

**Submission to the Productivity Commission Inquiry into Cost Recovery Arrangements:
Attachments**

A. Levy Guidelines Applying to the Application of the Government's 12 Levy Principles

B. AFFA Submission to Treasury Taskforce Inquiry into Self Regulation

C. Australian Bureau of Agricultural and Resource Economics

Questionnaire Parts I and II

D. Bureau of Rural Sciences

Questionnaire Parts I and II

E. Australian Quarantine and Inspection Service

Questionnaire Parts I and II

Questionnaire Part II

- i) Live Animal Exports
- ii) Grain Exports
- iii) Horticulture Export Program
- iv) Dairy Export
- v) Fish Exports
- vi) Post Entry Animal Quarantine Stations
- vii) International Mail
- viii) Import Clearance Program
- ix) Post Entry Plant Quarantine
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- xii) Meat Inspection Program
- xiii) AQIS Training Services

AQIS Fees and Charging Policy

F. Agriculture, Fisheries and Forestry - Australia

Questionnaire Part I completed by Corporate Systems and Services on behalf of the main Department and also by the Plant Breeders Rights Office

Questionnaire Part II **i) Plant Breeders Rights Scheme**

- Attachment: Plant Breeders Rights Regulations

ii) Australian Wool Research and Promotion Organisation

- Attachments: Ministerial Direction

Excerpt from "WoolPoll 2000"

*Australian Wool Research and Promotion Organisation Act
1993 – Sect 6*

iii) Levies and Revenue Service

- Attachments: Recipient Corporations

Levies Management Unit 1998/99 Report

Performance Audit by Australian National Audit Office

Review of legislation relating to primary Industries Levies

Acts and Related Collections Acts, under the NCP
Agreement

iv) Market Access – Quota Administration (Red Meat)

- Attachments: Quota Administration and Statistics Unit Review
Review of Beef and Sheepmeat Quota Allocations
Karridale Report
Australian Meat and Livestock (Quotas) Act 1990

v) Dairy Sub-Unit

- Attachment: *Dairy Industry Adjustment Act 2000*

vi) Product Integrity, Animal and Plant Health

Submission - 699

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Department of
AGRICULTURE
FISHERIES &
FORESTRY -
AUSTRALIA



Submission to the

Productivity Commission

Inquiry into cost recovery arrangements

November 2000

Executive Summary

The Department of Agriculture, Fisheries and Forestry – Australia (AFFA) currently implements a range of cost recovery mechanisms, which have been developed at different times for different purposes.

AFFA is proud of its record of achievement in relation to its cost recovery activities, which started over 20 years ago. It is unfortunate that in today's environment insufficient recognition is given to these path breaking reforms. Arrangements have been introduced, reviewed and revised, generally in consultation with clients, to ensure that the mechanisms in place recover the level of costs that they are intended to in the most cost effective, transparent and efficient manner possible.

Cost recovery arrangements operate in the following areas in AFFA:

- AQIS
- ABARE;
- Bureau of Rural Sciences;
- National Residue Survey;
- Plant Breeders' Rights Office;
- Product Integrity and Animal and Plant Health Business Group;
- Levies and Revenue Service; and
- some industry adjustment programs.

In general AFFA's cost recovered activities fall into two categories:

- those for which AFFA is a monopoly provider – quarantine and inspection services, levies management, plant breeders' rights; and
- those for which AFFA is one of a number of providers of a particular service, albeit a major established provider with an international reputation – rural economic and scientific research.

The costs recovered by AFFA fall into three categories:

- fees for services provided (either fully or partially recovered);
- registration charges (such as annual renewal fees); and
- quantity charges (for example inspection charges by volume of commodity exported).

The focus of most of AFFA's cost recovery is on fee for service, with prices set simply to cover the cost of providing the service. AFFA is satisfied that the types of cost recovery arrangements operating in the department are appropriate to the type of service provided.

AFFA welcomes the efforts of the Productivity Commission towards developing Commonwealth guidelines for setting fees and charges, but notes that, while a consistent approach to cost recovery is desirable, there are wide disparities both between agencies and within portfolios in the nature of government services, and hence the scope for and nature of cost recovery efforts. The development of guidelines that are broad in scope and with a degree of flexibility is desirable.

AFFA suggests the following principles for cost recovery arrangements for consideration by the PC:

- Fee structures should reflect the actual costs of providing services within user groups. These actual costs should include both direct and indirect costs and should strike an appropriate balance between accuracy of costing models and recovery mechanisms on the one hand and the administrative costs and overheads of supporting systems and processes on the other.
- The price stability of fee structures is important to business confidence in the service provider and is good business practice. The frequency and level of variation to fees and charges, once set, should be kept to a minimum, other than in relation to changes in the level of service, and preferably at regular intervals following consultation with clients.
- The development of mechanisms to ensure clear consultation with relevant stakeholders and transparency should be key considerations in the establishment of cost recovery arrangements.
- Cost recovery arrangements should be suitable to the type of service provided.
- Generally, cross-subsidisation between user groups should be avoided.
- If small businesses are to be subsidised, the funds should come from separate government funds available only to small business, and not as a result of cross-subsidisation.
- It is important to maintain the independence and the integrity of the cost recovery agency in the eyes of consumers and industry.

Introduction

The role of the Department of Agriculture, Fisheries and Forestry - Australia (AFFA) is to increase the profitability, competitiveness and sustainability of Australia's agricultural, food, fisheries and forestry industries and enhance the natural resource base to achieve greater national wealth and stronger rural and regional communities.

AFFA delivers for the Government policy and technical advice, program administration and service delivery in the following areas:

- Natural resources access and management;
- Research and development facilitation, innovation;
- Rural inputs, services and operating environment;
- Industry development and adjustment;
- Food processing and through chain development;
- Product integrity, animal(including aquatic animal) & plant health;
- Market access and trade;
- Quarantine;
- Export food safety certification;
- Scientific advice; and
- Economic research.

Several of these activities are subject to cost recovery, either as:

- fees for services provided (either fully or partially recovered);
- registration charges (such as annual renewal fees); or
- quantity charges (for example inspection charges by volume of commodity exported).

This submission provides an overview of cost recovery arrangements within AFFA. The submission outlines the arrangements in place. It addresses the key issues raised by the PC in its Issues Paper. Detailed information, including financial information, is provided in the attached responses to the PC questionnaire.¹

As requested by the Commission, also attached to this submission are copies of AFFA's submission to the Treasury Inquiry into Self Regulation in 1999 and AFFA's guidelines for primary industries levies.

AFFA draws the Commission's attention to the Australian National Audit Office's report *AQIS Cost-Recovery Systems* tabled in September 2000. While this report does provide some useful information about the operation of cost recovery arrangements in AQIS, AFFA wishes to point out that it does not believe that many of the inferences and conclusions reached by the ANAO accurately reflect the actual operation of AQIS' cost recovery arrangements. AFFA is confident that the cost recovery arrangements currently in place in AQIS are efficient and transparent. The recent adoption of the AQIS Fees and Charging Policy will strengthen the resilience and client focus of these cost recovery arrangements.

¹ The financial information in these attachments for the period prior to October 1998 relate to the Department of Primary Industries and Energy and since then to the Department of Agriculture, Fisheries and Forestry - Australia.

The AFFA submission deals only with cost recovery arrangements within the department. It does not cover cost recovery by portfolio agencies such as the Australian Fisheries Management Authority (AFMA) and the National Registration Authority (NRA). These agencies will make their own submissions to the inquiry. The Australian Bureau of Agricultural and Resource Economics (ABARE) will also make a submission directly to the PC which deals specifically with some of the issues associated with cost recovery for information services. Information on ABARE's cost recovery arrangements, however, is included within the AFFA submission.

This submission does not deal with cost sharing arrangements. Nor does it deal in detail with the collection and disbursement of primary industries levies and the use of these funds by portfolio agencies, such as research and development corporations, to deliver certain services to industry.

Cost Recovery in AFFA - A Background

Cost recovery was first introduced into the portfolio for inspection services in 1979 and, at the time, this was a significant initiative, which in today's outsourcing environment, is given little recognition. The main shift to cost recovery across the department has occurred since the early 1990s. During this period, most of the programs of the Australian Quarantine and Inspection Service (AQIS) have moved to full cost recovery and cost recovery arrangements have been introduced for certain services provided by the:

- ABARE;
- Bureau of Rural Sciences (BRS);
- National Residue Survey (NRS);
- Plant Breeders' Rights Office (PBRO); and
- Product Integrity and Animal and Plant Health (PIAPH) Business Group.

