

SUBMISSION

SUBMISSION TO

**Australian Government Productivity
Commission**

IN RESPONSE TO

**The Inquiry on the Regulation of Australian
Agriculture**

February 2016



ABOUT THE AUSTRALIAN MEAT INDUSTRY COUNCIL

The red meat sector is Australia's No.1 agricultural enterprise and a significant contributor to the Australian economy representing over \$17 billion in gross domestic product, or 1.3% of total GDP and \$7.6 billion in household income.

It also underpins more than 148,000 full-time jobs across all sectors of the economy. The red meat processing sector however faces growing internal and external challenges placing increased pressure on its long-term viability in an uncertain global marketplace.

The Australian Meat Industry Council (AMIC) is the recognised Peak Industry body in Australia representing the post-farm gate red meat sector including the export and domestic processing industry, smallgoods manufacturers, wholesalers, distributors, boning rooms and independent retail butchers.

Around 92% of livestock turnoff in Australia is processed in businesses located in Australia. AMIC represents close to 2,500 member companies across Australia.

AMIC provides services and support to members that improves their working environment and is focused on achieving the best outcomes for the industry and its members as part of one voice on issues critical to their business. In doing this AMIC also indirectly supports the Australian farming community and the Australian economy.

1. REDUCING COST AND REGULATION IN THE MEAT INDUSTRY

a) Introduction

The Australian Meat Industry Council (AMIC), on behalf of the red meat processing and export sector welcomes the opportunity to make the following comments on the Issues Paper covering the *Productivity Commission Inquiry into Regulation in Agriculture* as one of Australia's largest food processing sectors.

While the inquiry will focus on regulations that have a material impact on the competitiveness and productivity of Australian agriculture, we believe it is important to also focus on regulations imposed elsewhere in the supply chain, in particular in meeting the requirements of foreign markets. Costs incurred by the meat processing sector inevitably impact on meat processors ability to pay for livestock at the farm gate. Any cost and duplication that can be removed has a benefit for the whole supply chain.

I also draw your attention to AMIC's submission to the Department of Agriculture Review of Export Regulations dated September 2015 that also addressed some of these key issues. I have included a copy with this submission.

From AMIC's perspective, both State and Federal Government should provide the framework for identifying and co-ordinating policy settings, legislation, operational activities, compliance and reporting activities for organisations and individual entities in Australia's food sector.

Government should however seek to minimise the regulatory burden by avoiding duplication between regulatory jurisdictions. It should also be able to recognise commercially driven verification activities conducted within national audit frameworks as being suitable alternatives for direct regulatory verification involvement.

Importantly, the relationship should reflect an Australian food supply chain-government partnership which clearly articulates outcomes-focused expectations to be delivered by industry (and other non-government entities) versus the specific role for government involvement in identified areas where industry cannot act on its own behalf.

Recent decisions by General Motors Holden, Ford and Toyota to cease production of motor cars in Australia plus applications in the recent past like SPC Ardmona to the government for financial assistance in order to stay viable, highlights the delicate nature of manufacturing in Australia at present. The Australian food and beverage industry is increasingly left as the main player in this dwindling segment of the Australian economy with the red meat processing sector now arguably the largest trade-exposed manufacturing sector in Australia.

The red meat industry exports close to 70% of its total production so is very trade exposed. In 2015 we saw record beef and veal exports of 1.3 million tonnes (shipped weight) and over 420,000 tonnes of sheep and goat meat in the same year. In addition were shipments of offal, meat and bone meal, tallow, hides and skins amounting to an additional 400, 000 tonnes.

Based on 2009-10 data and with flow-on (multiplier) effects taken into consideration, the most recent research suggests the red meat industry contributes \$17 billion in gross domestic product to the Australian economy, or 1.3% of total GDP, \$7.6 billion in household income and underpins more than 148,000 full-time employment (FTE) jobs across all sectors of the economy, many in rural Australia.

b) The Cost of Compliance

The Australian economy remains a high cost environment to operate labour intensive manufacturing facilities in and the meat industry is not immune. Our processing costs are twice those of our competitors in South America and the United States. Recent assessments suggest that it costs up to US\$150 to process a grainfed beast in US plants but closer to double that to do the same job here in Australia. In Brazil a grassfed carcass costs around US\$120 to process compared with over double that for the same beast in Australia.

