Cost recovery implementation statement: plant export certification 2019–20

Submission

AUSVEG

31 January 2020

Cost Recovery Division
Department of Agriculture
GPO Box 858
Canberra ACT 2601

Re: Vegetable Industry Response to the *Cost Recovery Implementation Statement Plant Exports Certification 2019-2020*

Thank you for the opportunity to make a submission to the Department of Agriculture's (DoA) consultation on the *Cost Recovery Implementation Statement Plant Exports Certification 2019-20 (CRIS)*.

AUSVEG rejects the proposed changes to the fee and levy structure of the DoA horticulture export cost recovery arrangement. The proposed changes will have a substantial adverse impact on the vegetable industry. Given the diverse nature of vegetable exports, AUSVEG is not in a position to support implementation of either pricing Option 1 or pricing Option 2. Each model has significant impact on different exporters in the industry, and neither address the key concerns of an expanded cost base or the delivery of cost efficient services to meet export certification requirements.

AUSVEG understands the need for export certification requirements, as well as the need to fund the biosecurity framework to protect Australia's borders. AUSVEG also recognises the need for government to recover the cost of delivering these services – as long as they can be provided efficiently and charged at competitive rates.

AUSVEG has a diverse membership spanning large and small exporters who collectively comprise a large proportion of Australian vegetable exports. The proposed increases to export certification fees and charges will have a varying impact to individual members based on business structure, export destination, commodity type, volume and value. This is shown through the following examples:

(1) if exporting high volumes of potatoes, onions and carrots to non-protocol markets (such as 1,200 consignments of 25 tonne each) through a registered establishment that requires the use of three AOs, the expected cost increase to export certification under Option 1 is 127%, and for Option 2 is 94%.
(2) If exporting a 25 tonne consignment of carrots, seafreight 40' container, to a protocol market, with a phytosanitary certificate, export permit(s) and RFP, the expected cost increase to export certification under Option 1 is 116%, and for Option 2 is 74%.

Absorbing export certification cost increases to these levels will adversely impact all commodities, and the export landscape will shift accordingly resulting in reduced to negligible exports across some commodity lines.

These substantial increases are just one component of the value chain pathway for horticultural exports. Justification for export certification increases should be viewed under a lens that includes the delivery of efficient and competitive service, and the costs to treat, secure and transport produce to export markets.

With the Australian horticultural sector currently experiencing extended drought, devastating bushfires and Government departments that are undergoing restructure, the timing of these increases is also questionable.

AUSVEG, along with other industry bodies, has the following issues with the proposed changes to the fees and levies in the horticulture export cost recovery arrangement proposed in the CRIS:

1. **Cost Recovery Model**:
   - **Disparity in Current Versus Proposed Prices:** An overall increase for export certification fees and levies of over 40 percent in both Option 1 and Option 2 in the first year is unmanageable and will significantly impact the financial viability of exporters and their capacity to remain in the program.
   - **Expanded Cost Base:** The expanded cost base includes activities that are of a broader national benefit and should not be cost recovered from private enterprises.
   - **Volumes Forecast:** DoA utilised ABARES data to determine the likely export volumes for all fruits and vegetables covered by the cost recovery arrangement. A number of these forecasts vary by 20% or greater from industry data. Lower ABARES export forecasts lead to higher prices proposed in the CRIS, and a stronger likelihood of over-recovery exceeding Cost Recovery Guidelines (CRGs).
   - **Recovery of Historical Reserve Deficit**: Current exporters should not be penalised for the department under-recovering costs from previous periods. The CRIS does not confirm how the Government and DoA intend to manage the historical deficit.
   - **Implementation Date:** The CRIS includes changed cost recovery arrangements from 2019-20, yet does not specify an implementation date.

2. **Adverse impact on the domestic vegetable market**:
   The domestic vegetable market is particularly volatile to fluctuations in supply. Should significant volumes of product grown for export be redirected onto the domestic market this will have serious short- and medium-term effects on vegetable producers of a range of different crops.
   - In the short-term, should the large exporting growers redirect export volume to the domestic market, this will flood the domestic market and floor prices. Most significantly, it will remove the market from small scale vegetable growers, ultimately resulting in a number of small businesses ceasing operations.
   - Over the medium-term, the ongoing impact of export product redirected to the domestic market may push additional producers out of production entirely.