In addition, the Levies and Revenue Service (LRS), which manages the collection and disbursement of primary industries levies within the portfolio, operates on a cost recovery basis, and cost recovery arrangements have been introduced for the administration of industry-specific structural adjustment programs.

A summary of each of these arrangements follows. Further detail is available in the responses of respective programs to the PC questionnaire.

AQIS

AQIS is responsible for providing quarantine inspection services for the arrival of international passengers, cargo, mail, animals and plants or their products into Australia, inspection and certification for a range of animal and plant products exported from Australia, and inspection of imported foods for food standards compliance.

Between 1979 and 1988 the Commonwealth Government introduced 50 per cent cost recovery for all quarantine and export inspection services. This was subsequently increased to 60 per cent from 1 July 1988. Full or 100 per cent cost-recovery has been in place since 1 January 1991, with a specific requirement for costs to be recovered on a program-by-program basis being introduced in mid 1993.

AQIS currently has 13 cost recovered programs or 'user groups'. These are:

- Meat Inspection Program;
- Live Animal Exports Program;
- Grain Export Program;
- Horticulture Export Program;
- Dairy Export Program;
- Fish Export Program;
- Post Entry Animal Quarantine Stations Program;
- International Mail Program;
- Import Clearance Program;
- Post Entry Plant Quarantine Service;
- Airports Program;
- Organic Exports Program; and
- Seaports Program.

Details of the services and cost recovery arrangements applying to each of these programs is contained in the attachments. Generally, cost recovery in AQIS relates to a fee for a particular service. In some cases, however, cost recovery also includes a registration charge. AQIS seeks to operate on a system of nationally uniform fees and charges, so there is no difference in the fees and charges applying in different locations. AQIS also avoids cross-subsidisation between user groups.

A small component of AQIS' operations are not subject to cost recovery. These operations are funded from appropriations as part of AQIS' Community Service Obligation (CSO). For example, the Northern Australia Quarantine Strategy is funded from appropriations because the Government has recognised that this program is in the national interest and there is no clearly defined user of the service.

Earlier in 2000 AQIS' cost recovery arrangements were subject to a review by the ANAO. Although this review identified some areas for improvement, which AQIS is currently examining, the ANAO concluded that, overall, "AQIS' cost-recovery systems are mature and stable".

Australian Bureau of Agricultural and Resource Economics

ABARE is a leading international provider of commodity forecasting, economic research and statistics on Australian primary and manufacturing industries with strong links to the primary commodity sector. ABARE research contributes to AFFA's capacity to provide evidence-based policy development. The bureau currently has six major programs of research. These are:

- Commodity and statistical services;
- Agricultural economic and food industries research;
- Land use and water economic research;
- Fisheries economic research;
- Forestry economic research; and
- Trade and international policy research

User charging was introduced into ABARE in 1989-90, with cost recovery being gradually extended during the 1990s. The bureau's projects are costed against a standard model, which is updated on an annual basis and also if there is a significant variation in the operations of ABARE. ABARE has a service level agreement with the Department of Industry, Science and Resources. It also actively and successfully competes in the market place with other providers of economic research. Clients include international organisations such as the World Bank, WTO and Food and Agriculture Organisation as well as a range of organisations, such as financial institutions and

statutory authorities, in Australia. In 1999-2000 ABARE derived some 49 per cent of its budget from cost recovery. The remainder was made up of government appropriations.

Bureau of Rural Sciences

The BRS is a scientific research agency within AFFA which provides integrated scientific assessments, analyses and advice in support of AFFA's objective. BRS provides advice in a range of areas, including fisheries, natural resource management, social sciences and biotechnology. BRS is considered by AFFA to be an essential part of the department's capacity to provide evidence-based policy development.

Cost recovery was introduced on a fee for service basis in 1993. All BRS projects are costed according to a standard BRS costing policy. BRS selects cost-recovered work on the basis that it aligns with AFFA's outputs and priorities. The bureau's clients include rural research and development corporations and other Commonwealth agencies.

National Residue Survey

The role of the NRS is to monitor chemical residues and environmental contaminants in the products of participating industries. The NRS provides an independent, authoritative and scientifically rigorous audit of the chemical residue status of the products of participating industries and scientific advice on residues and the management of residue related issues. Most of the activities associated with residue testing are provided by government and private laboratories under contract to the NRS.

The NRS is funded primarily from cost recovery arrangements in place with participating industries. The basic policy underlying cost recovery for the NRS program is that, within an accounting period, expenses must be equal to revenue received. Some funding is also derived from work undertaken under contract and from sale of services and from fees charged for the supply of information. A small amount of funding is provided from appropriations for government activities and CSOs.

Plant Breeders' Rights Office

The PBRO administers the Plant Breeders' Rights scheme which allows new or recently exploited varieties of plants to be registered, providing the breeder with exclusive commercial rights to a registered variety. The rights are like patents or copyright.

The PBR scheme is fully cost recovered and includes both fee for service and registration charges. The Application, Examination and Certificate fees cover services at different stages of the registration process. The Annual fee, which is payable each year on the anniversary of the granting of the right and must be paid to maintain the grant, is a registration charge.

Levies and Revenue Service

The Levies and Revenue Service (LRS) is responsible for the collection and disbursement of levies imposed by Commonwealth legislation on a range of rural commodities and products. The LRS recovers the full costs incurred in collecting and disbursing levy funds. The cost recovery arrangements were introduced in 1988 to remove a small hidden subsidy to the agricultural industries that benefit from levies.

The LRS is the third largest revenue collection agency in the Commonwealth, after the Australian Taxation Office and the Australian Customs Service. LRS costs have not increased over the last two years and have not exceeded 0.5% of revenue collected. In addition to its levy collection activities, the LRS can also provide an auditing function to other organisations on a fee for service basis. The attractions of using the LRS to conduct such audits are their familiarity with the levies and with firms acting as collection points and the fact that they can often achieve a saving by combining the contracted audit with the LRS' own auditing requirements.

Product Integrity, Animal and Plant Health

PIAPH Business Group is responsible for the development and management of emergency response policies and programs for animal and plant health and welfare and the management of risks associated with agricultural and veterinary chemicals, through monitoring, surveillance and international policy standards.

PIAPH's cost recovery arrangements have been in place since 1993, but are a small part of the group's operations. Some of these arrangements were introduced while they were the organisational responsibility of the BRS. PIAPH currently charges for some of its services, including provision of scientific and technical advice and the organisation of training programs. Major clients include other government organisations and agricultural industry bodies.

Industry adjustment programs

An important area of work for AFFA in achieving its objective is assisting industries to adjust to better meet the challenges of international competition and demands of the global market. Some industries have also requested restructuring of statutory arrangements, privatisation of statutory bodies and deregulation of markets. In recent years major adjustment assistance packages to facilitate change and cushion industry from adverse impacts have been introduced. Generally, the Government's policy on restructuring and change to statutory arrangements and bodies is that the industry which benefits from the change meets the costs involved. In many cases AFFA costs of managing these reforms is recovered from levy funds.

For example, the red meat and wool industry privatisation programs and dairy industry structural adjustment program include such arrangements. Similarly, since 1998 AFFA's Quota Administration Unit has administered fees for granting export meat quota on a full cost recovery basis.

The economic effects of AFFA's cost recovery arrangements

AFFA's cost recovery arrangements are in line with Government policy and generally do not have a distortionary effect either on the organisations which pay these costs or the wider economy. This is because in most cases, these costs are fees for service and there is no profit margin. Even for those services where AFFA is a monopoly provider, such as in quarantine inspection, fees are set at levels which allow only for 100 per cent cost recovery. This includes all costs associated with providing the service, including salaries, expenses and a management component.

AQIS identifies its costs for each program according to a costing methodology developed over several years that includes direct costs, non-cash costs and indirect costs. The ANAO concluded that the revised methodology adopted by AQIS for attributing overhead indirect costs for 1999–2000 onwards will result in more accurate cost attributions.

In cases where AFFA business units compete in a contestable market cost recovery rates, while developed according to standard pricing models, are influenced by market rates. LRS external audit services are provided at market rates. So too are ABARE and BRS services, and although both bureaux have sophisticated, regularly reviewed cost recovery pricing methodologies, they negotiate the price of projects on a case by case basis taking account of market factors and the pricing policies of clients. The rural research and development corporations, for example, which are important users of BRS and ABARE services, have strict pricing policies which make it difficult to charge full fee for service rates for some types of work.

