biosecurity budget would be for 2009-10 and 2010-11 should the disallowance get up, and we were told it would be a \$103 million black hole. What would that mean to your industry?

Ms Newton—Devastation I think would be fair to say.

Senator STERLE—Devastation to any particular group?

Ms Newton—To all of those who are exporting. If we were required—which we would be, presumably, under the current arrangements—to increase the fees and charges to the point where they covered that black hole, as you have heard this morning and as I reiterated in my opening comments, the margins that horticulture operates on are so tight and ever decreasing that any significant increase of that nature would have a devastating impact on our industries.

Senator STERLE—I do not think you could be any more honest than that. Thank you very much.

Senator COLBECK—Can I just follow on from that point?

CHAIR—Yes.

Senator COLBECK—I want to disavow you of the perception that the industry will have to wear the cost of that \$103 million. What we are talking about is the Senate allowing or not allowing the new fees and charges to go through. It is not as if the industry is going to have to carry the can for this. If the Senate disallows this, the old fees and charges will apply and the government then has to deal with the additional cost of running AQIS that it has not budgeted for. That is the upshot of this allowance. If it wants to bring new fees and charges in to charge industry, those are going to have to be gazetted and promulgated by the parliament. So I just want to disavow the concept that the industry might be up for \$103 million over two years. If the fees and charges go through, they in fact will up for that \$103 million over two years, because that is what we are debating.

Senator STERLE—There will be a black hole; we agree on that.

Senator COLBECK—A black hole in the budget, yes, I agree. I am happy to concede that.

Senator BOSWELL—You said that you were very close to the cherry growers. I thought that you were miles apart from the cherry growers. The cherry growers have said that they want us to disallow this increase; you are saying that you want the increase and you want the reforms. I do not think that there is anyone here who has said that they do not want the reforms; everyone wants the reforms. The question is: can the reforms be granted in the timescale? A lot of people say that they cannot.

There was another point raised by the exporters, and that was if you take AQIS out of the equation then those protocols that are accepted across our export markets may not be accepted. If you take AQIS out of the inspections, the protocols may not be accepted and therefore you might lose markets and it might be four or five years or even longer before you could get back into those markets—if you got back at all. Would you like to comment on that?

Mr Swaddling—It is certainly a question. They may or may not be. Certainly New Zealand, although we heard an argument against it, have been successful in putting those forward over a period of time. The real question here is that we need reforms. Currently, the system that we have is not working effectively.

Senator BOSWELL—Absolutely. No-one would disagree with that. The question is: can you get the reforms in the time? Most people have said, 'Let's get the reforms and as the reforms come we'll pay for them.' But as I have said you have gone for a complete leap of faith and put all your faith in AQIS delivering these reforms. You are picking up the bill and depending on AQIS to implement these changes. AQIS do not have a particularly good track record in doing these things. I accept that they do the best they can.

Mr Swaddling—We have to take some things on faith and we have to take the government at their word that they will proceed to bring these reforms in as quickly as possible. The status quo is not the way to go either. We are caught between a rock and a hard place. We need to move forward somehow. There has to be some ground given somewhere to move forward to get these reforms that industry has been after for, I think it is fair to say, decades.

Senator BOSWELL—What about the protocols? Are you confident that if AQIS is removed from the equation Japan, Taiwan and whoever else accepts as the controlling body will accept another provider of that service?

Ms Newton—I understand where your question is coming from. Our proposal for the reforms is in fact a market driven approach that is based on the actual requirements of the importing country. We in fact proposed a sliding scale which ranged from no phytosanitary requirements at all up to what you might call the gold standard end of Japan or the US, which have different requirements. It may well be that negotiations with those countries at one end of the sliding scale—the high end—will not in the interim be successful and fail to get those countries to accept AQIS accredited officers conducting an audit. We appreciate that.

On the other hand there are a large number of markets that do not fit into those categories, and we believe, on the basis of negotiations and discussions that AQIS has held to date, that there is every chance that the vast majority of our markets will in fact agree to the AQIS-authorized inspection model. That could be either a modified approved arrangement, where the pack house or the grower themselves is an accredited agent, or it could be an independent third party. So we are looking to open the market, if you like, to a more commercially based one where there is some competition in the market and it is not a monopolistic government agency that has sole control.

Senator BOSWELL—But it is a high risk if your customer country will not accept it.

Ms Newton—The whole point is that those exporters would not be moving to those arrangements unless the importing country agreed to accept those arrangements. So there may well be a basis for the continuance of some AQIS services for those markets for those particular products. But in other markets and other products there is no real requirement if the importing country is prepared to accept the AQIS-certified officer or agent or whatever it might be.

CHAIR—Senator Boswell has asked a very good question. If you do end up having to have some sort of arrangement whereby there is some sort of hybrid model and you are using AQIS as well, it would seem that that would cut down the potential for efficiencies in the first place—if half or some of the model had to stay the same, as it currently is anyway. When we look at our imports, we would certainly have to have a great deal of confidence in the exporting country to put in place the appropriate arrangements. So it is difficult and it does seem to be a leap of faith to assume that those countries are going to accept the changes in arrangements for our exports.

Ms Newton—We are not assuming that at all. What we are saying is that—

CHAIR—But you have to assume it to get the changes to get the efficiencies.

Ms Newton—For some countries there is no assumption at all. As I said, there are countries to whom we export large quantities of produce who have no phytosanitary whatsoever, yet AQIS's legislation requires them to inspect and certify. We have even had cases where product has landed in an importing country and been accepted by that importing country and knocked back by AQIS for some reason. That is clearly an inefficiency in the system that we could well do without. Those countries stand ready as we speak to accept the model that we are proposing. There are many countries at the halfway point—between Japan and the US at one end and Hong Kong and Taiwan and others at the other end—who are willing to accept Australia's high-quality food safety standards and high-quality biosecurity and quarantine system. Their pest lists are relatively consistent with ours and therefore they have no major difficulty in accepting something that is audited and certified by AQIS but at some distance.

CHAIR—So what evidence do you have that those countries would accept an AQIS-audited process?

Ms Newton—As I understand it, AQIS has been in the process of discussions with many of our importing countries to determine which ones will accept, under current arrangements, exactly the sort of process we are talking about—a market-driven approach.

CHAIR—How are they getting any confidence in that when we have not actually moved to any of those arrangements and do not actually know what they are going to be?

Ms Newton—It is because many of them already accept them as it is. It is simply that AQIS's legislation requires them to do the inspection and certification whether or not the importing country also requires that.

CHAIR—That is not what I am saying. What I am saying is that we do not yet have a model that is an AQIS audit with these new types of arrangements that we are talking about for reforms. You say that AQIS has had some discussions with some of these other countries to see what they would accept. But how do we know when we do not even have a clear view of what that model will be?

Mr Swaddling—It could well be based on the New Zealand model, which some countries have already accepted. Given that we are almost partners at this end of the world, that is not unreasonable.

Senator O'BRIEN—Would there be savings with the New Zealand model?

Mr Swaddling—Absolutely. As Chris said, it seems ludicrous to us that you have to get a phytosanitary certificate to export when the importing country does not require it. I have been in that position myself exporting live plants. It is a pain, and a cost.

Senator O'BRIEN—Your assumption I take it is that, if the field inspection services were performed by someone regionally based, say, who was not an AQIS employee or a certified employee of the exporter, it would be considerably less expensive.