Despite these disadvantages the Australian red meat industry remains globally competitive because of a comparative advantage in the production of red meat that draws heavily on our expansive pastoral lands, our premier health and hygiene status around the world and the whole of life traceability systems that exist in Australia that few global competitors can match. In addition the quality, variety and shelf-life of Australian product is the envy of many.

The quest to lower costs has also encouraged the adoption of the latest technology in our processing facilities. Together with the entrepreneurial skills and professionalism of our export sector and their ability to provide a consistent customised product year round to over 100 countries, it still sees Australia as one of the world's market leaders in red meat exports, despite our high cost environment. This position has not been achieved without significant sacrifice, considerable cost and ongoing rationalisation of plant and equipment over the last 3 decades.

As a high volume, low margin business however, driving down costs has always been essential to sustainability. A small difference in operating costs over a full year of high volume production can be crippling to the bottom line. The red meat processing sector continues to face significant pressure in maintaining its productive base in Australia. Wage increases without productivity offsets, increasing government charges, rising utility costs and high levels of costly regulation have all acted to reduce competitiveness.

Poor trade outcomes in market access and inadequate infrastructure to meet future efficiency needs have also been issues. We applaud the government negotiation of free trade agreements (FTA's) with China, Japan, Korea and the TPP. FTA's however

only address import tariffs. The meat industry, as a producer of a time and temperature sensitive product, has a high exposure to technical barriers to trade. These technical barriers can undermine any tariff benefits. Unless they are addressed with the same priority as tariff reductions, technical barriers to trade can add huge cost, reduce productivity and limit overall market access. The opportunities afforded the Australian red meat industry in Asia, especially China over the next three decades, will not be realised unless we can also increase productivity to remain competitive in growing markets. That will define the future success of the Australian red meat industry.

The return by the previous Labor government to full cost recovery for government inspection services and export certification has meant the industry is now faced with an annual bill exceeding A\$85 million a year and rising in order to raise a health certificate for each shipment. These are not costs faced by our major competitors such as the United States and Brazil, because their governments see inspection costs as a community benefit and therefore a legitimate cost of Government.. It is often impossible to build these costs into the meat customer's pricing meaning they inevitably are borne back through the chain in reduced margins at both the processor and livestock producer level, undermining their ability to cover costs and remain competitive. Without livestock producers, processors don't have a business. The cost of compliance in Australia continues to be a major issue for the meat processing sector and livestock producers.

c) Reducing the Cost of Doing Business

Maximizing the value of our exports by having strong, internationally competitive processing capacity is extremely important to the meat processing sector. Export markets allow business in Australia to develop scale economies to help offset the high domestic costs of production but market access then becomes essential if we are to leverage those economies.

Traditionally, Australia's trade negotiations have not always delivered the best outcomes for our agricultural commodities because they have mostly ended up as the final issue to be resolved and therefore often also part of the final compromise. If Australia is to increase its red meat exports to Asia and other markets it is essential to ensure that trade negotiations are finalised with strong commercial outcomes for the meat industry.

Government policies that reduce the cost of doing business and provide targeted cost effective incentives for innovation plus investment certainty in the medium to long term are essential. Securing growth and enhancing international competitiveness remain substantial challenges for the sector in the face of increasing costs of compliance, rising Government charges, energy and labour costs. The red meat industry is a major employer in rural and regional Australia but can still produce a quality product that is globally competitive. A strong and expanding meat processing sector in Australia will have flow on effects to other parts of the supply chain especially farmers but only if market access can deliver commercial outcomes at minimal cost.