It could be argued that registration charges have a distortionary effect. AFFA would argue that any effects are minimal because such charges are generally relatively low. An interesting case here is Plant Breeders' Rights annual registration renewal fee, which has a direct impact on business. The \$300 per patent fee forces breeders to consider the cost of renewing a patent over an extended period of time. The fee is criticised by some for unfairly impacting on smaller firms with several patents. On the other hand, the fee provides an incentive for firms to consider commercial exploitation of plant varieties sooner rather than later. While this fee is contentious, AFFA believes that it has a positive overall effect by ensuring that the opportunity cost to the overall economy of patents not being commercially exploited within a reasonable period of time is minimised.

Partial or full recovery?

AFFA seeks to recover full costs for those services or programs for which full cost recovery is required by the Government. This is usually as a result of a Cabinet decision. The department believes that generally it is doing this successfully. As at 30 June 2000, after several years of full cost recovery, AQIS accumulated deficits were only about one per cent of total budget. AFFA believes this is a notable achievement.

The department recognises that it is not always appropriate to seek full cost recovery. As noted in the summary section above, the Government provides appropriations to programs for government-related work (eg: parliamentary reporting, etc) and for particular initiatives which are regarded as being Community Service Obligations. For example, in 2000-01 AQIS received over \$43 million from appropriations to fund the non-recoverable Northern Australian Quarantine Strategy Program and costs associated with government business.² A small proportion was provided to the recoverable programs to offset costs specifically associated with operating as a government organisation.

There are other circumstances in which AFFA businesses provide services on a partially cost recovered basis. As previously noted, the pricing policies of certain clients can limit the scope for full cost recovery. On the other hand, in cases where officers are on secondment to a taskforce, portfolio agencies or related organisations to work on a task that AFFA considers to be closely related to its core business, it may be appropriate to recover only partial costs. For example, PIAPH has two officers seconded to agricultural industry bodies to assist in the establishment of those organisations and the delivery of some core programs. In these cases the full cost of the employees' salary expenses are recovered including superannuation and leave entitlements, but overhead costs associated with the administration of the business are not recovered because the establishment of these organisations is integral to the core business of PIAPH.

² Policy and International Division is no longer part of AQIS. From 1 July 2000 it became Biosecurity Australia as part of Market Access and Biosecurity Business Group.

Consultation

Consultation with stakeholders is very important in the initiation and ongoing review of cost recovery arrangements within AFFA. This is especially so in relation to services that are provided on a monopoly basis.

Industry stakeholders are consulted generally through representative bodies or advisory committees in the cases of the cost recovery arrangements of AQIS, NRS and LRS. While there is only limited scope for rates to be varied for full cost recovery services, the consultative mechanisms are important in enabling clients to raise any issues they have with the cost and provision of the service.

A review of AQIS consultative mechanisms was conducted by SMS Consulting in April 2000. This review concluded that the AQIS/Industry consultation model is highly effective and “a model for other government bodies to follow”. It is a unique process that does not copy other Australian or international models for government/industry consultation. The process is well advanced, evolutionary and provides for ongoing growth, change and continuous improvement.

A number of areas were highlighted to demonstrate what works well about the consultative arrangements, these include:

- AQIS is considered by industry to consult in a highly effective manner;
- industry considers the relationship with AQIS to be significantly enhanced by the consultative process;
- the relationship is determined to be eminently more advanced and mature than that which presently exists with other Government regulatory authorities in Australia; and
- AQIS personnel have a clear commitment to the consultative process with industry and see AQIS’s role as one of leadership and facilitation.

Consultation arrangements for the international mail program are different because they involve other agencies rather than industry. AQIS and Australia Post undertake bilateral consultations on cost recovery arrangements covering AQIS’s fee for service for the quarantine clearance of international mail. Consultations on operational and policy issues affecting international mail take place in the Tripartite Working Party, which consists of AQIS, Australia Post and Australian Customs Service.

ABARE and BRS negotiate with clients on a project by project basis. As noted above, because these services are provided in a contestable market, there is greater scope for clients to negotiate the cost of a project. Similarly, while fees charged by PBRO are set, it is possible for clients to negotiate a volume discount based on the economies of scale of processing a large number of applications at one time. ABARE has a Client Satisfaction Survey, among other consultation and feedback mechanisms, which is sent to clients annually. BRS also has a Client Survey which evaluates client satisfaction with the quality, relevance, timeliness and impact of project work every six months.

One of AFFA’s key business objectives from 2000 is to build a more customer and results-driven organisation. This focus should help to deliver improved client consultation in cost recovery arrangements.

Transparency

The department has strived since the introduction of cost recovery to ensure that its arrangements are fully transparent. This was not always easy to achieve in the early years of these arrangements, due to the difficulties of moving from a culture of being fully budget-funded to one in which the full

cost of particular services had to be identified, tested, reviewed and amended as necessary. These were significant initiatives for their time. AFFA is proud of the level of transparency and accountability associated with its current cost recovery arrangements.

Transparency is achieved through regular consultation and through reporting, especially annual reports. AQIS reports on its cost recovery performance in its annual *Report to Clients*. Details of the fee structures of the LRS and NRS are published in annual reports tabled in Parliament. PBR's fees are published on the Internet. Those departmental businesses that operate in the market do not publish their fee structures as this would clearly advantage their competitors and undermine their ability to compete. However, in these cases there is a clear procedure for the development and application of these fee structures. For example, ABARE's fee structure is reviewed annually, or at any time when there is significant change in the bureau's cost of operations, with revisions being cleared by the bureau's executive and signed off by internal audit as being developed in accordance with DoFA guidelines and having a clear audit trail. A similar situation exists for PIAPH.

The transparency of AFFA's cost recovery arrangements has improved over time as departmental business units have gained greater experience. Generally there is no cross subsidisation between cost recovered activities provided by a particular business or between businesses. There have, however, been instances of over or under recovery of funds, particularly in AQIS programs. This has usually been the result of unforeseen variations in demand due to climatic influences or the vagaries of export markets. These problems have been overcome with greater experience of program operation and the introduction of Income Equalisation Reserves (IERs). Over recovered funds in excess of the IERs are held in program specific reserves until they can be returned to those who have actually paid the charge.

As part of its commitment to improve client focus AFFA will also seek to ensure that its cost recovery arrangements continue to be fully transparent.

Impact of Technology

New and emerging technologies will have an impact on AFFA's cost recovery arrangements.

Many areas of the Department accept payment by credit card and electronic payments. In some cases, for example ABARE publications, invoice payments have been completely phased out. Such developments have seen a reduction in administrative costs which flows through to users. Implementation of new technologies is expected to continue. For example the PBRO plans to move towards electronic payments.

AQIS has embraced new technology and e-commerce with a number of databases of quarantine and commodity information now being available online. In addition many of the AQIS inspection services are supported by online systems that provide efficient access for regular importers and exporters.

ABARE and PBR are both interested in introducing e-commerce to their data provision services. Currently both organisations provide data to clients on a user pays basis. The fees charged recover the cost of the time involved in providing the data. These services can be time consuming, particularly if the requests are complex or require extensive searches for information, and can involve significant costs for regular users. Developing technologies which would enable clients to access the databases through the internet, selecting and purchasing the data they require themselves would result in significant savings for both clients and these areas of AFFA. For example, ABARE believe they could save 10 per cent of their costs by introducing such technology.

Potential areas of Cost Recovery

In addition to cost recovery activities of AFFA portfolio agencies, AFFA is also interested in the cost recovery arrangements of other agencies that may affect the competitiveness of agriculture, food, fisheries and forestry industries including the Australia New Zealand Food Authority (ANZFA) and Austrade.

The ANZFA cost recovery arrangements (applying from 1 July 2000) are part of the broader government agenda for cost recovery and are designed to enable ANZFA to more efficiently manage its resources. AFFA considers that to ensure public health and safety it is important that ANZFA is adequately funded to undertake its core function of setting food standards. However, AFFA considers that it is important that ANZFA's cost recovery arrangements align with the principles for cost recovery articulated at the beginning of this submission and reflect the actual costs of delivering the service.

Austrade provides a range of services for exporters, including food exporters, on a fee for service basis, with services tailored to the needs of individual companies. AFFA recently commissioned a study, *Exporting Australian Foods - Are We Competitive?* that examined the factors and issues impacting on the export competitiveness of highly processed foods. Over 50% of companies surveyed for the study indicated that mandatory Commonwealth government charges inhibited exports. Most of these firms are SMEs and the most frequently mentioned charges were Austrade and AQIS charges. A majority of companies thought that fees for Austrade market information services were too high and did not always represent quality and value for money. Overall, companies tended to rate state government provided export related services more highly than Austrade services, although it should be noted that most state government services are provided free of charge.

Conclusion

AFFA has extensive experience of cost recovery. Cost recovery arrangements have been introduced for a range of services provided by the department including regulatory functions, such as quarantine and inspection, and research and information services.