Mr Swaddling—It would certainly be good to see competition out there, and if you had one or two to choose from an element of competition and true cost effectiveness would come into play, hopefully.

Ms Newton—But, clearly, there are enormous travel costs, for example, in AQIS inspectors coming out from metropolitan state capitals into regional areas. If someone were based in Kangaroo Island, as Senator Colbeck raised this morning as an example, it would be possible if they were multiskilled to ensure that they had the capacity to actually make a living and deal with a wide variety of product without having extensive travel time and travel costs. Yes, we believe there are significant savings possible on that front.

Senator MILNE—I want to go this issue of getting rid of the inspections for export markets that do not have phytosanitary arrangements. What percentage of the export market is that?

Ms Newton—For some of our product, as I said earlier, it is in the range, I understand, of about 50 to 60 per cent. So that is—

Senator MILNE—Can you be more specific.

Ms Newton—It is the market rather than the produce, I think. So it would be to places like Hong Kong, Taiwan, Singapore and, I think, some of the other Asian countries. I am sorry but I cannot recall them off the top of my head.

Senator MILNE—If that is an obvious efficiency and it can be done legislatively, has the industry put that to government before?

Ms Newton—Absolutely.

Senator MILNE—For how long?

Ms Newton—As I said, we discussed those issues with AQIS and it was signed off by senior AQIS officials and the minister back in April.

Senator MILNE—Has anything happened?

Ms Newton—No.

Senator MILNE—Nothing has happened?

Ms Newton—It got caught up in this reform process and is included in the ministerial taskforce work plan as part of moving to a market-driven industry-self-regulated—

Senator MILNE—I know it is in the work plan but the point is it could be done by legislative instrument overnight and does not need to be in the work plan; it could have been done by now. I will just come back the fact that a lot of what your acceptance of the fact that AQIS can do this in 12 months is based on various undertakings that they have made. Yet we heard from witnesses this morning that they have already put their people through training for these approved

arrangements and AQIS has not come through with the paperwork. This has gone on for two or three years and now industry is going to have to go back and re-train people.

Ms Newton—Indeed.

Senator MILNE—That is just one person that we heard from today and I am assuming that that is not an isolated case.

Ms Newton—No, it is not.

Senator MILNE—Can you tell me if that is an isolated case or if that is a general thing across a variety of sectors?

Ms Newton—I do not know that I would say that it is a general thing, but I understand that it is certainly not an isolated case. It goes right back to the point that I was making earlier in my opening comments: we believe that AQIS is woefully under-resourced to actually do the jobs that they are supposed to be doing, and that is an excellent example of exactly the sorts of things that happen.

Senator MILNE—So if they are already woefully under-resourced and cannot complete the work and are actually imposing additional costs on industry because of that, why are you confident that they will be able to do it between now and May, given that that is the case?

Ms Newton—It is a leap of faith. We are taking on trust their and the minister's assurances that this can be done and will be done.

Senator MILNE—Further to Senator Boswell's question in relation to this, what undertakings have you had from the Department of Foreign Affairs and Trade, who negotiate these protocols with AQIS, that any of these markets that currently do not accept the approved arrangements are likely to do so within a time frame between now and May? Has the government actually given you any specific examples of a country that is likely to do that where they have any kinds of advanced discussion in relation to that?

Ms Newton—We have had discussions with AQIS, but we have not had any discussions with officials from DFAT. We have indications, but we have been given no guarantees.

Senator MILNE—What is the indication from AQIS then that any of these countries are going to accept these approved arrangements by May next year?

Ms Newton—It is not just approved arrangements. I need to say it is also the independent third-party auditors. We have been given no guarantees whatsoever. We have been given suggestions that discussions are progressing positively and it is as broad as that. We have been given no market names and no guarantees.

Senator MILNE—Basically the work plan that was agreed identified the main efficiencies being in removing the level of AQIS inspection, going to a variety of other arrangements and getting markets to accept that in the time frame, but there is actually nothing on the table with any real guarantee about it being achieved in the time frame. If it is not, come May next year,

then you are going to have a whole lot of exporters who may well have the accreditation through the approved arrangements but are still, as we indicated, having to pay AQIS anyway having already paid for the training up of their people and so on.

Ms Newton—That would be the worst downside outcome, absolutely.

Senator MILNE—It is a fairly big risk then isn't it?

Ms Newton—It is. Our industry, as I indicated earlier, has indicated to us that overall it is a risk that they are willing to take because these reforms are so desperately required. I need to reiterate that the reforms are not simply about the approved arrangements and so on. As you have seen from the work plan, there are IT issues, the 24/7, EXDOC and all those sorts of issues. Of course, this is all a precursor to the proposed bill reforms which industry awaits eagerly, particularly in relation to the complete upgrade of the IT system, platform and the software that is related to that which will, we believe, lead to significant improvements in efficiency and cost effectiveness. These are the reforms that industry believes can be put in place independently of and prior to any reforms that the bill reform process might attend to.

Senator MILNE—There is one other issue that has been raised by a number of people—that is, that there is no rhyme, reason or explanation, in many cases, for the fee level that is struck by AQIS. Suddenly, you are told this is the fee and it is justified and yet we have had quite a few examples where there is a different fee quoted, it changes and so on and there is no real understanding of the process. I heard you say earlier that in the work plan the first thing that is to be done is a review of the AQIS fees. Can you explain to me who will do that review? Is this the fox and the chickens?

Ms Newton—I hope not.

Senator MILNE—Who will do the review of the fees then?

Ms Newton—The intention of the ministerial task force was not to review the fees it was to review the AQIS cost structure that underlies the fees that are set. That would be undertaken by an independent auditing consultant, not by AQIS and not by industry but by an independent body.

Senator MILNE—What was the time frame on that audit being completed?

Ms Newton—It was very prompt and, unfortunately, until the moneys are released that will not be available. To go back to the issue of the fees being set you have raised an important point. It has certainly been an issue for our industry. You will have heard from Mr Ranford this morning about the different model that pertains in South Australia. It has been an issue that the Horticulture Exports Consultative Committee which is, as we pointed out in our submission, rather misnamed since they were, as Mr Scott pointed out in his evidence this morning, not actually allowed to consult with anyone since they were covered by confidentiality agreements.

They were the ones consulted by AQIS about setting the fees, but they were not in a position to then go out and consult with their industries or their growers about that arrangement, which we think is not a very effective way of setting anything when the end user is actually going to be

the one who pays the fee. One of our reforms has been to make sure there is a broader representation on HECC or any other so-called consultative committee and that, unless it is absolutely necessary, confidentiality requirements will not apply. So then they are actually in a position to consult broadly with the end payers.

Senator MILNE—As a final thing, one of my concerns here is that you have a process working with approved arrangements on the assumption that other countries are going to accept these, and we have no guarantee that that will be the case. We hope it will be the case, but we do not know it will be the case. So there will be a cost associated with that. We are having a review of the fees and the cost structure that is generating those fees, but any efficiencies there will also be dependent on whether other countries accept the approved arrangements. If they do not, you are going to have to maintain more people employed by AQIS and you will have a cost structure underneath which is more expensive. The problem with this is that the answers to these questions all depend on whether those other countries are going to accept any of this. We are not going to know that for 12 months. We heard this morning that it could take 18 years to get access to some markets. That is the worst-case scenario.

Ms Newton—Japan and the US, yes.

Senator MILNE—So 12 months sounds like it is pretty accelerated.