2. THREE ISSUES FOR REVIEW

There are three areas where the Productivity Commission might apply its initial focus in seeking to remove cost and regulation from the post-farm gate sector in the red meat industry to the benefit of the whole supply chain. Namely:-

- a) A review of the legitimate cost of government
- b) Duplication of audits
- c) A more cost-effective export certification system

a) A Review of the Legitimate Costs of Government

(or ensuring the Australian government makes an appropriate contribution to commonwealth meat inspection and certification services)

- The Australian government returned to 100% cost recovery for Federal government export meat inspection and certification in 2013. The decision did not recognise that any proportion of this government service amounted to a legitimate cost of Government.
- The charges are well in excess of those imposed on Australia's competitors
- The industry has lobbied for major reform of the meat inspection system in Australia if it is going to be forced to accept full cost recovery for the service.
- While government has implemented reforms, they have not been able to deliver financial savings to the majority of the red meat processing sector.
- The Australian industry seeks an appropriate contribution by the Australian government on an annual basis which represents the legitimate costs of the government provision of a gold plated monopoly meat inspection and certification service.

Background

In 2001 following a Productivity Commission review of export certification charges, the government agreed to pay 40% of that cost to reflect what they saw as "legitimate costs of government". Previously export certification charges were 100% cost recovered from the export meat processing industry.

In December 2008, the Rudd Government announced as part of the Beale Review on Biosecurity, a policy of full cost recovery for AQIS Export Certification Charges. This meant an additional cost to the red meat processing sector of close to \$35 million ie representing removal of the government's 40% contribution to export certification charges. Beale gave no justification for the decision and admitted that the review did not contain any assessment of what the implications would be for industry. AMIC

argued that full cost recovery for a monopoly service without any review of how Government applied that service was unjust and would significantly impact some processing businesses.

AMIC tabled and won agreement to establish a Ministerial Task Force (MTF) to review the options for meat inspection reform in February 2009. This was an AMIC initiative that other export industries including dairy, live export, fish, horticulture and grains subsequently benefited greatly from as they were swept up in the same reform process. The meat industry however represented 80% of the total cost.

After 6 months of negotiation within the Ministerial Task Force, agreement could not be reached and the new fees and charges proposed under the full cost recovery model were disallowed in the Senate in September 2009. A month later, AMIC put a seven point plan to all political parties as part of a compromise solution. The Minister for Agriculture at the time, Tony Burke finally announced agreement to a \$127.4 million reform package on 18 November 2009. Close to \$93 million of that package was to support reform in the red meat industry.

The Australian Export Meat Inspection System (AEMIS)

Further negotiations in the MTF saw final agreement in October 2010 to the new Australian Export Meat Inspection System (AEMIS). A central principle of the AEMIS model was that there should be no more regulation than that needed for market access. This allowed the reduction of government employed federal meat inspectors by over 200 who have received redundancy packages, saving the government approximately \$30 million in wages. However much of the \$30 million cost saving was transferred to meat processors who hired their own staff to replace what were government employees. While the AEMIS reforms were welcomed, they did not represent a substantial cost saving to industry.

The AEMIS model also requires new innovative thinking and management from industry in order to deliver it effectively, including the provision to the Department of a heightened level of information and data on how their processing facilities operate. Industry has been willing to provide this detailed information on the basis there was a win/win in it for industry as well.

The Case for Identifying the Legitimate Costs of Government

Point seven of the compromise plan in 2009 involved a review to identify what are the legitimate costs of government in supplying export certification services. The Beale Review identified that legitimate costs of government did exist but did not clarify what those legitimate costs were.

The AEMIS model by itself did not deliver financial savings for the majority of the industry. Indeed some smaller plants were disadvantaged in being exposed to additional costs of training and retention of new staff over and above what would be required under the existing model. At the beginning of this process the government stated that smaller plants would not be disadvantaged. That proved to be undeliverable.