The rationale for most of AFFA's cost recovery activities is to raise the revenue required to deliver a service, consistent with the user pays principle. Clear articulation of this and other principles, especially in relation to transparency and consultation, are essential for client confidence in our cost recovery arrangements and in the services provided by the department.

AFFA is confident that its various cost recovery arrangements have developed to the point where they are successfully recovering the level of cost they are required in the most efficient manner possible and with minimal disruption to business.

Submission to the

**Taskforce on
Industry Self-regulation**

Commonwealth Department of Agriculture, Fisheries and Forestry –
Australia

January 2000

Executive Summary

There is a strong move towards self-regulation among Australia's agricultural, fisheries and forestry industries. The pace and extent of this trend has increased since the mid-1990s. The factors driving the adoption of self-regulation are government policy to reduce regulation, on the one hand, and commercial benefit in the form of reduced compliance costs and greater flexibility and responsiveness to the market, on the other.

The main areas of industry self-regulation in the agricultural, fisheries and forestry industries are in codes of practice, product standards and quality management. Self-regulation will essentially allow industries to manage their own futures.

The increasing adoption of quality assurance systems (QAS) reflects the widespread recognition of the emerging role quality management is playing in world agrifood markets. The need to actively embrace quality systems is fundamental to business success.

Industries in the agriculture, fisheries and forestry portfolio are at different stages of introducing QAS, but most recognise the commercial value of such programs and the benefits to competitiveness. However, there can also be costs due to market failure. For example, there has been a proliferation of QAS and in some industries businesses are confronted with a choice of systems. This situation is exacerbated for mixed farming enterprises and other businesses involved in more than one product area, which often have to develop and implement more than one QAS, often in response to customer demands. Apart from the additional costs such situations create confusion within industry and among customers.

There will be a continuing role for government, particularly in trade matters where overseas governments prefer or require direct dealings with the Commonwealth. Government may also play an important role in facilitating industry action and ensuring effective coordination in particularly disparate industries, such as horticulture, and where problems of one industry can have impacts on others.

In spite of the generally positive attitude towards self-regulation, statutory regulation and arrangements, at both federal and state/territory levels, continue to some extent in most portfolio industries. For example, some industry organisations, such as the Australian Wine and Brandy Corporation, are backed by legislation. Other organisations, like Woolstock, have evolved from statutory authorities.

While there is scope for the further adoption of self-regulation among portfolio industries, some government involvement will be necessary into the foreseeable future. This is particularly likely in the cases of export inspection and the management of agricultural and veterinary chemicals. Governments in countries importing Australian products all expect these products to have government certification. Most also expect government audit for most commodities and many require government inspection or supervision of processing systems.

Nevertheless, in line with portfolio and departmental outcomes of achieving more sustainable, competitive and profitable agricultural, food, fisheries and forestry industries which continue to create jobs, particularly in regional Australia, the Department of Agriculture, Fisheries and Forestry - Australia (AFFA) will continue to encourage greater industry involvement in self-regulation or co-regulation as appropriate.

Introduction

Australian agriculture, fisheries and forestry have traditionally been highly regulated, at both federal and state levels. Agricultural industries have developed within rigidly regulated environments, often with production, research and development, representation and governance and marketing and promotion set in legislation. Such extensive regulation has been progressively wound back over the decade of the 1990s. Nevertheless, in spite of the pace of reform and even with the transfer of minerals and energy related legislation out of the portfolio in October 1998, AFFA continues to administer 108 pieces of legislation, much of it directed at regulating industry.¹

Regulatory reforms under the National Competition Policy (NCP) or as a consequence of specific industry reviews are expected to continue into the future. The emphases of reform will continue to be on giving industries responsibility for determining their own futures and removing potential distortions to competition and, as a consequence, the flow of market signals to producers, caused by regulatory arrangements. Industry self-regulation has a part to play in the process of reform.

Self-regulation in various forms is already being adopted within Australia's agricultural, fisheries, food and forestry industries enabling these industries to manage their own futures. For example, QAS in particular have been adopted at various levels within industry. However, despite its benefits, the introduction of self-regulation has not been without its costs or problems. The proliferation of QAS in the early and mid-1990s often resulted in several being adopted by different players in the same industry.

Self-regulation has its limitations too. There are some areas in which customers, be they Australian consumers or foreign governments, expect and demand the level of confidence provided by government regulation. Export inspection and the management of agricultural and veterinary chemicals are such areas.

This submission outlines the current state of self-regulation in the agriculture, fisheries and forestry portfolio and considers the potential for the extension of self-regulation in the future. It does this by examining the role of AFFA and its continuing relationship with industry as well as the key issues driving change in each industry.

Who we are

AFFA is the Commonwealth Government department responsible for helping Australia's agricultural, food, fisheries and forest industries become more competitive, profitable and sustainable and thereby creating jobs, particularly in regional Australia.

AFFA is structured into the five groups. These are:

- Industries Development Group (including the National Offices);
- Competitiveness and Sustainability Group;
- Australian Quarantine and Inspection Service;
- Bureau of Rural Sciences; and
- Australian Bureau of Agricultural and Resource Economics.

¹ The former Department of Primary Industries and Energy (DPIE) administered over 200 pieces of legislation. Only a handful of other Commonwealth agencies administered a similar volume of legislation.

The groups pool their expertise to tackle competitiveness and sustainability issues with a national character. AFFA seeks to work cooperatively with other Commonwealth agencies, state/territory government departments, peak industry bodies, community groups and enterprises.

What we do

AFFA's responsibilities cover the agricultural, food, fisheries and forestry industries and the natural resource base on which they rely. We deliver for the Government research, policy advice, programs and services to help deal with the challenges affecting portfolio industries' future competitiveness, profitability and sustainability. In particular, our economic and scientific research capabilities enable AFFA to make a unique contribution by developing evidence-based policy advice and research based programs.

Our responsibilities span Australia's entire food supply chain, from producer to processor right through to the consumer. The Government has also charged us with responsibility for managing the soils and water resources on which the food and fibre supply chain is based.

We achieve results by producing the following specific outputs:

- **Research-based policy advice** on national agrifood, forestry and fisheries industry issues, including legislation and support for the portfolio Ministers and the Parliamentary Secretary;
- **Programs and other measures** consistent with the Government's broader natural resource management and economic reform agenda to maximise competitiveness, profitability and sustainability of portfolio industries;
- **National export certification services** to maintain Australia's access to international markets;
- **National quarantine services** to protect Australia's agricultural systems, animals, plants and human health and the environment from pests and diseases;
- **World-class economic research and analysis** to help portfolio industries be more competitive and sustainable and to provide reliable information for our work; and
- **Scientific assessments, analysis and advice** to underpin our policies on the sustainable development of our portfolio industries and to manage important national databases, such as the National Forest Inventory.

These outputs are designed to assist portfolio industries to maximise their competitiveness and profitability and their ability to create jobs while using Australia's natural resource base in a sustainable fashion.

Self-regulation in the portfolio

Industry self-regulation in agriculture

Industry self-regulation in Australian agriculture has increased markedly during the 1990s. Statutory regulation at both federal and state levels has had a central role in agriculture for much of the century and is only now being wound back. As a consequence, many industries have a mix of statutory and self regulation.

Grains

The grains industry is now largely self-regulated except for the single export desk for wheat at the Commonwealth level and for some marketing bodies at state level. Self-regulation is most evident in industry set quality standards and industry developed QAS.

Over the course of a decade the face of grain marketing has rapidly and completely changed from one controlled by government to one governed mainly by commercial forces. The domestic market for wheat was deregulated in 1989. This was followed by deregulation of the domestic market for many other grains. During the 1990s state bulk grain storage and handling authorities were corporatised or privatised and now operate as companies. In mid-1999 two major statutory bodies were privatised - the Australian Barley Board has become ABB Grain Ltd and the Australian Wheat Board is now AWB Ltd.

Export controls (in addition to quarantine and other requirements to meet our international obligations) remain, however, in existence on many grains. For example, at the Commonwealth level the single export desk for wheat continues under the *Wheat Marketing Act 1989*. Under this legislation exporters other than AWB (International) Ltd must obtain the agreement of the statutory Wheat Export Authority before those exporters can export wheat. The Wheat Export Authority is required to consult AWB (International) Ltd on requests from other exporters and AWB (International) Ltd has a veto power over exports of wheat in bulk to protect the single export desk. Exports of wheat in containers and bags by other exporters to niche markets have been agreed by the Wheat Export Authority as this complements the single desk. This legislation is to be reviewed in accordance with NCP guidelines in 1999-2000.