Ms Newton—As you will have heard from Mr Scott in his evidence this morning, many countries already do accept the AQIS accredited agency or AQIS accredited officer approved arrangements. This is nothing new. All we are talking about is expanding that, wherever possible, to meet the requirements of the importing country, as opposed to the current legislation that covers AQIS. It is not as though we are introducing a whole new kettle of fish here. These are already accepted programs for the vast majority of importing countries that we deal with.

Senator MILNE—Yes, but we heard from the New Zealanders that it is not quite as straightforward as that.

Ms Newton—Japan and the US would probably be the two importing countries where your question is most pertinent.

Senator COLBECK—And the major markets.

Ms Newton—And the highest value return markets we have, yes.

CHAIR—Mr Swaddling, Ms Newton, thank you very much for being with us this afternoon.

Ms Newton—Thank you.

[2.53 pm]

DELANE, Mr Rob, Deputy Secretary, Biosecurity Services Group, Department of Agriculture, Fisheries and Forestry

READ, Mr Greg, Executive Manager, Food Division, Biodiversity Services Group, Department of Agriculture, Fisheries and Forestry

CHAIR—Good afternoon, gentlemen. Nice to see you again. I have to do the usual formalities. Senators are reminded that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prevents only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. Officers of the department are also reminded that any claim that it would be contrary to the public interest to answer a question must be made by a minister and should be accompanied by a statement setting out the basis for the claim. Would you like to make an opening statement before we move to questions?

Mr Delane—No. I think we will let you use the time.

CHAIR—Thank you, gentlemen. Senator Colbeck.

Senator COLBECK—Mr Delane, this morning in evidence the Australian Meat Industry Council indicated to us when asked about the press statement they made on 17 June that they did not volunteer it but that the department had asked for it. Who asked AMIC for that release?

Mr Delane—I do not remember anyone being asked for a release.

CHAIR—They were very adamant about it.

Mr Delane—They may well have been adamant about it. I do not remember anyone asking for a release. This was in a very intense period starting well before that, as I think the Senate is aware. In fact, there was very robust and sometimes quite hostile interaction around the fees and charges schedule that went with the higher cost from representative organisations, from representatives themselves and from individuals within the sectors. A range of us had a lot of direct and telephone interaction with people in the sectors. The discussion also shifted to how industry could not deal with the increased fees and charges et cetera. We had by that time sought to establish what I think I described yesterday as a mature but robust relationship with industry sectors which was clearly not present before. Basically, industry consultative committees and organisations simply sought to drive down AQIS costs without partnering with us in making sure that the centre of business to centre of business arrangements were optimal and therefore efficient. We had come from a long period of subsidy where the focus was on driving our costs down. We had to re-establish that relationship, so we were talking with industry about how we could move forward, how we could start to strip costs out and how we could get efficiencies.

Senator COLBECK—Mr Delane, I do not think we need a timeline. As the chair has said, they were very definitive in their view that they were asked for a press release, and I would like to know how they got that impression.

Mr Delane—As I said, I do not remember anyone asking for a press release. What we did say to industry sectors and their representatives at the time was that this was a very important reform, that it clearly was not going to be successful if we were standing off each other and if all that industry was going to do was simply criticise us and the government. We did indicate through various conversations that industry would need to demonstrate their support for that. I think all of the affected sectors provided written support directly to the minister or his office on that, and I think three of them issued media releases. They did that of their own decision.

Senator COLBECK—What instructions did the department get from the minister's office about the need for some expression of support for the process that was going on?

Mr Delane—I am pretty sure that we did not get any instruction. We are trying to run a very difficult business. We have to do that in partnership with industry. Obviously there was quite a lot of discussion going on with, if you like, government, through the minister's office, ourselves and industry organisations. We did not ever receive any instruction that I am aware of to request or demand industry provide letters, media releases or the like. But we certainly conveyed to industry that if we were going to move forward on this, they would need to demonstrate their support.

Senator COLBECK—So it was implied but not expressly said that there was an expression of support required, bearing in mind that this was also in the context of a disallowance motion that was imminent in the Senate and that from a government perspective an expression of support would be a critical factor in whether or not that process continued or not.

Mr Delane—Sure. We are still in a situation where we cannot move forward with reforms and effectively and efficiently run part of a very important business for AQIS and for these industry export sectors because we do not yet have certainty. They do not yet have certainty. Clearly we, as the operational agency, had interest in having as much certainty as possible as early as possible, and we have had a lot of interaction with industry to try and achieve that.

Senator COLBECK—So in that context the message went out. You say you did not have specific discussion, but obviously there were conversations occurring with the minister's office saying that industry support was important, and you conveyed that to the industry.

Mr Delane—Yes, and I am sure we were conveying that to them ourselves in any case—that they had to support that. We certainly would have discussed the question: how do you actually do that? Are you going to have to do it in writing or by some sort of public statement? So we would have had discussions with industry, whether they asked us or it came up in conversation. As to exactly how that would be initiated and how it would be performed, I cannot remember.

Senator COLBECK—So there was a strategy developed with the minister's office on how—

Mr Delane—No, I did not say that.

Senator COLBECK—I am just asking the question; I am not making a statement.

Mr Delane—No, you made a statement.

Senator COLBECK—I had not finished. I am asking a question, and I will phrase it differently if it suits you. Was there a strategy developed in conjunction with the minister's office to gather expressions of support from the key industry sectors to ensure that there was public support demonstrated for this process?

Mr Delane—The only thing I can say with confidence is that clearly we had discussions about the importance of industry demonstrating its support.

CHAIR—What were the reasons for that? Why was it important?

Mr Delane—I think we discussed yesterday—I think in response to a question from Senator O'Brien or Senator Back—the implications for the running of the export certification services of not having new fees and charges in place.

CHAIR—No, I was asking why it was important to have that public support.

Mr Delane—I think it is fairly self-evident.

CHAIR—Yes, but I am just asking you to place it on record.

Mr Delane—If there is to be disallowance of the fees and charges, we would have great difficulty delivering what industry desperately needs us to deliver, which is efficient export certification services including, to the extent that it can be done, improving market access services and therefore improving market access.

CHAIR—Because the only bucket of money available exists if that 40 per cent subsidy disappears.

Mr Delane—I think we ran through the scenarios yesterday.

CHAIR—I do not mind if we ran through it yesterday; we can run through it again. Just answer the question.

Mr Delane—We ran through the two scenarios yesterday. One is, if you like, safe passage of the new fees and charges, which by government decision were supported by an industry reform package to try and capture as much efficiency as possible and therefore minimise or remove the net imposts on industry. That is one scenario, and the alternative scenario is disallowance of the fees and charges. I think we ran through that. Subject to there being inability to establish new fees and charges to recover that situation before the start of 2010-11, we would end up with a \$103,000 challenge within the department.

CHAIR—Okay, but I go back to a very simple question—and this is just a yes or no so we can understand it in English.

Senator COLBECK—Good luck!

CHAIR—The only money that is going to exist to support the reforms that are being put forward is the money that would come from not going forward with the current 40 per cent subsidy?

Mr Read—No.

CHAIR—So there is another bucket of money available to go to the reforms?

Mr Read—No, but the question is not accurate. The proposition is—

CHAIR—No—

Senator O'BRIEN—No, you cannot insist a witness answer the question in the way you would like it answered. You can ask the question and ask if the answer is relevant.

CHAIR—I only want two words and then a stop, so the witness can answer the question.