3. **Adverse impact on Vegetable Exports:**

   In 2018-19 the vegetable industry contributed over $280 million in value and 253,000 tonnes in volume to Australia's horticultural exports. This represents approximately 30% of Australia's horticultural export volume. Vegetables are typically a lower value category, with very thin margins for exporters of these products.
   - An increased tonnage levy risks making the vegetable category uncompetitive in export markets and will lead to current exporters ceasing exports altogether, and act as a strong disincentive to new grower-exporters to enter the market.
   - Exports of carrots, onions and potatoes, which make up over 80% of total vegetable export volume, will be particularly affected by the proposed additional cost.
     - The proposed cost increases would jeopardise the ability of the vegetable industry to achieve its targeted growth in the *Vegetable Industry Export Strategy 2020* of a 40% increase in volume to 310,000 tonnes by 2021.
     - A conservative but realistic assumption that the proposed new charges will lead to a 20% reduction in vegetable export volume, and a corresponding 20% reduction in the value of vegetable exports, leading to less costs recovered by DoA.

4. **Incorrect Risk Assessment:** The Charging Risk Assessment (CRA) undertaken by DoA is insufficient and downplays:
   - the risk of impact to payers incurred through charge increases, the number of people affected and the cumulative effect from other government charges and regulations, *and*
   - the critical risk significantly increased charges will have on Australia's global competitiveness.
5. **Inadequate Non-financial Performance Measures:** Performance measures should be aligned with the Plant Export Service Charter, which in turn should be aligned with commercial requirements for that service.
6. **Inadequate Consultation with Industry Stakeholders:** The adverse impacts the CRIS will have on vegetable exports necessitates extensive public consultation which has not occurred. Underlying documentation, such as the Cost Recovery Guidelines, Charging Risk Assessment and Charging Framework are difficult to locate on the department website, and confidentiality requirements within the Industry Consultative Committees reinforce the importance of extensive and timely public consultation by the DoA. Repeated changes to the consultation timeline and insufficient communications with both industry representative bodies and affected businesses, had led to extreme confusion regarding the submission process. The Department commissioned an independent review into cost recovery, undertaken by EY, which was to be publicly released during the CRIS consultation so affected parties could consider this report prior to making their submission. At the time of writing this report had not been made available.
7. **Cost Recovery Proportion Across Commonwealth Departments:** As highlighted in Table 1 below, 48% of DoA costs were directly paid for by Australian farmers and exporters, on top of any other taxes, fees and charges for operating a business. This is proportionally much higher than other Commonwealth departments, and the comparable Ministry of Primary Industries in New Zealand. See appendix 6 for Departmental Financial Statements.

Table 1. Department Cost Recovery Value

Government Department	**Revenue Cost Recovered from Industry ($M)**	**Total Expenditure ($M)**	**Per Cent of Costs Recovered from Industry**
Australian Trade and Investment Commission	24,436	245,708	10%
Department of Industry, Innovation & Science	74,598	508,195	15%
New Zealand Ministry of Primary Industries	NZ$205,279	NZ$714,543	29%
Department of Agriculture	409,371	847,741	48%

Detailed analysis on each of the issues outlined above is provided in the attachments and appendix.

To address the issues outlined above, vegetable industries have the following recommendations.

Recommendations

Industry believes that cost recovery in agriculture has extended beyond fee for service into cost recovery for policy development, and that close to 50% of DoA's budget being obtained from cost recovery is unsustainable. Industry recommends the following is required to restore balance into the cost recovery model, DoA's budget and the impost on industry:

1. The Minister for Agriculture must not proceed with implementing the proposed increase in the fees and levies in the *Cost Recovery Implementation Statement Plant Exports Certification 2019-20*.
2. DoA must separate all policy functions from cost recovery to ensure integrity in the development of policy, the appropriate allocation of policy resources to Government priorities and removal of the cost on industry for policy development.
3. The Commonwealth Government budget allocation be increased to reflect the Prime Minister's stated objective of agriculture becoming a $100 billion industry by 2030 and ensure that sufficient funding is provided to support policy development for the agriculture sector in the future.
4. The Commonwealth budget allocation must provide a provision for improvement of the ICT systems and activities supporting export certification, biosecurity and market access. Support for these systems and activities will provide significant benefits to the management of Australia's borders for biosecurity, is of significant public benefit, and will also better facilitate agricultural exports and future growth.
5. Once these arrangements have been implemented the fee for service requirements for export can be better designed to reflect the cost to government and the service needs of industry.

Based on the issues raised, AUSVEG formally requests that DoA does not proceed with implementing the revised the fees and levies in the *Cost Recovery Implementation Statement Plant Exports Certification 2019-20*, and that DoA strongly consider the proposed recommendations and engage with industry on implementation of these recommendations.

Yours sincerely,

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