Since most of Australia's grain production is exported, one of the means of achieving an edge for Australian grain in the highly competitive world market for grain has been, and continues to be, to stress the high quality of the grain. In the case of wheat, legislation gave the former Australian Wheat Board the power to set standards for receipt of wheat. In the new privatised era for wheat marketing AWB Ltd now sets the standards which growers must meet. Broadly similar arrangements apply to many other grains and also in the storage and handling of grain by the bulk handling companies.

There has also been a push in recent times for the grains industry to adopt QAS as a means of further enhancing the quality of the grain to meet the increasingly tighter specifications for grain being demanded by customers. One scheme recently launched has been Great Grain, an initiative of Pulse Australia, Quality Wheat Cooperative Research Centre and Oilseeds Federation of Australia. This is an on-farm QAS for cereals, oilseeds and pulses. It is based on HACCP principles and has agreed standards and independent verification arrangements. Another proposal under development is 'Graincare' which is essentially a code of practice approach along the same lines as the existing 'Cattlecare' and 'Flockcare' systems, which is being developed by the industry for the industry.

The National Agricultural Commodities Marketing Association Inc is an organisation representing the interest of the private grain traders. It has a Standards Manual which specifies in detail the requirements relating to grain by NACMA members. NACMA is also working on a Code of Practice relating to the storage and transport of basic commodities and value added products.

Seeds

The seed industry in Australia is dynamic and developing markets quickly, both domestically and internationally. Although there is still some statutory regulation in the industry, it is moving towards co-regulation and self regulation.

Australia is a member of a number of OECD seed schemes which contain rules for the movement of seed in international trade. At present the rules are set by the relevant OECD committee on the basis of advice provided by member governments. The rules cover such matters as sampling, labelling and multiplication of certified seed.

Rules concerning testing of seed are established by the International Seed Testing Association. ISTA is not a government body. Australian testing laboratories are members of ISTA.

Administration in Australia of the OECD and ISTA rules is currently undertaken by agencies in each state with co-ordination provided by AFFA. Most of the state-level agencies are state departments of agriculture but in Victoria it is a private organisation.

The seeds industry (through the peak industry bodies the Grains Council of Australia and the Seed Industry Association of Australia) is keen to take over responsibility for the operational aspects of the OECD and ISTA arrangements from AFFA and have developed a proposal for an industry run Australian Seeds Authority. Industry has not yet put the proposal formally to government but the thrust of the proposal is consistent with the government's policy of enabling industry to take responsibility for their own affairs.

Meat and Livestock

There have been significant changes in the regulation of the meat and livestock industries over the last three years. New quality systems and industry arrangements have been introduced during this time and the red meat industry² now has a mix of self and statutory regulation. At the end of 1999 it is still too soon to determine the impact of some of these changes, but early indications are positive.

Following a major review of the red meat industry in 1996, new structural arrangements came into effect on 1 July 1998. They replace the statutory arrangements previously undertaken by the Australian Meat and Livestock Corporation, the Meat Research Corporation and the Meat Industry Council.

The new arrangements provide the industry with more control and a direct say in the way they want their industry to move and have the backing of various legislative mechanisms. As such the new industry arrangements are a mix of statutory and non-statutory regulation. For example, Meat and Livestock Australia (MLA) Ltd, which is responsible for marketing, promotion and research in the red meat industry, is a producer-owned, service delivery company, established under corporations law, like any other commercial body, but is funded by statutory-based levies from cattle, sheepmeat, goat and feedlot producers.

In contrast the Australian Meat Processor Corporation (AMPC) and the Australian Livestock Export Corporation (Livecorp) have been established by the processors and livestock exporters respectively through the non-statutory collection of industry funds by donation. Although legislation allows a statutory levy to be imposed if voluntary contributions are not received or are insufficient, to date

² Cattle, sheep, goat.

the donor mechanism has worked well, with some of the funds channelled into MLA for specific marketing and research and development programs.

Livecorp has also embarked on an industry-based livestock export accreditation program (LEAP). To become accredited exporters must establish QAS to cover all operational and management activities from the purchase of the livestock through to their unloading at their destination. The conditions of LEAP are in addition to the normal requirements of a government-issued exporter's licence.

In addition to these arrangements, the red meat industry has introduced a number of self-regulation systems, including Cattlecare, Meat Standards Australia and Flockcare.

Cattlecare is an on-farm accreditation system designed to underpin product integrity and safety. Cattlecare Limited is a public company limited by guarantee. It was formed on 15 January 1996 and is owned and controlled by Cattle Council of Australia Incorporated. The day-to-day operations of the company are handled by its national service provider, Aus-meat Limited, which undertakes tasks ranging from provision of workshops and associated activities, manual distribution, handling of accounts and liaison, to promotion and program co-ordination. In September 1999 two major meat processing firms announced that they would pay a per head bonus for livestock originating from Cattlecare accredited properties.³ Although the bonuses are relatively small, this differentiation on the basis of quality is expected to provide the sort of incentive required to encourage producers to introduce Cattlecare.⁴

The Cattle Council of Australia sees Cattlecare as a building block for another industry initiative Meats Standards Australia (MSA). MSA is a voluntary beef grading system which is intended to ensure that consistent, tender, guaranteed product is available throughout the retail and food service sectors.⁵ The program involves the licensing of butchers, restaurants and other outlets to use MSA in marketing and is backed by sanctions such as licence withdrawal and financial sanction.⁶ The MSA program has been piloted in Brisbane and at the end of 1999 is being introduced nationally. By starting with the consumer and focusing on how each segment of the chain impacts on the others, MSA is leading to a major cultural shift in the industry and dramatic changes in how processors and others operate their businesses. The Cattle Council has linked Cattlecare and MSA, so that producers wishing to become MSA licensed must be Cattlecare accredited, ensuring that the move towards guaranteed consistency in graded beef products is tied to product integrity.⁷ In December 1999 the sheep meat industry was reported to be about to begin work on a national eating quality grading system for sheep meat along the same lines as MSA.⁸

Another example of self-regulation in the industry is Flockcare, an on-farm QAS introduced by the Sheepmeat Council of Australia. Flockcare provides a systematic, streamlined way to ensure producers supply a safe, consistent product, while reducing waste and on-farm costs. Particular areas of attention are:

- food safety, chemicals and residues;
- animal health, husbandry and welfare; and
- preparation, presentation and transport.

³ Cattle Council of Australia, News Release 20 September 1999. Teys Bros announced a \$3.00 per head bonus on 20 September 1999. Australian Meat Holdings announced a bonus a week earlier.

⁴ *ibid.*

⁵ Cattle Council of Australia, News Release, 5 May 1999.

⁶ It is rumoured that an organisation has already been subject to sanctions, indicating that the industry is serious about dealing with breaches.

⁷ Cattle Council of Australia, News Release, 2 March 1999

⁸ ABC Rural News 13 December 1999

Flockcare recognises the fact that many property owners run both sheep and cattle and is compatible with Cattlecare.

Wool

The wool industry is currently in a period of change which will result in further major reforms to the existing structural arrangements following a comprehensive grower ballot. “WoolPoll 2000” gives growers the opportunity to vote on the nature and level of collective R&D and marketing services required to support their on-farm activities. Growers have until 3 March to vote on the types of business services they require and the money they are prepared to invest in those services. The ballot is the culmination of a year of intensive review for the industry which began with the establishment of the Future Directions Taskforce in December 1999 in response to woolgrowers’ concern over the future viability of their industry as a consequence of declining market share.

The Taskforce delivered its report in July and the Minister’s response was announced on 23 September 1999 with the release of an eight point plan for the wool industry. The plan, which has been endorsed by key industry stakeholders, is consistent with the recommendations of the Taskforce report in that it aims to minimise government intervention and encourage industry to take responsibility for its own business decisions. This approach will undoubtedly see a move towards greater industry self-regulation.

The second stage of reform will involve the consideration of appropriate delivery structures to support those activities. An interim board will be established to work on the vision, goals and business plan for the new organisation.

The current structure of the wool industry, apart from the key commercial organisations, includes four major grower-funded or regulatory bodies:

- Australian Wool Research and Promotion Organisation (AWRAP);
- WoolStock Australia Ltd (formerly Wool International);
- Australian Wool Testing Authority (AWTA); and
- Australian Wool Exchange Ltd (AWEX).

AWRAP is the only remaining statutory body. Established under the *AWRAP Act*, it is responsible for Australian wool research and development and promotion in the Australian market. It is also the parent entity of the Woolmark Company, which itself is the owner of the world-renowned Woolmark trade mark. AWRAP is funded primarily through a compulsory four per cent wool tax levy imposed on woolgrowers plus a matching contribution from the government. The wool tax includes a 0.5 per cent component, exclusively to fund R&D projects. The future of the wool tax, and the business services on offer to woolgrowers will be determined by the growers poll in 2000.