Senator O'BRIEN—It sounds as if that is the way you were going, but you cannot get the witness to do so.

Mr Read—The funding concludes notwithstanding on 30 June. There is no further funding after 30 June. It is not diverting 40 per cent anywhere. There is no funding. The proposition of reform was a concept that is built in partnership, as Mr Delane has said, over a period of time leading up to that point.

CHAIR—But the point is that industry have said, and we have had a significant amount of evidence to this, that they have been prepared not to say that they want to support keeping the 40 per cent subsidy in a trade-off for being able to do the reforms.

Mr Delane—Yes, industry has said to us—in fact, I think it is evidence from the fact that only two sectors have chosen to use rebates to date—that they want reform. It would have been fantastic if we had been able to continuously reform our services and our impact on their business over the last eight years, but the relationship has not been such to do that. There was an opportunity here that had to be grasped with both hands and the imperative was clearly there with each of the industry sectors, because of the increased cost, for us to work very closely together to identify efficiencies in our business and efficiencies in the partnership that we must have to achieve export certification and to achieve those as quickly as possible and ideally for them to equate to the additional cost. I think that was very clear to each of the industry sectors and to their leaders pretty early on.

CHAIR—Somebody turned to an ultimatum. Sorry, go on.

Mr Delane—Well, we do not accept it as an ultimatum. The provision is there for cost recovery. We developed the services that we believe are necessary to ensure that industry can have the certification it needs to access markets to which they want to export. The simple fact is that a legitimate AQIS certification is fundamental to that and it has costs. The services are

developed around that. The costs are developed around that and the new fees and charges are developed around that. They are made by the government and they are tabled here.

CHAIR—I am sorry to have interrupted you, Senator Colbeck.

Senator COLBECK—I will follow from where you are, Chair. Mr Delane, you talk about the options that were provided to industry. They have told us today that it has been put to them, in categorical terms, that it is the rebate or the reforms; that is what they have been told. They have put that to us in exactly those terms. Industry sector after industry sector has come in here and told us today it is the rebate or the reforms. In fact, they have also told us that the reform process has stopped, has been put on hold effectively, because there remains uncertainty as to whether the rebate will be allowed to be removed. So effectively everything is on hold. The time frames and all the work plans have stopped, because it is the rebate or the reforms. So I do not see where there is an option that is being offered to industry. It is basically the opportunity that arises effectively with a gun to the head: ‘Take that one or that one. That one there has got a bullet and that one there has got a bullet. Take the option.’ That is effectively what they have been told. That is our evidence. I am not trying to make anything up. That is the evidence that we have heard very clearly here today from industry. They have been told: ‘Rebate or reforms. Everything’s on hold until we know whether we get the changes to the fees and charges.’

Mr Read—The very clear proposition, and you have heard the evidence today, was that there was clearly a recommendation that was put forward by Beale and that is one that was supported by government and it is one that we have been implementing over the last seven months. That funding concluded on 30 June. The opportunity for industry and the opportunity for us has been as to that event. You have heard from the horticulture sector. That was one of the first times I have actually seen a coalescing of that very broad sector around a focused agenda, which is reform. Each of these areas have now got their minds clearly in that space. This reform package, the ECRP, provides the impetus for that. That is what has been on the table.

Those sectors in the industry have had the choice, with the funding allocated to each of them, as to whether they would drive reforms with that funding. Horticulture, for example, has been one that said upfront from day one, ‘We will take the money and we will see what we can reform with that money.’ The meat industry has said, ‘We’re going to put \$10 million in and burn it’—as they described it—‘for the first three months of the year and, with the residual, we’ll drive the reforms in that.’ So it has been the opportunity for them within that package to determine to a large extent whether they wish to transition more slowly from the subsidy back to the full cost arrangement or to drive a range of reforms. But, frankly, it has been this package, this event and this focused effort—it has been really intense over the last four months—with all these industry sectors that has really put us in a place at the moment that I have not seen us in, in terms of opportunity, for the last eight years. In these sectors—and again this is from hearing the evidence here—there is a lot of support around this reform agenda. That is, frankly, where we are at.

Senator COLBECK—I agree with you: there is no disagreement with respect to the reform agenda. There is significant disagreement around the process. That is the focus of what we are talking about now.

Mr Read—But, on the process, there is an argument from the sectors—and I can understand the argument—that goes, ‘We would like the support of the subsidy while we transition with the

reform agenda, and the dollar you save there we are prepared to forgo.’ That is the argument industry is making. This subsidy has been in place since 2001, and since 2001 probably has accumulated to almost \$300 million. If you asked me what reform has occurred as a consequence of that—and it is actually a prepayment, if you want to view it another way—up to this point, I would say it has been minimal.

Senator COLBECK—But, by the same token, that is not necessarily because of lack of effort by industry. We heard this morning from the horticultural exporters about the fact that they have put their people through a certification process so that they could, hopefully, gain some efficiencies from that process, and yet AQIS has not been able to finalise its end of the deal.

Mr Read—I am not sure about all the circumstances around that, but the proposition I always say to the industry sector—and it is one I abide by and I know Mr Delane does as well—is that we do not need to be in a regulatory space. We do not want to be there. If the import authorities do not require us to conduct an activity, then we are not in it. That is our proposition.

Senator COLBECK—I think that is what industry has generally said to us today, so we are pretty much on the same page there.

Senator BOSWELL—Isn’t that contrary to our last witness, who said that AQIS were not required to inspect some food going into Hong Kong?

Mr Read—The proposition was around horticulture and non-phyto markets, wasn’t it? There are two tiers of arguments occurring in that industry. One is at the level that you heard with the HAC, which was, ‘Let’s deregulate, in a sense, and require AQIS, where the markets require phytos, to issue the phytos.’ Then you have the AHEA view, which is that all that is going to do is, on those protocol markets, move the whole cost base into that space and disadvantage a range of those markets. In a sense, you are required to have the other back markets being the non-phyto markets. There are a whole set of discussions that swirl around in that. Frankly, industry still has not got its mind reconciled on the best way of dealing with that issue.

Senator COLBECK—But, if you are not required to provide a service into a market, why is there a cost base to be transferred?

Mr Read—Because there are infrastructures that sit around that. You can have the purest argument—and we abide by the comment you are making there; if we do not need to be in there, we will back out—but industry has not yet said to us: ‘Deregulate horticulture.’ If they came to us tomorrow unified and said that, we would certainly do that and we would certainly only issue certificates to phyto markets. But there is still not unanimous support in the industry to do that.

Senator COLBECK—But wouldn’t there be a cost saving to you and to your operations and a consequent reduction in costs and overheads?

Mr Read—Not necessarily at all. That probably would not be the case.

Senator MILNE—We heard from horticulture a minute ago—

Senator COLBECK—That that is a potential saving!

Senator MILNE—that they have been asking, for some time, to get the inspectors out of those markets and that they asked as recently as April this year, I think they said. It has not happened and they have been told that it has not happened because it got tied up with this process. But you are saying that you do not want to be there anyway and could have got out of it. What is stopping you?

Mr Read—I am saying there is not a consensus view. You are talking about the comments that HAC raised here; AHEA do not have the same view. They have opposing views on that point. I happened to chair that meeting, so I know the discussion that took place around that. If we can work it to a unified position where we have deregulation, we will support that.