This put a key focus on the remaining costs of export certification by the Federal government and what component of that should be covered by government. In all cases, cost recovery of publically provided services should not be implemented if it is not cost effective, becomes inconsistent with policy objectives, or would unduly stifle competition or industry initiative. While we all welcome the introduction of the AEMIS meat inspection model; on all three counts, the introduction of full cost recovery against the AEMIS model in isolation fails to meet these three criteria.

Economic theory would suggest that in applying cost recovery principles to government Export Certification Charges, any cost applied by government in excess of the marginal cost of providing the service, entails a loss of efficiency and constitutes a tax on the firm to which it is applied. These issues seem to have been ignored.

Key economic reports such as the Productivity Commission Report of 2001, the *Henry Review on Tax* and the *Harper Review* on competition have identified marginal cost pricing as being the economically efficient pricing mechanism for the recovery of costs from beneficiaries of publicly provided services.

Marginal Cost Pricing

An inherent component of the AEMIS model is that it has identified all the costs that government is able to, or is willing to transfer back to industry. Under the marginal cost model, they represent the legitimate cost to industry in receiving the service from the government. Any remaining cost represent government overheads, public service pass through costs, depreciation, the remaining on-plant Veterinary Officer and Food Safety Meat Assessors (FSMA), senior management and head office costs and technical market access deliberations associated with the public good of Government facilitating an export trade in meat products. These are the legitimate costs of government in providing the service and should not be cost recovered from industry.

From both the legal and economic standpoint, Parliament by its very drafting of the statutes around full cost recovery for meat inspection, has acknowledged that much of the current meat inspection charges are taxes applying to exports. The marginal cost of the service should not have to equal the total costs incurred by a government bureaucracy.

- Pass through overheads costs from DAFF make up close to 11% of the total residual cost. These have no relation to the delivery of a fee for service on meat inspection and are clearly a tax on meat exports.
- Central office costs relate to the location of a government department in Canberra to service the government and its various obligations. There is no requirement to have this infrastructure for the provision of a cost recovered meat inspection service.
- Industry has to pay to train and develop its own staff. Why should industry have to pay to train government employees as well that are not directly involved in inspection? The government should be paying for the training and development of its own staff as it will be government that benefits.

The American Meat Institute (AMI) President and CEO J Patrick Boyle said in 2010 “Meat inspection is a mandated federal program which benefits the public health and should be funded by the federal government”. Currently US meat processors pay only 14% of the total costs of USDA meat inspection services. The Chairman of the UK Poultry Board, Charles Bourns said “Meat hygiene controls remain a legal requirement and provide a wider service to society. It cannot simply be said that these controls are a business service for which a charge to industry can be applied”.

Summary

The meat inspection reform agenda and the delivery of the AEMIS model can be a win/win for both government and industry and bring with it a once in a generation cultural shift in thinking. To achieve this outcome however, it must come with cost savings for both industry and government to be ultimately successful. There must be an incentive for the commercial sector to deliver the new model otherwise it risks failure.

At this stage it is only the government that principally benefit from the 35% cut in meat inspection costs associated with the AEMIS model because the savings to government have been largely transferred to the processing sector. For both industry and government to share in the efficiency gains involved with a win/win outcome, government must accept the responsibility for their portion of the legitimate cost of the public good generated by a globally competitive export meat industry.

b) Duplication of Audits

Another challenge that is imposing substantial unnecessary cost is the rapidly growing quasi-regulatory area of customer audits.

The meat industry supplies a variety of commercial customers both here and overseas. These include but aren't limited to supermarket chains, food service industry (eg Sizzler, McDonald's, Hungry Jacks (Burger King), Pizza Hut, Dominos, Outback Steakhouse, etc) and also many hotel and restaurants.

The vast majority of these customers require some form of certification audit covering a whole range of issues from food safety, production system sustainability, animal welfare, ethical production systems, etc. That is on top of the regulatory compliance audits from local state and Federal authorities.

