

Horticulture Export Cost Recovery Arrangement

Proposed implementation date: January 1, 2020

Background

The Department of Agriculture and Water Resources (DAWR) commenced partial cost recovery of export certification activities in 1979 and implemented full cost recovery from January 1, 1991.

The policy authority for continued export certification cost recovery was confirmed in the 2015–16 Budget when the government announced a redesign of the department’s biosecurity and export cost recovery arrangements.

The redesign ensures the department’s cost recovery arrangements are equitable, financially sustainable and support the efficient and effective delivery of export activities into the future.

The redesign improves the cost recovery of export certification activities by:

- recovering the full cost of activities undertaken by the department where appropriate;
- simplifying the structure of fees and levies where appropriate;
- achieving greater equity in client contributions to system costs; and
- expanding and enhancing activities to strengthen export certification services.

What is Cost Recovery?

Cost recovery fees and levies fall within the Australian Government’s broader charging framework. Other charges in this framework include commercial charges and resource charges.

The type of charge is determined by the characteristics of the services. The use of commercial charging is not appropriate as this approach relies on competitive markets. While the private sector can undertake some export certification activities, the government must provide the export certification framework.

This is because it relies on negotiated arrangements with other countries. Resource charging is not appropriate as export certification is not based on the value of the activity to the recipient.

The only viable alternative to cost recovering for export certification is funding this activity through consolidated revenue (general taxation).

In most circumstances, however, general taxation is only appropriate for services that are provided to the wider community. Export certification services are provided to a clearly identifiable group—individuals and organisations that participate in the plant export supply chain.

If it were not for the business activities of this group, export certification would not be required. There are additional benefits to funding export certification through cost recovery.

When a business pays for the activities it receives, the government has an obligation to justify the prices it charges. Cost recovery also increases the cost consciousness of clients of how much a government activity actually costs.

For these reasons, the government has determined cost recovery to be the most appropriate mechanism for funding export certification. The department has designed cost recovery of export certification services to be consistent with the Australian Government Cost Recovery Guidelines (CRGs). These provide the overarching framework under which government entities must design, implement and review cost recovery.

Cost Recovery - Horticultural Exports

The cost recovery arrangement for the Horticultural Exports Programme consists of three parts:

1. Setting the cost base (the expenses DAWR allocates to be recovered);
2. Setting the anticipated export volumes for commodities exported under the programme; and
3. Selecting and setting appropriate charge points and ensuring anticipated revenue is aligned to expenses.

To date, consultations with DAWR through HEICC on the cost recovery arrangement has proceeded as:

1. DAWR **advised** industry of the cost base;
2. Industry advised DAWR of their anticipated export volumes by commodity over the forecast period (4-years); and
3. Industry is advising DAWR of the most equitable distribution of charges to minimise the impact the introduction of the new charges will have on Australia's horticultural exports.

During the consultation process there was no opportunity for industry to engage DAWR on the cost base; it's inclusions, exclusions, efficiencies, refinements, return on investment and strategic investment plans.

Current Status

In June 2019 through HEICC (in confidence) DAWR proposed the following three pricing options for consideration:

1. **Option 1** – Equal increases on current levy prices (159%) for establishment registrations, export volumes and phytosanitary certificate levies.
2. **Option 2** – Equal increases on the proposed prices in the 2017-18 draft Cost Recovery Implementation Strategy (CRIS) to establishment registrations, export volumes and the phytosanitary levies.
3. **Option 3 (new)** – Introduction of an export permit levy, consolidation of export volume levies into one and tiered phytosanitary certificate levies.

DAWR did not model the HEICC proposed 'Option 4' which was to include an annual exporter charge to more equitably capture all supply chain operators into the cost recovery arrangement.

DAWR has pushed for acceptance of either of its three proposed options, to then get sign off from the new Agriculture Minister, which will then lead to a public consultation, with new charges planned to be implemented on January 1, 2020.

Industry’s view is that it is not acceptable for DAWR to go to a public consultation when consultation with Horticulture Export Industry Consultative Committee (HEICC) has been insufficient and requests for modelling not been adhered to.

Example of Impact

Carrot grower-exporter who directly exports 1,200 consignments to non-protocol markets in a year (20-25 tonnes per consignment)						
Current Model	Option 1		Option 2		Option 3	
Price	Price	% increase	Price	% increase	Price	% increase
\$103,845	\$191,583	84%	\$233,929	125%	\$201,625	94%

Recovery of Historical Reserve Deficit

The department has repeatedly advised industry through the HEICC that it would not seek to cost recover historical under-recovery as this would have a substantial adverse financial impact on the horticulture sector. Yet, the horticulture cost-recovery arrangement has included recovery of the horticulture cost recovery reserve of \$3,247,157 of prior year under-recovery.

This needs to be addressed.

Desirable Outcome

Given the significant impact of this charge to the \$2.2b horticulture export industry, it is crucial for a genuine consultation process.

The horticulture industry accepts the Government’s decision to cost recover, but reinforces that it is important for the charge to be as equitable as possible.

The HEICC recommended an Annual Exporter Charge to be modelled by the department, which was accepted at the HEICC meeting on February 28 2019, but was not adhered to or considered by the department.

Industry was also disappointed in the lack of communication and consultation over the last few months, given that the issue is supposedly ‘pressing’ for the department.

The industry, through the HEICC, is fully aware of the complexity and sensitivity of the cost recovery arrangements, and is unified in working to ensure the best, fairest and most equitable result can be reached for all industries in our sector.

Given the Horticulture industry does not believe proper diligence has been undertaken by the department in this process so far, industry cannot support any of the proposed options.