The other three organisations are companies which have evolved from statutory bodies as the industry and its operating environment have changed over the course of the last two decades.

The oldest is AWTA, which was privatised as a public company on 1 July 1982. The company has six guarantor members and its board structure has equal buying and selling interests, to maintain impartiality and avoid domination by any one sectoral interest. AWTA has no shareholders from which to access capital. Capital to fund operations is sourced entirely from AWTA profits. Over the 16 years of operation to 30 June 1998, AWTA has generated net profit of \$46.3 million.

The initial decisive move to self-regulation came in 1994, following the passage of legislation in December 1993 requiring the then Australian Wool Corporation (AWC) to divest itself of the responsibility for administering wool marketing arrangements. Commercial interests representing Australian wool buyers and sellers established the Australian Wool Exchange (AWEX) to manage wool marketing arrangements. AWEX commenced operations in February 1994, adopting the AWC's Australian Wool Selling Regulations and taking on a number of core selling, market reporting and quality assurance functions previously administered by the AWC. Today, the Australian wool industry, through AWEX, manages its own affairs through self-regulation in a deregulated environment, free from government intervention.

AWEX's role is to enhance the global demand for Australian wool by providing and facilitating efficient, innovative and informed trading systems in an environment which fosters competition and self-regulation.

The extent of self-regulation, as reflected in the AWEX Code of Conduct and Business Rules, is driven by public benefit imperatives. In particular the Business Rules focus on customer requirements in terms of:

- Accessibility and transparency of market information;
- Product quality, including national accreditation, registration and assurance schemes to support quality enhancement;
- Selling system integrity and efficiencies;
- Efficiency of information transfer; and
- Buyer/seller dispute resolution.

The current self-regulatory nature of the Australian wool industry is achieved because the membership of AWEX represents 85 per cent of first hand wool trades in Australia each year. This provides users with a high degree of confidence in the integrity of AWEX.

The other important factor in the development of AWEX and industry self-regulation has been the company's virtual monopoly over wool auction sales. This arrangement was agreed by the then Trade Practices Commission (TPC) for an initial three-year period subject to AWEX meeting various conditions. AWEX's 1997 Application for Authorisation by the Australian Consumer and Competition Commission, the successor of the TPC, presented a marked reduction in the degree of auction market intervention. This is reflected in the revised Code of Conduct and Business Rules.

WoolStock Australia Ltd came into being on 1 July 1999, when Wool International was converted from a statutory authority to a company under the corporations law. WoolStock is responsible for managing the wool stockpile on a purely commercial basis. The principle activities of WoolStock are selling the stockpile, and making distributions to shareholders. The board of WoolStock is fully accountable to woolgrowers, its shareholders, who have been issued with equity units in the company. Since the company's establishment, the government has no involvement in any aspect of WoolStock's operations.

Self-regulation in the wool industry is also manifest in the introduction of QAS. Like other agricultural industries the wool industry has embarked on the path to quality assurance. The quality of the clip has been a contentious issue for several years and has been used by some buyers to discount the price of wool in an already flat and oversupplied market. To counter this and to achieve better prices for wool differentiated on the basis of its quality, several players in the industry have introduced quality assurance systems.

AWEX has established the Quality Advisory Committee (QAC), which is seen by the industry as playing a key role in addressing industry wide quality issues and in developing recommendations for the implementation of AWEX policy. There are, however, a range of QAS already operating in the industry, including those run by Elders, Dalgety and Tasmania Quality Wool. A single industry-wide scheme like Cattlecare or Flockcare is not considered feasible given the disparate nature of the wool industry, but of the Future Directions Taskforce has recommended that woolgrowers should eliminate all possible fibre deficiencies and give customers confidence that they are delivering a consistent, price competitive, quality product by adopting a QAS that works.

Horticulture and wine

Like other agricultural industries Australian horticulture has a mix of statutory and non-statutory arrangements but is moving towards self-regulation. Government and industry are actively considering a merger of the two statutory authorities – the Australian Horticultural Corporation (AHC) and the Horticultural Research and Development Corporation – as a company under corporations law.

The AHC's export licencing powers are being reviewed as part of consideration of this merger and as required under the NCP. The export licencing powers are intended to enable the AHC to ensure that Australian horticultural industries achieve their export potential. In practice export licencing is introduced by the AHC at the request of industry to develop different markets in different ways and minimise the likelihood of Australian companies needlessly competing against each other in export markets. Other statutory arrangements under the AHC, such as the management of export quotas and the powers of product boards, are also under review.

There has been strong interest in quality management throughout the 1990s and a number of different QAS have been adopted, including the Australian Horticultural Quality Certification Scheme, developed by the AHC, and SQF 2000.

The Australian wine and grape industry is subject to a range of industry specific government regulations, such as under the *Australian Wine and Brandy Corporation Act* (AWBC Act), and other more general regulation such as the Australian Food Standards Code.

Under the AWBC Act, the Australian Wine and Brandy Corporation (AWBC) has powers to:

- control the export of wine and grape products from Australia
- control the sale and distribution after export of Australian grape products
- determine the boundaries of various regions and localities in Australia in which wine is produced and give identifying names to those regions and localities;
- determine the varieties of grapes that may be used in the manufacture of wine in Australia, and
- ensure the accuracy of claims made on wine labels in relation to the vintage, variety or geographical origin of a wine manufactured in Australia

The AWBC is also the nominated competent authority for the purposes of ensuring the provisions of the EU/Australia wine agreement are satisfactorily enforced.

Industry self-regulation in fisheries

Australia's fisheries are subject to a wide range of regulatory measures and restrictions imposed by state, territory and Commonwealth agencies. Restrictions cover recreational and indigenous fishers as well as commercial fishers. While there is a substantial level of cooperation by fishing operators

with these fishery agencies, the close regulation of fishing activity has been a feature of the industry for decades.

The fishing industry has several features that set it apart from other industries and have resulted in greater regulation than other areas of production activity. One is that in the wild, fish have traditionally been regarded as common property, belonging to whoever catches them first. Another factor is that fish stocks are a finite resource with a high economic value to those who can catch them. History shows that these factors can lead to a 'tragedy of commons' situation occurring in relation to fish stocks whereby the decline in the size of fish stocks is accompanied and exacerbated by increasingly greater efforts to catch those stocks that remain.⁹

One of the most commonly identified goals underlying fisheries management activity has been to ensure the long-term sustainability of the fish stocks and the marine environment upon which the fishing industry depends. Experience in Australia and around the world has shown that without appropriate government regulation in place, too much fishing effort may lead to fish stocks being reduced to a level from which they may not be able to replenish themselves.

The development of codes of practice and the potential for the co-regulation of fisheries, where industry engages in long-term planning for the management of particular fisheries with government support, suggests that some degree of self-regulation is possible. However, the potential for substantial overfishing remains a persuasive argument against its broader implementation in fisheries management activity.

A NCP review of Commonwealth fisheries legislation is currently underway. This will consider self-regulation as part of fisheries management.

An important developing area of self-regulation in the fisheries industry is the introduction of QAS. A number of quality related initiatives have been completed or are currently underway within the Australian seafood industry. One of the most important is SeaQual.

SeaQual is a joint initiative of the Australian Seafood Industry Council (ASIC), AFFA and the Fisheries Research and Development Corporation (FRDC). Its aim, like that of other quality programs in portfolio industries, is to underpin Australia's reputation as a reliable supplier of consistent product, in this case of 'clean and green' seafood. Initial funding was for four years and commenced in the 1995-96 financial year. Major activities to be undertaken by SeaQual during the first four years include:

- the development of a national inventory of quality management systems in the Australian seafood sector;
- the development and implementation of a seafood quality strategic plan;
- the development of an investment guide for industry to assist in determining an appropriate level of quality management;
- collection and dissemination of throughout the industry of information on quality; and
- undertaking specific project work related to quality management.

The Australian Seafood Industry Quality Assurance Project is a two year project designed around five industry sectors and jointly co-ordinated by the Queensland Commercial Fisherman's Organisation, the Australian Prawn Farmers Association and the Queensland Seafood Marketers Association, with financial assistance from the Commonwealth Government's Food Quality Program.¹⁰ To date 22 companies have achieved ISO 9002 certification under this program,

⁹ cf the Grand Bank Cod experience in Canada.

¹⁰ Wild caught prawns, farmed prawns, reef fish, spanner crabs and mullet.

including trawlers, processors and merchants. In addition, all export registered facilities have QAS in place.