Most of these customers require independent audits to verify that the products that are being supplied meet basic regulatory requirements and their specific commercial requirements. The costs involved here can be substantial. Some customers tend to reference slightly different standards and some even develop their own standards. The customers generally don't accept the audits from the government that cover the basic elements of food safety, animal welfare and product integrity (truth in labelling and traceability) or the audits of other customers, so duplication of audit effort and cost is very common. This lack of recognition is more than not about differentiating

themselves in the market place. This creates quite a large financial burden on meat processors and this translates into lower farm gate returns to farmers.

One of the more extreme examples is a multi-species processing plant in Victoria with multiple market access listing receiving almost 200 days of audit per year not including the regulators audit and Department of Agriculture on-site veterinarian's verification activity. This processor actually employs additional staff just to deal with audits and their follow up.

The State authorities are primarily responsible for food safety. Due to export certification requirements the Commonwealth has also become involved. There are overlaps between State and Federal jurisdictions in this area. These are gradually being identified and resolved but need further effort to ensure they are not just seen as a revenue raising activity. This applies to government as well as third party audit suppliers.

As part of Recommendation 1 of the Harper Review on Competition Policy, the Federal government has accepted the need to work with the States and Territories to secure their agreement to a reform agenda including a new set of overarching principles to guide competition policy implementation at all levels of government while removing duplication. This has to remain a high priority.

AMIC welcomes the focus on deregulation and reducing the regulatory burden but it needs even greater effort. Industry is currently working with their customers to try to reduce duplication in the commercial sector and would welcome government involvement so that the ultimate goal of a single standard, single audit and single reports for all regulatory compliance issues can be accepted by all stakeholders.

c) A More Cost Effective Export Certification System

Background

The National Competition Policy Review of the Export Control Act (Frawley Report) in the early 2000's provided a model for a system of standard setting, operational control, compliance monitoring and verification and certification.

- Certification and system verification remains a function of the central competent authority.
- The delivery of the inspection service is dependent on what the markets will accept.

The current Australian Export Meat Inspection System (AEMIS) was developed as a response to the Frawley principles. However, industry has not achieved the lower costs of certification, verification and inspection first anticipated and in addition, the model has not been acceptable to all export markets.

The costs of the current Meat Program budget delivered by DAWR is now over \$85 million which is approximately the same as the cost prior to the introduction of AEMIS, despite the DAWR field staff being significantly reduced and \$35 million of the

costs of inspection being transferred to industry. This cost cannot be passed on in the international market and ultimately impacts on the price Australian producers receive for their livestock.

In formulating the proposed changes to the inspection, certification and verification system for meat exports we should recognise that:-

- Certification and system verification remains a function of the central competent authority (DAWR).
- The delivery of the inspection service is dependent on what the markets will accept, but with a greater role being played by commercial meat processors. Within the AEMIS system it is recognised that there are variations to the inspection model for specific markets.

Principles of the Model

- The model is underpinned by the requirements of AS4696 Australian Standard for the Hygienic Production and Transportation of Meat and Meat Products for Human Consumption. The focus is on essential health and hygiene issues and provides for standards which are consistent with the principles and objectives of the standards contained in Codex Alimentarius.
- The outcomes required by the Standard are delivered through an approved arrangement (such as a food safety plan).
- Importing requirements set by overseas governments are dealt with under Commonwealth legislation dealing with Export Certification.
- On line Meat Inspectors are licensed by the controlling authority and some markets may require independently employed inspectors. A similar approach may be suitable for on-plant veterinarians where markets require a veterinarian to be present.
- Compliance is self-assessed by the meat processor and reported against Key Performance Objectives. The KPI data base is maintained independently and access controlled.
- The process control system is independently audited by externally qualified competent auditors approved by the controlling authority.
- Food Safety Objectives are verified by auditors or by the onsite regulator where the market requires.
- A central controlling authority (DAWR) verifies that the audit system is functional.
- Certification is provided by the central controlling authority – DAWR
- Direct feedback systems can be developed from the processor to the producer. These feedback systems will cover pathology (recorded by meat inspectors) and other performance data with the aim of improving on farm productivity, benefiting both producer and processor.