Senator MILNE—But the point we are making here is that one of the identified savings that we heard about just a minute ago is AQIS not having to inspect where inspection is not required. What we just heard you say is, ‘Not necessarily, because the infrastructure will still have to exist whether it is inspecting into those markets or not.’ I presume the argument you are making is that whether the approved arrangements can actually get access into those markets that do require the higher level of inspection is the other side of the equation.

Mr Read—Correct. It is very complex.

Senator MILNE—I want to come back to that when I get my turn.

CHAIR—I have one question before we go to Senator Colbeck. If the disallowance goes ahead and the government keeps funding the 40 per cent rebate, will the \$40 million reforms concurrently go ahead anyway?

Mr Read—If this fee is disallowed we will revert back to a fee that was in place in the last financial year. That fee is set at a price that is discounted. As to whether and how that gap will be filled, we do not know.

Senator COLBECK—When is it proposed to review the new fee structure that we are discussing at this stage? What is the review cycle for those fees?

Mr Read—As you would read in those papers, there is a range of those sectors at the moment, from a detailed economic analysis of the structure of the horticulture industry to improved arrangements to market access, the dynamic of the various demographics of exporters that exist, the Ernst & Young review of meat and so forth. There are a range of these reviews occurring. Once those reviews are completed and they identify the most equitable way of distribution of those costs through their export supply chain then the proposal will be made to us about how we should change those fees to give effect to that proposition. Equally, in parallel with that is that these fees have been set to fully recover costs this year on the base of around \$115 million. As these forms progress, that will keep reducing. So there will also be a need to see what type of fees need to come in place for the reducing cost base that it needs to service. It will be as and when industry approach us with the desire to have those fees and charges changed to suit those parameters I have just outlined.

Mr Delane—One of the related things that we are keen to have with industry is a forward-looking plan. So instead of the previous relationship, which was largely around issues

management at the time that we came together, with perhaps and perhaps not an annual review of fees and charges, we could actually have a three-year outlook plan for the sector so that we can start to identify where the market is shifting, where the business is shifting, perhaps where we need to reconfigure services and where under a cost recovered arrangement we might need to do some developing work. You cannot do that if you do not have a forward plan.

Senator COLBECK—I understand that, and I asked the question in the context of how any potential savings that might be identified through this reform process will be passed on to the industry. You said to us yesterday that there was a potential \$103 million cost to industry over two years. But the fact that you have said that your ambition was to complete this process within 12 months placed a question mark for me over the potential cost for the second year because, frankly, if you are going to complete this process within 12 months—and we will deal with that in a minute—at that point in time there should be some review of the these structure so that if some savings are achieved or identified they can start to be passed on to industry.

That is the context within which I was asking the question. That brings another context into it for us with respect to what goes on. There is, as far as I can see, no defined time frames for review of the fees in any of the material that I have seen so far. So, theoretically, a government decision could be that the fee structure remains as it is, unless there is something that is written into the industry plans with industry.

Mr Read—That is upfront in that meat plan.

Senator COLBECK—Okay. But we have only seen the two plans at this stage. We have seen the live industry plan and we have seen the horticultural plan. We have not seen anything else, because they are not finalised. So unless there is some agreement that is reached and written into those processes—that is the context for me asking that particular question.

Mr Delane—While Mr Read looks to see if we can add to that, what we are seeking with industry is a dynamic, forward-planning partnership where, as savings are identified, as accumulations in industry liability accounts or, looking forward, shortfalls look like they will develop industry liability accounts, we actually plan for when those fees and charges will be reviewed. If the industry structure changes, if we remove the requirement for certification for some markets, that needs to be factored in. That is what we are really looking for, which is a very different dynamic from how we are used to dealing with industry in these areas.

Senator COLBECK—I understand that but I wanted to ask the question in the context of achievement of the savings that industry would hope to see as part of the process, but also you mentioned \$103 million over two years. Potentially that could change, depending on the reform process?

Mr Delane—Yes, it could. It remains open to the industry sectors to come back and ask. If the pace of reform were slow for one reason or another, it remains open for industry sectors to come back to us and come back to the minister and seek the late-in-year application of some rebates.

Senator COLBECK—Mr Read, you were pretty confident last night in your evidence that you would achieve the reform process within the 12 months. We know that the government has said that is what it wants to do—that it would like to achieve this process within 12 months. But

we have had two fairly significant sectors here today throwing what I would suggest is pretty significant doubt over that occurring. The meat industry said that it is a three- to five-year process, with a minimum of two for the majority of reforms. There was some question over that process from the horticultural exporters, too. Given your confidence last night, I thought it was worth having a further discussion about that.

Mr Read—I think the plan across each of those sectors is very doable. The meat reform agenda, which AMIC talked about earlier, that we have jointly signed onto is an initiative that will be rolled out over two years. What needs to be done by 30 June we are very confident we can do by 30 June. In terms of the resources for this program, as you have heard earlier, if the fees and charges are allowed to pass, then we will essentially be drawing immediately on the \$39.4 million. We have staff identified that will be part of a reform branch that we will quickly establish that we will use to man and resource the driving of each of these initiatives. It is not about one or two people doing it; this is about each of these sectors working through a range of their service-providing bodies that they have set up like Dairy Australia, LiveCorp or AMPC—all those bodies sit out there. We do not just intend to sit in our offices and do it by ourselves in isolation. It is very important through the partnership that we all break up this very big exercise into biteable chunks. We will be taking ours on and they will be taking theirs on and we will have a plan that overarches that.

Senator COLBECK—We discussed that particularly with the live exporters this morning—that they had taken a significant role in particularly the electronic reform process.

Senator MILNE—I want to go to the fee structure issue. We have heard a lot of evidence where people simply do not understand how the government comes to the fee structure that is charged. For example, we heard today from the abattoir at Myrtleford, a multispecies abattoir. Suddenly they have been hit with a \$50,000 licensing fee, which did not exist before, for apparently no extra work. Can you explain that to me?

You can see why there is a degree of cynicism here, and I will just add to that. The wool industry representatives here earlier also cited evidence of AQIS having said that they do not benefit. They do not get any of the rebate and they do not benefit. Then they are struck with one lot of fees, and then another lot of fees is given to them and when they ask what the basis of these fees is, they are told that that is the appropriate cost structure. Can you answer that?

Mr Read—More generally, in terms of the registration, registration fees have been in existence since 2000 or 2001. The registration fee has always been there but it has always been the first fee that was offset with the 40 per cent. So it has always been in place and in fact was readjusted again in 2005 to essentially reflect the infrastructure costs within the AQIS meat program, the fixed-cost elements of the program.

But it has been a cost that has been one that has not been pushed out. The one that has been reflected in the invoices that have been sent out is how we describe the variable costs—the use of meat inspectors, the use of ATM resources, the verification resources—and we do that because they are the resources obviously that variable. They are the ones we have got some opportunity of creating efficiencies around. So throughout that period from 2001 to the present day it has been a decision where you have got the fixed costs of the program, which are more aligned to the registration, offset with the subsidy. Then you have got the variable costs of the

program, which we have tried to make as transparent as possible to the industry sectors, indicating that the use of the resource is reflected in the cost of the resource. In terms of Myrtleford, that \$50,000 expressed there would have been something that they would not have seen before—I understand that. But it was always present in the structure of the fees and orders but it was just set at zero.

Secondly, in terms of their costing, I think I saw the submission and they had ATM charges there of about \$12,000 or \$14,000. Effectively, they have calculated that incorrectly. That should be nil. The other cost that they have got there is the veterinary cost, which I think is about \$185,000, which is the cost of a vet applied to an establishment for 12 months.