The Australian Prawn Promotion Association (APPA), a private company, is the peak body for the promotion of Australian wild caught prawns. The APPA five-year plan encompasses a code of practice for prawn trawlers, detailing product standards, packaging, freezing, hygiene and food safety protocols. In addition, land based APPA members (processors) are being encouraged to adopt formal QAS, particularly ISO 9002. APPA has developed a promotion strategy which will differentiate Australian wild, sea-caught prawns from the Asian farmed product on the basis of size, flavour and health status. In 1994 the Commonwealth passed legislation to assist with the collection, management and disbursement of funds for the promotion of wild caught prawn. This compulsory levy is being phased out this year.

Industry self-regulation in food

The food industry is now one of the fastest growing export sectors in the Australian economy. The world food market is also expanding, offering ongoing export opportunities.

Industry stakeholders and policy-makers at all levels of government are recognising the significance of quality in providing a marketing edge for the Australian food sector. Food health scares, as well as the need of producers and retailers for flexibility in meeting changing consumer tastes, have emerged as factors progressively shaping the competitiveness of the local industry. However, the industry has complained that its competitiveness has been hampered by inconsistencies within and duplication between the regulation of food at different levels of government.

In March 1997 the Prime Minister announced that the Food Regulation Review (the Blair Review) would examine ways to reduce the regulatory burden on the food industry and to clarify and simplify the regulatory system for food, while providing safer food to all Australians. The review covered all imported, exported and domestic food regulations, from primary production through to processing and retail.

Completed in August 1998, the Blair Review found that an improved national food regulatory system would need to combine a preventative, risk-based, whole-of-chain approach to safe food supply and an ongoing effort to minimise regulatory costs to industry, while ensuring safe food outcomes. The review also found that a move towards self-regulation was necessary, and that a co-operative, co-regulatory approach to food regulation, based on a partnership between industry, consumers and governments, would achieve this outcome.

The Senior Officials Working Group on Food Regulation (SOWG) was established in March 1999 to develop a whole-of-government response to the review report for the Council of Australian Governments (COAG) to consider early in 2000. As part of this response, SOWG has developed a model for an improved national food regulatory system based on the Blair Review findings. Under this model agricultural industries will be able to meet their obligations to manage their food safety hazards in a number of ways, including through industry self-regulation.

Self-regulation through industry-developed quality assurance systems is one way to deliver consistent quality in products while enhancing enterprise efficiency, adoption of world leading standards for Australian food products and a stronger consumer focus responsive to specific markets.

While the commitment and effort dedicated to improving quality assurance uptake throughout Australia's agrifood industry is a positive and encouraging development, the lack of a cohesive, coordinated approach is creating an environment in which confusion and inefficiencies abound.

There is a rapid proliferation of food safety/ QAS – and associated auditing compliance requirements – by governments, retailers, industry and individual food enterprises. It is possible to identify over 100 separate food QAS in Australia. The audit costs for enterprises with multiple QAS imposes a significant cost burden on the entire food supply chain and, if not addressed, will be a serious impediment to the future competitiveness of Australia's food industry.

Country of origin labelling is an example of an area in which industry self-regulation rather than mandatory provisions may be appropriate.

Under current legislation supermarkets and retailers have the flexibility to voluntarily label Australian products as such. However, recent *Trade Practices Act 1974* amendments ensure that if products are labelled as 'Australian Made' or 'Australian Produce' then they need to meet specific requirements.

There are a number of benefits in having industry design and implement a system for labelling food products in conjunction with retailers. Retailers may be encouraged to make it clear to consumers by implication that a product without a label is not Australian and therefore likely to be imported. At the same time it would be in the interests of industry to increase consumer sensitivity to product origin, to create consumer demand for Australian product and thereby generating consumer pressure for retailers to label Australian produce. These actions should result in lower labelling costs to industry and increased information for consumers.

Industry self-regulation in forestry

Unprocessed wood exports (largely woodchips) have been highly regulated at the Commonwealth level for a number of years. This regulation has had flow-on effects on the management and commercial arrangements of State forest agencies and industry. Under the Regional Forest Agreement (RFA) process 20-year agreements are developed between the Commonwealth and States to define commitments in relation to forest conservation, forest use and development, and the development of those industries based on the resources of the region's forests. One of the outcomes of an RFA is that no export controls under the *Export Controls Act 1982* will apply to wood sourced from native forests in a region while an RFA is in place.

All regulations relating to the export of wood products will be reviewed during 2000 as part of reviews under the National Competition Policy.

Part of the RFA process involves a review of the administrative and regulatory arrangements in place to provide for ecologically sustainable forest management across the public and private forest estate. In the case of public lands the industry operates with a high degree of regulation at the state level. This includes a legislative framework in each State, then a hierarchy of regional Management Plans, Codes of Logging Practice and, at a local level, harvesting plans and detailed monitoring and supervision by State forest agency employees.

On private land the degree of regulation and the administrative arrangements varies between States but often relies on implementation by local government.

There is less reliance on regulation for plantation activity. In this area industry has taken a lead in regions where legislated Codes of Logging Practice are not in operation. For example, Australian Forest Growers (AFG) and relevant agencies have developed a voluntary code of practice for forest harvesting in southern NSW and WA. Export controls on plantation sourced wood have been progressively removed from all States, following assessment of Codes of Forest Practice as being

consistent with nationally agreed principles, with controls remaining only on Queensland and Northern Territory.

In most states the state forestry agencies and some major forest owners are voluntarily adopting environmental management systems to ensure sustainable harvesting and market access. Australian forest industries and owners are also working on a joint initiative with governments to develop an Australian Forestry Standard. This standard will provide a basis for voluntary third-party certification of forest management for wood production. The standard will be applicable to all forests managed for wood production. It is expected that demand for timber sourced from certified forests will increase both in Australia and internationally.

AFFA is also aware of a move by the Institute of Foresters to establish a registered professional forester scheme. The scheme could allow accreditation of professionals to sign off harvesting plans and compliance with codes of practice, and deal with the absence of capacity for this task to be undertaken by governments.

At the market level afforestation companies, under the auspices of AFG are developing a voluntary Code of Practice for Afforestation Investment Companies that is consistent with the legislative requirements of the Corporations, Taxation, Environment and Competition law, along with a guide that enables investors and financial analysts to assess the risk and potential of the aforementioned schemes.

Regulation in quarantine and inspection

Australian quarantine has undergone tremendous change over the decade of the 1990s. Australia's whole approach to quarantine, including policy, procedures and legislation, has been subject to extensive review, particularly since 1996. While in general these changes have led to greater industry involvement in some areas and a commitment to co-regulation, statutory arrangements continue to play an important role in quarantine and inspection.

The Nairn Review of Quarantine in 1996 and the subsequent government response in August 1997 reaffirmed the importance of a statutory approach under the *Quarantine Act 1908* in keeping quarantine threats out of Australia. A NCP review of the *Imported Food Control Act 1992* was undertaken in 1998-99 and a similar review of the *Export Control Act 1982* is currently underway. The purpose of these reviews is to examine those aspects of the legislation which restrict competition resulting in costs or benefits for business.

In relation to import inspection the NCP review of the *Imported Food Control Act* found that government regulation - through the setting and enforcement of food standards - provides confidence to consumers that commonly available foods are safe for human consumption and requires manufacturers to identify the contents of their food.

Much of the food now consumed by Australians is relatively underprepared or "fresh" compared to the traditional thoroughly cooked or salted foods. Such foods come with higher inherent risks if not prepared under adequate safety regimes. Domestically these risks are well managed through health regulations and industry and company quality assurance programs, however, because Australia has no direct control over the production of the ten per cent of food consumed by Australians which is imported, a system based on barrier inspection and end-point testing was introduced to ensure compliance of imported food with Australian public health and food standards.

The review concluded that the best way to ensure this compliance is to develop a partnership or co-regulatory approach between industry and government. This approach will encourage industry to take greater responsibility for ensuring food safety while, at the same time, retaining government

control over the food importing system through regular government-controlled audits. The changes recommended will lead to increased industry responsibility and the use of compliance agreements with the importer, based on quality assurance-type systems, which will allow importer's greater flexibility to adopt the method of compliance which best suits their operations.

In relation to export inspection government policy requires AQIS to adopt a strategic direction which incorporates NCP principles moderated as necessary by importing country authority requirements. In practice this means introducing, to the extent possible, quality assurance programs and third party inspection and third party auditing options into export certification programs.

It goes without saying that in pursuing these options both industry and government have as a mandatory requirement that public health and phytosanitary requirements of importing countries will not be jeopardised.

AQIS operates seven major export certification programs which reflect the adoption of these principles to varying degrees.