Improved Outcomes

This system provides improved outcomes through:

- Reduced involvement of DAWR in the system leading to lower costs of certification and verification.
- The use of a competent third party auditors delivering a higher standard of audit and the opportunity to rationalise commercial requirements.
- An increased role by the meat processor in monitoring the system and ensuring compliance.
- Improved profitability to the supply chain delivering better long term returns to the farm gate.
- A more flexible and potentially more cost efficient model improving competitiveness in international markets through lower input costs.

Significant Reform Goals

i) The direct and rising costs of the government certification service

The Australian Export Meat Inspection System (AEMIS) permits certain post mortem inspections to be undertaken by non-government employed inspectors. This was to deliver substantial savings to government and permit flexibility to meat processors.

As a result of a recent EU audit it has now become apparent that the AEMIS model has deficiencies for inspection of product which is destined for that market. Industry has worked with the Department on an accreditation system for the supply of third party inspection but this will be at an additional cost to meat processors thereby nullifying the cost savings expected from the introduction of AEMIS. The EU is viewed by many countries as a leader in the development of food safety systems so it is highly likely that other countries may follow the EU lead.

The promised savings in the Department from the reform program have not eventuated. In fact, the overall costs of inspection have increased, mainly through the transfer of functions from government to industry and the increased cost of government inspection costs. With reference to the latter, the overhead costs of running the inspection and certification program within the Department of Agriculture have risen disproportionately even though the number of Department field staff in the meat program has decreased significantly.

EXPENDITURE TABLE REMOVED

The export meat certification programs overall expenditure figure is now higher than it was before the reform agenda started (08/09) and that cost does not include those functions of online meat inspection transferred to industry at a cost of over \$35M under the AEMIS model. Had there been no reform in 2007 the cost of the existing government service today would have doubled in 8 years.

A significant goal would be that a two stage process of:-

- (a) transferring functions to industry (where importing countries allow); and
- (b) placing into a Statutory Authority what has to be provided by government, will make the whole process of certification more transparent and accountable. The Authority would have a Board representing government and stakeholders, and chair appointed by the relevant Minister similar to models already established in Australia. This was a recommendation of the Beale Review in 2006.

ii) More Efficient Use of Cost Recovered Resources

In addition to the overall cost of the export certification system, the inefficient use of many of the inspection resources available is a major concern to industry. These inefficiencies are often generated by the monopoly service being provided under public service employment provisions, yet the costs are ultimately fully recovered from industry providing no incentive to rectify inefficient practices.

A significant goal would be a full review of how the cost recovered resources are managed

iii) The Australian Standard (AS)

The Australian Standard (AS) is the formal technical and regulatory platform for meat safety in Australia. However, there are indications that DAWR sees the Export Control (Meat and Meat Product) Orders regime as the premier regulatory system.

Whole blocks of rules should be critically questioned, even those as longstanding as the Export Meat Orders. In this context and with the support of the red meat industry there should be multiple benefits for the red meat industry in seeking a much simpler, truly national processing regulation system.

A significant reform goal would be:-

- Regulation of overall export performance (including the requirement to meet customer country specifications) through the *Export Control (Prescribed Goods - General) Order*, amended as needed and applying common principles across food sectors.
- Systematic analysis to cut back the maze of regulation.

iv) Genuine outcomes-based standards

The food products delivered to buyers are the key 'outcomes' test of performance of a system within a single processing plant as well as across a whole sector.

Regulating outcomes is a challenge for industries and regulators. Since 1997, the Australian Meat Standard has used 'outcomes' statements, yet industry and regulators consider the AS to be barely outcomes-based. Similarly, the Orders are said to be more 'outcomes-based' but industry participants point to much prescription and layers of detail under the Orders in Guidelines and Notices.

Faced with bland outcome statements regulators have had little choice but to audit against 'fairly prescriptive' subsidiary text on 'how' it is set out in the Standard, and/or the Orders, plus each plant's Approved Arrangement.

