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Chairman  
Cost Recovery Inquiry  
Productivity Commission  
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Your Ref:  
Our Ref: RJD:LOK APP  
Enquiries: R.J. Delane (08 9368 3420)  
Date: 8 December 2000



Dear Sir/Madam

### **SUBMISSION - COST RECOVERY INQUIRY**

We submit to the inquiry that a review is warranted for Commonwealth cost recovery into key areas relevant to the agricultural industries:

- AQIS export inspection fees.
- NRS residue monitoring costs.

### **AQIS Export Inspection Fees**

The Australian Quarantine and Inspection Service provides a wide range of services beneficial to Australia's agricultural industries, environment and community generally. The excellence of the AQIS services is not under question, but rather the policy basis for imposing costs on Australian exporters of agricultural produce.

AQIS operates in this area under the Export Control Act 1982, and associated Export Control Orders, including the Export Control (Fees) Orders.

AQIS export inspection fees applicable to Western Australian industries include the following (estimates):

- |                |               |
|----------------|---------------|
| • Grains       | \$2.1 million |
| • Horticulture | \$0.5 million |
| • Live animals | \$0.5 million |
| • Meat         | \$4.7 million |
| • Fisheries    | \$0.7 million |

### **AGRICULTURE PROTECTION PROGRAM**

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This represents an impediment to export profitability of \$8.5 million annually. The figure is believed to be approximately \$40 million nationally. While this impost may be a small percentage of the value of agricultural and fisheries exports, it is argued that it is a direct and unnecessary impediment to the Commonwealth's basic objective for the agricultural industries – namely, fostering of export growth.

It is further argued that:

- The Commonwealth provides a range of assistance measures to individual industries or to agriculture generally which are far less effective in achieving export growth than would be achieved through a reduction in export inspection fees.
- The Commonwealth provides other rural assistance that is less consistent or inconsistent with Australia's international obligations under the World Trade Organisation (WTO) agreements.

***Issue: The Productivity Commission should consider whether the Commonwealth should review its current balance of consolidated revenue funding and cost recovery targets for AQIS, with a view to providing a portfolio of assistance measures for the rural industries which are more effective and efficient in fostering growth in agricultural exports.***

The cost-efficiency of the AQIS service is not challenged here. AQIS has a number of industry consultative committees, which are exposed in a quite transparent way to the basis on which AQIS fees and charges are set. This includes regular review of the effectiveness of cost-recovery for each export sector, and AQIS' intentions in this regard. For example, cost-recovery is very effective for grains, but has fallen short of full cost recovery for horticultural exports. While the horticultural industry has resisted AQIS attempts to improve cost-recovery, the industry is provided with an excellent opportunity to drive efficiency within the AQIS Horticulture Exports Program by working with the agency to define fees and charges schedules that are reasonably practical for industry. Industry also has an opportunity to develop industry strategies (such as quality assurance, inspection location, etc.) which will minimize the cost and disruption imposed on exporters.

The basic question still remains whether the Commonwealth should impose export inspection charges on exporting members of an industry, or seek full cost recovery, when to do so inhibits exports. Among the range of Commonwealth support measures to agricultural industries, it may be argued that exports are the last place in which cost recovery should be applied.

***Issue: The AQIS export programs have very good industry consultation processes in place to drive efficiency and equity in AQIS pricing policies, but this can only go a limited way toward addressing the needs of agricultural exporters while the policy basis for imposing export inspection fees may be considered flawed.***

While AQIS operates a "Big Mac" pricing policy, which means that the same fees and charges are imposed in all parts of Australia, this does not ensure equity of treatment of rural producers and exporters. The "Big Mac" policy ensures that each AQIS service delivery point charges the same fees, even though the general delivery cost in Broome WA (e.g.) may be significantly higher than in Melbourne (e.g.). However, the "Big Mac" policy does not and probably cannot, take into account the extra distances often involved in servicing clients in remote areas of Australia such as applies in much of Western Australia. For example, AQIS charges travelling time at a current rate of \$90 per half hour, which may be a minor inconvenience for an exporter based at Werribee near Melbourne, but could be a substantial impediment to export profitability in more remote areas.

***Issue: The Productivity Commission should consider whether the current AQIS "Big Mac" pricing policy goes far enough in meeting the over-arching Commonwealth objective of fostering regional economic development, especially in the more remote (and difficult to service) regions of Australia.***

### **The National Residue Survey**

The National Residue Survey system has been developed in recognition of the need for safe food products in Australia and for compliance with the requirements of importing countries. Many importing countries require government involvement in certification processes. To meet this requirement, AQIS is the certifying authority for relevant exports. AQIS uses National Residue Survey results in its decision making process.

The purpose of the *National Residue Survey Administration Act 1992* was to establish the National Residue Survey Reserve Money Fund. The legislation supports the National Residue Survey, which involves agreement with industry groups for the collection of levies. This involvement is voluntary, but the Minister has power to require inclusion of industries where it is in the national interest. Currently participating industries include livestock and livestock products, grains, horticulture and aquatic animals.

The legislation does not compel participation in the National Residue Survey nor does it prescribe a level of cost recovery, however, the costs of the scheme are largely those met by the industry levy and by Government contributions (about 5%) to meet community service obligations. The full cost recovery policy means that Australian industry has costs not borne by its competitors in other countries. For the meat industry, where residue testing is mandatory for market access, the industry levy is \$5.6 million; this maintains access to export markets worth \$4 billion as well as access to the Australian domestic market worth around \$2 billion. The imposition for the grains industry is a cost of around \$1 million; this secures access to international markets worth \$5 billion.

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Levies to fund the National Residue Survey are imposed by the *National Residue Survey (Customs) Levy Act 1998* and the *National Residue Survey (Excise) Levy Act 1998*. Collection mechanisms for the various industry levies are established under the *Primary Industries Levies and Charges (National Residue Survey Levies) Regulations 1998*, which are made under the imposition Acts, and also under the *Primary Industries Levies and Charges Collection Act 1991* (which provides legislative support for all such levy collection arrangements). Where possible the levy for the National Residue Survey is collected at the same time as other levies to simplify the process for producers, and to reduce collection costs.

While it is argued that the members of the industries which participate in the National Residue Survey benefit from this service, it can also be argued that of the range of Commonwealth assistance measures provided to the rural industries, public funding of product safety monitoring (for domestic or export) would be far better targeted support than some other measures.

***Issue: While technically a voluntary scheme and outside the review's terms of reference, as part of its review of the appropriateness of imposed costs, the Productivity Commission should consider whether the Commonwealth should fully fund Survey as an activity in the national interest such (compelled) costs as those for the National Residue.***

### Summary

In summary, the Commission should examine whether the cost-recovery charges above are imposed within an appropriate policy framework, or whether the ability to cost recover for such services has led to Commonwealth imposts to the detriment of Australia's agricultural export industries. The Commission should consider whether, within the range of assistance measures provided by the Commonwealth to agricultural industries, a different mix of assistance might drive or facilitate greater productivity and profitability.

Yours sincerely



(Approved by R. Delane and signed on his behalf)

Rob Delane  
EXECUTIVE DIRECTOR  
AGRICULTURE PROTECTION