Senator MILNE—Wouldn't you agree though that if the people running the abattoir cannot understand where the fees suddenly came from then AQIS and the government have got a problem in telling people what the underlying costs are and how they pertain to them. People will pay fees if they think they are fair and really reflect the costs associated with running a business or whatever it is. But when the cost suddenly goes from zero to \$50,000 and they are then told that for the last eight years that cost was absorbed elsewhere and now it is not and it is going to be with them, you can see why there is a high level of cynicism. Also, if they are not expecting it, a business of that scale, what are they to do with a cost on that scale suddenly coming in?

Mr Read—I understand the point. In terms of those sectors as well, we consult with industry and their representatives three to four times a year. We have been doing this every year since we have been involved with AQIS. We put very transparently all our costs on the table—the operations of the program and the overheads and the support costs that sit around them—to show how fees and charges are calculated. They have been a partner with us right through this process.

Yes, you do have individuals in the industry that are not connected back into those association networks and the communication that flows backwards and forwards from their members. We keep trying to find those and we keep trying to deal with those when we do identify them. We will look at that more closely but it is not from want of trying to ensure that all participants out there involved understand exactly what we are doing.

Senator COLBECK—You can send them a bill for their fees and charges, but you cannot find them to tell them what is going on.

Senator MILNE—Yes.

Mr Read—I have been in meetings three or four times a week with all these industry sectors since January around these issues—

Senator MILNE—Yes, but the point we are making—

Mr Read—but not with every member around Australia across every one of these. I certainly would not have talked to everyone once around. I have been talking to their associations and their representatives.

CHAIR—You just indicated that you could not find all of these people, and that is obviously fair enough, but if indeed you have sent them—

Senator MILNE—A bill.

CHAIR—a communication clearly outlining their fees and charges then surely you would be able to find them.

Mr Read—I have just explained to you that those communications have been run through consultative networks with the associations that these people are members of.

CHAIR—There have been some concerns raised today about lack of consultation on precisely that issue, so will you undertake to go back through the *Hansard* and make sure you communicate with those parts of the industry that feel as if there has been no communication on this issue, given that you have just said you are happy to find them if you can?

Mr Read—I am always looking to improve our communication process with our industry stakeholders.

CHAIR—So that is a yes?

Mr Read—Of course it is.

CHAIR—Good. A simple yes would have been fine.

Mr Read—We have been to industry organisations and individuals, and a whole lot of individuals have come to us. We have had to work through their particular circumstances to explain to them how the new fees and charges schedule relates to their business and how one going up and one going down translates into a similar sort of increase in costs to what everyone else has, even though their business structure might be extremely different from the others. To get across every individual business, because there are a lot of different business structures, is obviously quite a lot of work.

Senator MILNE—I will just return to the fees and charges issue. In the submission of the Australian Council of Wool Exporters and Processors, they indicated that they were advised that the wool industry did not receive any benefit from the 40 per cent subsidy. Hence they were surprised at the size of the increases given that they had never been a beneficiary. When challenged, AQIS advised that there were some internal linkages between wool and meat within AQIS and therefore the wool industry did gain some flow-on benefits. You would have to agree that that is completely contradictory.

Mr Read—I am not quite sure about the detail of that advice. The issue with the wool industry is that they go out under the non-prescribed certificates. They require AQIS certificates to enter into a range of markets. We do not regulate. If they need a certificate, they come to AQIS and ask for a certificate. The cost of the certificate—where we have set the EXDOC certificate for those non-prescribed goods—is the cost required to man those arrangements for all non-prescribed goods. There is a large membership of goods that go out of this country that are not captured under our legislation, and they are called non-prescribed. Whether it is

eyebrows, udders, wool products, blood products or a range of things, they all require, in most instances, some form of AQIS certification. Some of those goods require quite detailed verification; some of them do not. Wool, at this time, requires us to issue an attestation that may not require a lot of verification behind it. In the future it may require a lot of verification behind it depending on the demands of the countries where that product goes. The pool of activity that is in there dictates that whatever that final cost per certificate is—I cannot remember; I think it is \$65 for an EXDOC certificate—that is the cost required to service those sectors that are in that pool of non-prescribed goods.

Senator MILNE—But they then go on to make the point that they were given a set of charges and were advised that the charges had been costed correctly and that they were justified.

Mr Read—Correct.

Senator MILNE—And then shortly afterwards they were provided with another set of charges which they were then assured had been properly costed and verified. If the first lot were not right, why did they say they were properly costed?

Mr Read—It depends on how far to the end of the certification chain you move the costs. The first set of fees we had out there was, essentially, not set; they were fees that were out there for discussion and consultation. Those fees were set a lot higher than they are at the moment, but it took a lot of the costs off the abattoirs, which moved a lot of those costs to the end of the certificates. It was seeking to ensure that the benefactors at the end, whom the certificate was issued to, were wearing a share of the cost, because there is a whole lot of infrastructure that leads to that point. That was the proposition we commenced with. Industry wanted us to regress from that, which we understood and which is why the second fee was established; it was not that it was inaccurate. It would have been dropped, but the others—those that sat on abattoirs, for example—increased to offset that. So both statements are true; it is just that the costing arrangements were different.

Senator MILNE—But you can see why there is a great deal of confusion here about the cost structures that underpin the fee system. We heard from horticulture that one of the first things that is going to be done in the reform program is looking at the cost structures underpinning horticulture. This brings me to the point we raised earlier when we were talking about Senator Boswell's comments: my concern here is that we had a cherry grower, for example, give evidence today that he was looking at going to the AA system but AQIS failed to conduct the audits and certification that were required at the end of the process, even though he had paid the money to train people. He also said that this has been going for three years and that he will now have to pay people to do refresher courses because AQIS has not come and finished its part of the business. If AQIS cannot do that now, and if we are to get the level of AAs that is indicated in the documents, why would I assume that they can do it by May next year? Can you tell me why it has not been done?

Mr Read—There are always two sides to a story, and I would need to understand clearly the facts surrounding the one you are talking about. I said this yesterday and I will say it again today: with horticulture, the answer is not for everyone to go through approved arrangements. I also made the point yesterday that this is not just about us endeavouring through the reform to save \$40 million worth of fees and charges out of AQIS; that is not our objective at the start. Our

first objective is to make our services as efficient as possible, given the demand for those services from those international markets; the second objective is to take as is much cost as we can out of the supply chain on the exporter's side; and the third objective is to give us the best market access for the investment that we can get. The combination of the effects of those would, we hope, be even better than the \$40 million.

Senator MILNE—On the question of market access, we heard from the horticulture council a minute ago that the cost savings will really only materialise if the markets accept the AAs arrangements; if they do not, these cost savings will not materialise. They are being asked to accept that within the next 12 months those high-value markets—the US, Japan et cetera—will accept that shift. Can you give us a guarantee? What indications have we got that by May next year Japan and the US are going to accept AAs?

Mr Read—It is not just that; it is also that approved arrangements will only deal with the costs of an inspector coming out here. The other issues that sit around that are: the two per cent inspections for those protocol markets; the automation of the systems that support the horticulture industry, both in how we communicate with the industry and how they communicate with us; and the disparate nature of the horticulture industry and of the scheduling of the audits and inspections that occur and how we can automate in that space. So there are a range of initiatives there that will take a lot of costs out of it.