Audit of processes requires a detailed checklist approach conducted by competent independent auditors. This in turn will steer priorities and behaviour of the businesses being regulated and audited.

A significant reform goal would be:-

- The development of a minimum set of reportable measurable outcomes (KPIs)
- Move to independent competency based auditing

v) Content development

The Standard, as a regulatory instrument, needs to usefully set out assessable meat product outcomes ie food suitable for human consumption at delivery. Building on advances in the Australian Meat Standard to date, three types of changes are proposed:-

- Re-developing the Outcomes Statements in the AS to describe for industry users, regulators, customers and other stakeholders, to include safe food measurable outcomes at key critical points.
- Focusing the Australian Standard on food safety baselines, by further removing elements that include commercial and discretionary factors beyond safe food criteria.
- The Standard also contains inspection and disposition functions that have remained substantially unchanged except for lambs for well over 30 years. The animal health situation in Australia has improved quite markedly over the same time due to the application of these old procedures. Australia could be at a point where the public health benefits of some procedures are now less than the food safety risk posed by handling or incising the meat being inspected. The introduction of the National Livestock Identification Scheme (NLIS) has also provided the opportunity to manage many disease conditions with a targeted risk based approach.

A significant reform goal would be:-

- A full revision of the Export Certification regulations
- A full revision of the inspection and disposition functions of the current Australian Standard
- The collection of animal disease data with the view to modifying inspection and removing cost where appropriate

vi) Inspection

Online Post Mortem inspection has been devolved to industry. The reality is that from a food safety perspective, on line meat inspection contributes very little. Food safety issues are related to contamination during the slaughter process and poor refrigeration.

When being delivered by the government, the unions held sway over various practices in terms of demarcation of jobs and speed of through-put. The move to AEMIS has broken that without compromising inspection. AEMIS, due to a US legal requirement, still has to use one government employed inspector on each slaughter chain.

The EU's rejection of AEMIS company employed inspectors, provides an opportunity to make available to industry competent inspectors from a third party for EU listed processing plants. If these third parties are formally recognised by other importing countries, such as the US as the equivalent of official then this will make the third party inspector viable for many more plants and has the potential to remove between \$16 million and \$18 million from the governments meat program budget. The US system has recognised third party provided inspectors and veterinarians in the UK and third party provided inspectors in Holland.

Modern data capture systems will allow the collection and ongoing analysis of the ante and post mortem inspection findings. This information can be provided back to farmers with appropriate veterinary advice on how to address identified problems and improve their productivity and therefore returns. In the past this hasn't been possible due to the government meat inspectors refusing to do any additional work. The advent of company or third party inspectors opens up this opportunity.

A significant reform goal would be:-

- Investigation of alternate service delivery options and market acceptance for inspection.
- The collection of animal disease data with the view to feeding information back to farmers to increase their productivity.

vii) Facilitating plant innovation

Innovation in regulatory systems that affect productivity and invention is important to improving global competitiveness but can present a real challenge for regulators.

There is a concern that operational advances and inventive shop-floor 'new ways', are being held back by regulations and regulators.

A significant reform goal would be:-

- To help encourage innovation within the regulator to develop a culture of finding solutions rather than just finding problems.

CONCLUSION

While the Productivity Commissions inquiry will focus on regulations that have a material impact on the competitiveness and productivity of Australian agriculture, we believe it is important to also focus on regulations imposed elsewhere in the supply chain, in particular in meeting the requirements of foreign markets. Costs incurred by the meat processing sector inevitably impact on meat processors ability to pay for livestock at the farm gate. Any cost and duplication that can be removed has a benefit for the whole supply chain.

Three areas where the Productivity Commission could significantly contribute to removing cost from the supply chain through better regulation include:-

- a) A review of the legitimate costs of government in meat inspection
- b) A removal of duplication in auditing
- c) A review of the delivery of the meat certification system in order to bring new economies and significant removal of cost through removal of inefficiencies and unnecessary regulation and bureaucracy

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