AQIS Export Certification Programs

Program	Trade \$m	AQIS Costs \$m	%	Inspection
Meat exports	3,500	55.2	1.60	Primary inspection MSQA MSEP
Grain exports	5,500	6.7	0.12	Primary inspection
Dairy exports	2,300	1.1	0.05	AQA/FPA Third Party Audit
Seafood exports	1,300	3.9	0.30	AQA/FPA Third Party Audit
Live animal exports	500	1.9	0.40	Industry based QA Third Party Audit
Horticulture exports	750	5.4	0.72	Mainly primary inspection
Organic Produce exports	30	0.1	0.30	Third Party Audit

The implementation of alternative arrangements varies significantly across these programs. For example, the Organic Produce Exports Program embodies full implementation and the Dairy program is almost at full implementation, with a certification system based on quality assurance programs allowing AQIS to use only 4 staff to certify \$2.3 billion of export product. The Grains and Horticulture export programs are less advanced, with physical inspection by AQIS the industry preferred basis for certification.

Both the grains and horticulture programs have undertaken extensive QEAC reviews and both now have strategies in place to implement co-regulation systems.

The options that AQIS is progressively implementing are built on the policy of co-regulation and reflect the principle of contestability – with one important qualification.

‘Contestability’ in its purest form requires that private providers of inspection, audit and even certification services are in the market place and individual companies can select their provider of choice between the private providers and government providers bidding under full competitive neutrality principles.

This requires that importing country authorities accept private sector inspection audit or certification of product and that government agencies structure a “service provider” agency to compete with the private sector.

In practice, this is not always achievable. Among other things, importing country authorities have widely differing views about the role of private providers in health certification systems. All expect government certification, most expect government audit for most commodities and many require government inspection or oversight of processing systems.

The approach that AQIS is adopting is to:

- identify the potential role for private providers in the inspection/audit chain for each commodity;
- seek industry sign on to the likely commercial acceptance of third party providers;
- advise importing country authorities of intended future arrangements; and
- withdraw from the provision of services (ie not seek to compete for a continued role).

The case of AQIS’ approach to meat inspection is a good example of the current move towards co-regulation in export inspection.

Since 1994 AQIS has reduced the cost of the meat inspection program from \$120 million to \$54 million in 1998/99. The full-time meat inspection staff in AQIS has fallen from over 1200 Food Standards Officers (FSOs) in 1995 to around 400 full time FSOs now employed by AQIS in the export meat program.

A central strategy in reducing the size of the export meat inspection program has been to encourage industry to accept greater responsibility for the product they produce through the development and operation of quality management systems incorporating Hazard Analysis Critical Control Point (HACCP) principles to address food safety concerns.

AQIS has made Meat Safety Quality Assurance (MSQA), a HACCP and ISO9002-based quality system, available to the export meat sector as the primary vehicle to achieve a co-regulatory approach. MSQA provides a more flexible approach to compliance with regulatory requirements under the *Export Control Act*. AQIS approves MSQA arrangements at each export plant under Part 32 of the *Export Meat Orders (EMOs)*, subordinate regulations to the *Act*. The company documents how it will comply with the EMOs and other conditions necessary to satisfy the requirements of the importing countries in its MSQA manual. The AQIS approval is a binding arrangement and enables AQIS to enforce regulatory standards through the company’s implementation of its agreed MSQA program.

Approximately 35% of export registered establishments now operate MSQA arrangements. Many other plants have MSQA manuals being developed and prepared for AQIS approval. Although MSQAs are voluntary arrangements for industry, there is an expectation by both AQIS and industry that all plants will operate MSQA arrangements in the future.

A further development of MSQA involves devolvement of the on-line inspection function to the company within the quality assurance arrangement. AQIS maintains control of the plants’ operations through the continuous presence of the OPVO and the monthly audit by a senior supervisory veterinarian (Area Technical Manager (ATM)). In March 1996 AQIS put a proposal to the US Department of Agriculture (USDA) for such inspection arrangement, which was called Project 2. USDA did not accept Project 2 for meat exported to the US. AQIS put forward an amended proposal called Meat Safety Quality Assurance (MSEP) in 1998, which is essentially

different from Project 2 in having one AQIS FSO positioned on the slaughter line to provide continuous government inspection. MSEP was accepted by USDA in June 1999.

Project 2 and MSEP arrangements are now available to industry although there are commercial difficulties with some Asian markets. The European Union will not accept product from MSEP or Project 2 plants.

AQIS expects that ultimately the export meat sector will fully adopt the co-regulatory approach, along the lines of that in the dairy industry program (outlined above) with auditing of quality assurance arrangements being fully contestable by a number of third party auditing agencies. Significant barriers remain to the full realisation of this model for meat inspection. As noted, most importing country authorities are not yet prepared to accept third party inspection or auditing as the basis of product certification by the responsible exporting country authority.

The scope for further self-regulation

The scope for further industry self-regulation is unclear. Many of the issues which need to be considered are common to other industries which are also subject to government legislated regulation. The key issue for many industries is whether quality standards for domestic and, particularly, exported product need to be maintained by government legislation.

Despite the extensive adoption of co-regulation in export inspection, the expectations of importing countries that government will have a continuing role in inspection at some level indicates that the opportunity for a further move to self-regulation in this area may be limited at this stage. Similarly, in the case of the wine industry, any move to industry self-regulation would need to consider the implications for current and potential bilateral or multilateral trade agreements and whether other trade partners would accept industry self-regulation for the purposes of such agreements.

An emerging area for industry self-regulation is the development and implementation of environmental management systems and production accreditation schemes.

Consumers are expressing growing concern about the environmental and ethical impacts of agricultural production systems—for example, impacts on the quality of water run-off and on water use, dryland salinity, biodiversity loss, greenhouse emissions, desertification and animal welfare. Domestic and international consumer acceptance of Australia's farm products will increasingly depend on how management practices affect soil, water and vegetation and on perceptions of the ecological sustainability of the farming process.

Some industries and individuals have responded to these concerns through the implementation of environmental management systems and production accreditation schemes. These can be at a variety of levels and rigour, such as ISO 14000 certification, commodity-level schemes, regional schemes, or groups of farmers cooperating to develop niche markets. Systems such as these involve complementary codes of practice, industry competency standards, guidelines, agreed benchmarks, performance audits, and sanctions for non-performance.

There are already indications that if Australian industry does not pursue these opportunities and establish internationally recognised standards for production systems such standards will be developed and imposed by external markets in response to consumer concern. This could present trade barriers for our agricultural products in the future.

The more widespread development and adoption of systems incorporating world's best practice and with standards and audit processes recognised as rigorous will provide a marketing advantage for the Australian industry, as well as provide the platform for sustainable production into the future. They will also provide a powerful means of motivating farmers to manage off-site impacts which affect other producers, other industries and urban areas.

While governments may have a role in encouraging the adoption of these systems, they are primarily self-regulatory devices. Their development and implementation should be initiated by the industries and regions themselves in response to market signals and as an element of business management.

Conclusion

After nearly a century of operating in a highly regulated environment, Australia's agricultural and fisheries industries, together with the food and forestry industries, are moving inexorably along the path to self-regulation. For many industries this has involved the adoption of QAS. Some have gone further, introducing codes of practice and product standards. In a few industries most statutory arrangements under Commonwealth legislation have been removed, and other industries are considering similar changes.

The move to self-regulation in portfolio industries has resulted from a number of circumstances. The introduction of QAS has been driven by industry, with strong initial encouragement from government, in recognition of the commercial benefits of being able to supply the consistent product demanded by customers. The adoption of codes of conduct and product standards have also been industry initiatives, motivated by commercial considerations. The removal of statutory arrangements has primarily been the result of government policy objectives, with varying levels of industry support.

Self-regulation offers industry the opportunity to manage itself and thereby have greater control over its own destiny. Self-regulation gives industry the responsibility to make decisions about its own future in an open market environment and based on market information largely free from distortion by statutory arrangements and regulation.

AFFA recognises that there will be circumstances in which self-regulation may not be the most appropriate form of regulation within the agriculture, fisheries and forestry portfolio. The expectations of Australian consumers and customers overseas will see some form of statutory regulation in relation to food safety and in the areas of import and export inspection and the management of agricultural and veterinary chemicals for some time to come. In situations where self-regulation is not considered the best option, AFFA will work with industry to find appropriate solutions.

AFFA supports the introduction of self-regulation in the agricultural, fisheries, food and forestry industries where this is beneficial to industry and consumers and is cost-effective. AFFA will continue to work with industry to reduce or remove regulations which distort competition and the flow of market signals throughout the marketing chain.