With things like approved arrangements that we are talking about now, yes, we need to get them on the table; yes, I need to explore the potential for reforms with those markets. I have always said that with the horticulture and the two per cent it is going to be a tough negotiation to change that under a perceived model that sits in people's minds now, which is the standard approved arrangement. Frankly, the best way to deal with that is to get your mind laterally into that area and look for other opportunities where we can get the same sort of benefit, from moving this, changing that, altering legislation a little bit differently. All that is on the table. This reform is about having guys in the room like the ones you heard from here today to explore with us where that potential lies.

Senator MILNE—Well, it is all right to say 'move this' and 'think that' and 'be lateral', but we had an example of four containers of cherries: \$6,000 for a Japanese inspector and \$5,800 for AQIS inspections for four containers.

Mr Read—But, with due respect, I heard that discussion and one of my officers in the background went, 'Oh, that is such an unfair comparison.' With respect to the Japanese officer that we brought out to do that inspection, we negotiated that they do three different companies at the same time—it was at least three—and we negotiated the time frame that allowed them to do that and we negotiated that, instead of two, only one would come out. The share of the cost of that individual for that cherry operator in Tasmania was \$6,000. Had it been what was initially the arrangement for Japan, it would have been \$20,000.

Senator MILNE—Nevertheless, \$11,800 for four containers is a fairly steep fee, wouldn't you agree?

Mr Read—High-value product too into that market.

Senator MILNE—I know, but—

Senator O'BRIEN—It is unstated, of course, that you do not contemplate entering those markets unless there is the value there to enter them. What has struck me in this hearing is that, although there has been a lot of talk about acceptance of full cost recovery, underpinning most of the submissions there does not appear to be an acceptance by industry of that, or at least there is a doubt in my mind that they want to go through the process of seeing what cost savings can be achieved before they embrace full cost recovery. Is that how you perceive the matter?

Mr Delane—I think that is a fair assessment of the situation. None of these businesses want to see any increases in costs in their business, so any additional cost from AQIS they are opposed to. What we have to do is work through, as Mr Read has just outlined. The submissions have outlined the two work plans that you have seen, and the reform agendas that you had seen outline a range of individual potential business improvements. Some of them are very clear. I think the live exporters are very clear about how they can significantly improve their business. Mr Read talked yesterday about how in a restructured grains industry some significant costs can be taken out of different parts of the supply chain—not just our cost but costs overall. You have to look at those with each of the sectors. And, through representatives who bring a diversity of experience and business model to the table, you have actually got to develop services that will meet, to the extent you can, the diversity of the businesses in each sector. What we have then got to do is apply a set of fees and charges that, as fairly and equitably and appropriately as possible, apply the costs in the right place. At the same time, markets are changing and evolving and businesses and industries are evolving, and that is why we must have a dynamic relationship with our clients in this through their representative bodies.

Senator O'BRIEN—I understand that. What also comes to mind is the question: isn't there a risk that if the agency spends its funds to go through this exercise there will still be an argument for a rebate? Is that one of the issues that is in the mind of the agency in how they are going about this process?

Mr Delane—I do not think we have had that particular line of thinking.

Senator O'BRIEN—I must admit I am thinking that—that when it comes to it there will never be a point at which some people will accept full cost recovery and that, whatever means are achieved to reduce costs, there will still be some in industry who will argue that they need a rebate.

Mr Delane—I think we would expect individual businesses and industry sectors to be always looking at ways to reduce our costs. They will be looking for us to strip out costs, they will be looking for someone to offset some of those costs, and I guess we expect that, while ever rebates and subsidies are in people's memories, someone will bring those up at some point.

Senator O'BRIEN—Yes. Mr Read, how long has it been AQIS's aim to move to full cost recovery?

Mr Read—I think I have always signalled to industry, in every one of those discussions after 2001-2002, 'Don't foresee that this thing is forever; we need to continue to look at our business and look at reform.' So we certainly have not driven any particular agenda for full cost or not full

cost. But in the way that we manage our business we have been prepared for the fact that one day it would stop and therefore, 'Let's have some foresight about what we do in that particular situation.' The events of that have come together now.

Mr Delane—We are just really looking at optimal use of the resources and continual improvement in the business, the collective business, the centre of business, as we go forward. Whether or not that is a subsidised service is a decision—

Senator BOSWELL—Madam Chair, on a point of order.

CHAIR—Sorry, Mr Delane; we have a point of order.

Senator BOSWELL—We have got a quarter of an hour left. We are here to ask questions—

Senator O'BRIEN—And they are answering them.

Senator BOSWELL—and we appreciate the answers, but they are getting pretty long winded. One would think you are trying to wind the clock down a bit!

CHAIR—Thanks, Senator Boswell. I will ask you, Mr Delane, if you could keep your answers as short as possible.

Mr Delane—Sure.

CHAIR—Senator O'Brien has been very patient today, not interrupting. Do you have many more questions, Senator O'Brien?

Senator O'BRIEN—I was not sure if Mr Delane had actually finished what he was saying. I understand that brevity is desirable, but I do not want you to not complete your answer because someone asked you to be brief.

Mr Delane—Quite simply, whether a future government decision leads to rebates or subsidies is a matter for government. Our aim is to run as vibrant and efficient a business as we can to support Australian exports that require or need the involvement of AQIS, whatever parameters government set around that.

CHAIR—Thanks. Senator Boswell.

Senator BOSWELL—I want to ask about the new licensing fees for abattoirs. Can you fill us in on those. Are you suggesting a new charge for licensed abattoirs—new licensing fees with your organisation? And how will these fees be determined?

Mr Delane—If you look at the explanatory memorandum, in the list of the new fees and charges for meat there are probably 15 or 16 different charges. There may be one new one. The one around registration is not new. The registration fee is one that has always been in place, but it was always set at zero, using the funding from the 40 per cent rebate to do that.

Senator BOSWELL—I see. So there are some new licensing charges coming up?

Mr Delane—No. It is a registration charge from AQIS—

Senator BOSWELL—A new registration charge for abattoirs.

Mr Delane—and it is not a new registration charge. There has always been a registration charge but it was always set at zero. The new fees and charges—in fact, they have already commenced—require that, instead of it being zero, there are now a range of scaled numbers there that have been established on the basis of returning to full cost recovery. They are new charges that industry, once again, has to pay.

Senator BOSWELL—As far as your plans are concerned, or your forward planning to strip costs out of your own organisation, have you put those plans to the meat industry and said, ‘We’re going to get rid of x number of meat inspectors’? Have you told them how you are going to achieve your reduction in costs?

Mr Read—We have worked through a series of options with the meat industry, as was described earlier today. We have worked on the premise, as we described earlier, that if we do not need to be in a particular regulatory space then we will not be there. I have got a big workforce in that particular area of meat inspection; it is a highly creditable and professional workforce and it is one that I treasure very dearly. So I certainly do not want to talk about, in a sense, cutting and scrapping those types of jobs.

Senator BOSWELL—My point is that, if you are asking someone to accept a huge 40 per cent increase on the assumption that you are going to cut costs for the industry, you have got to tell them where the costs are going to come out of the industry or out of AQIS. You cannot expect anyone to accept a commitment that does not have any basis. If you said, ‘We are going to, in these various ways, reduce costs,’ I think they could probably see where you were coming from. Have you told them what your proposals are or how you are going to get costs down?

Mr Delane—I will let Mr Read comment in some detail, but we have had a number of meetings with the meat industry. I have co-chaired those meetings with the head of AMIC. They have been robust meetings. We have put detailed proposals to them, and they have put detailed proposals to us. We have done a lot of work out of session. We have had submeetings with them. Our people have had meetings with individuals within that sector to work out how reforms might be extracted or not in individual types of plants. There has been a very large amount of interaction with the meat sector.

Senator BOSWELL—Have you put your reforms on the table?

Mr Delane—We have put our reforms on the table. Our message has been that we do not want to be where AQIS does not need us to be. In other words, if a service is not required then a service should not be provided. If a third party can provide a service then provision of that service ought to be open to the third party. There has been complete openness and a lot of interaction with the meat sector, but it is a complex sector. We have a large workforce involved there. It is much larger. Look at the numbers. It is nearly \$40 million, so it is about three-quarters of this whole business and that has been under discussion in the last two days. We have had a lot of work with them. I did not have the opportunity to listen to their submission, but it has been very transparent. It has been highly interactive and it has been pretty robust. Would both parties

like to have done more and done it more quickly? Yes, we would. That is easy to say in hindsight. I think both parties made as much progress as we could at the time.

Senator BACK—You mentioned earlier the Beale report, which, of course, was the recommendation to the federal government to discontinue the 40 per cent quarantine subsidy. Are you aware that in coming to that recommendation Beale did not look at the impact on industry and business?

Mr Delane—I understand Roger Beale has made comments in the last few days along those lines. From the report and other observations that have come to me, the panel looked at it more in terms of policy and approach as opposed to working up from the numbers.

Senator BACK—Did AQIS put in a submission to the Beale report?

Mr Delane—I was not here.

Mr Read—There were certainly a range of consultations that AQIS had. I cannot recall any formal submission from AQIS.

Senator BACK—My question, as an adjunct to that, is: did AQIS give the Beale committee any advice on what the impact on industry of discontinuing the 40 per cent subsidy would be?

Mr Read—There were certainly discussions with the committee around the implications of removing the subsidy.

Senator BACK—It is most interesting that, with a report of such substance upon which so many decisions seem to have been taken, its author comes out and tells us that they did not look at the impact on industry. I will look at it in a different forum.

Senator COLBECK—They did not consult the industry about the conditions.

Senator BACK—I do not know if they consulted or did not consult. I am simply asking the gentlemen from AQIS. We were told in the discussions earlier this morning that there has been a 250 per cent increase in AQIS overheads in the last four years. Is that an accurate figure? Could you give us some indication as to where those increases might have come from? Is there a capacity for them to be contained and reversed?

Mr Read—It is not an accurate figure. It is coming from a draft Ernst and Young report. The way the numbers are constructed in that report leaves the reader with the impression that you have just given—it is not accurate. We are both working with AMIC and the authors of that report to ensure that it reflects what is happening.

Senator BACK—Is it likely that that information will become available to us at some time?

Mr Read—It is certainly something that industry and AQIS will be focusing on very closely through the ministerial task force.

Senator BACK—Have the higher fees actually been collected from 1 July for the five that have not chosen the rebate?

Mr Read—Yes.

Senator BACK—In the event that the legislation is disallowed, what is going to happen to those higher fees that have been collected?

Mr Read—They will be retained, and then we go back to the fees that we collect under the new fees and orders that come into effect.

Senator BACK—So those who have not gone through the rebate phase will actually—

Mr Read—They are effectively legal fees orders that we were collecting against, and they are based on the cost of the services that we are providing.

Senator COLBECK—Have you taken legal advice on that?

Mr Read—I think I have seen advice in that regard.

Senator COLBECK—This may be a different circumstance, but we did see a fairly significant debate with regard to another quite controversial additional charge that was placed on alcohol last year, and the suggestion was that that would have to be returned. It might be because it was an excise fee rather than a charge.

Mr Read—We can certainly look at that.

Mr Delane—I do not think we have taken formal advice, but the informal advice we have is that the fees and charges stand until disallowed.

Senator BACK—The livestock exporters, as we all know, have basically been in accord with AQIS on this, although they did make the observation to us that they have been informed by the AQIS relationship person that costs are going up anyhow. That caused me to ask the question: are costs going to accelerate and be greater than the savings that are likely to be made? It was quite alarming that the costs are going up anyhow. Is the cat chasing its tail? Are we ever actually going to achieve these efficiencies? This is with the group that is most aligned with AQIS in terms of the savings to be made.

Mr Read—There is clearly going to be no change to the fees and orders that are in place now. They are not going to be put up. In terms of increased overheads, the department is now going through the process of looking at its budgets and the implications of those budgets for these programs. Equally, with this reform agenda that we are talking about now, I would not see any of the fees and charges going up as a consequence. The whole premise is to drive the costs—

Senator BACK—I asked the question because that is why it alarmed me.

Mr Read—It would logically follow that you would not be putting the fees and charges up; you would actually be doing the opposite of that.

Senator BACK—As you have said, Mr Delane, the discussions with AMIC have been robust. A comment was made this morning that they do not have difficulty with being responsible for those costs that directly relate to their activities associated with AQIS inspection fees, documentation, market research et cetera. Their objection is that they are responsible for meeting their share of all of AQIS's on-costs and overheads—and, since they represent 70 per cent, they are substantial. Would you care to comment on that? Do you not see that governments, of whichever persuasion, should take responsibility for fees, charges and costs other than those connected with their inspections?

Mr Delane—We have an acute appreciation of the issues here. As you have seen, there is some pretty robust reviewing of the fees and charges. Hence we are very focused on making sure that the costs fall where they should fall—with the individual clients that make up particular sectors. We endeavour to make sure that the costs within the AQIS area—in fact, the Biosecurity Services Group more generally—fall in the appropriate place and are met by the appropriate funding source. And it is the same in terms of DAFF more broadly. That is not always easy. It is always easy to find an exception where it can be purported, if not demonstrated, that there is some mismatch there. But our focus and a requirement on us is to try and optimise that and align that as best we can all the time. But it is a pretty dynamic situation—markets change, clients change, sectors change, costs change, the structures of the department change.

Senator BACK—And there are currency fluctuations.

Senator COLBECK—How much has been collected so far? Do you have a sense of that?

Mr Read—I would have to provide you that information.

Senator COLBECK—Okay. Thanks. How much of the \$40 million will be cost recovered by AQIS? You are in a partnership process with industry. How much of that \$40 million will come back to you for your activities as part of this process?

Mr Delane—How much of the \$40 million would fund AQIS to deliver reforms?

Senator COLBECK—Yes.

Mr Read—We have about \$750,000 in there for market access work. That includes a lot of time in markets. I will take these numbers on notice, but I think we have about two or three full-time equivalents assisting in that process. Equally, in terms of the reform branch that I described, a unit of six will be established there. There is going to be around \$1 million to \$1½ million for that.

Senator COLBECK—What consultations have you had with the National Herd Improvement Association, the wildflower sector, the genetic material sector and the honey bee industry?

Mr Read—I have seen correspondence from the Herd Improvement Association. We have had very little consultation with the wildflower sector, except that we do have the nursery sector and a range of other participants in the horticulture consultative committee. Consultations with the honey bee industry have been limited, as I understand it.

CHAIR—Mr Read my recollection is that yesterday you very kindly offered to table some of that information around work plans.

Mr Read—I have it here.

CHAIR—Wonderful. Gentlemen, thank you very much. That concludes today's hearings. Thank you to all the witnesses who appeared.

Committee adjourned at 4.02 pm