

REGULATION IMPACT STATEMENT

OBPR Reference is ID 10966

REGULATORY IMPACT STATEMENT FOR THE INTRODUCTION OF REFORMS UNDER THE EXPORT CERTIFICATION REFORM PACKAGE

Background

The Australian Quarantine and Inspection Service (AQIS) is responsible for controlling exports of prescribed goods, including meat, dairy, fish, grains, horticulture products and live animals. These commodities cannot be exported unless they meet requirements set out in the *Export Control Act 1982* and subsidiary legislation. AQIS verifies that these requirements are met and provides certificates, if required by importing countries. It has been an historic irregularity that exporters have not been charged for the export services provided by AQIS. In 2001, the Government introduced cost recovery for AQIS export services, but provided a temporary 40 per cent rebate to industry on the full cost of these services.

The 40 per cent rebate on export service costs was scheduled to lapse on 30 June 2009. The return to full cost recovery was supported in a recommendation of the 2008 independent review of quarantine and biosecurity arrangements, *One biosecurity: a working partnership* (the Beale Review). The Government accepted this recommendation. Fees to return the export industries to full cost recovery were the subject of a disallowance motion in the Senate in 2009.

In November 2009, the Government provided transitional funding to rebate 40 per cent of industries' AQIS export costs until 30 June 2011, to ease the transition to 100 per cent cost recovery, and the disallowance motion was rescinded. Funds were also provided to assist with export certification reforms that would increase the efficiency of the export process. The total package was called the Export Certification Reform Package (ECRP).

The ECRP led to the establishment of six Ministerial Taskforces, composed of industry representatives of the six major export commodities regulated by AQIS and DAFF representatives.

Traditionally, AQIS maintains close communication with export industries through industry consultative committees for each of the prescribed goods - meat, dairy, fish, grains, horticulture products and live animals. Once some level of cost recovery was introduced in 2001, these committees became a forum for discussing AQIS fees and charges. The export commodity consultative committees were the basis of the Ministerial Taskforces. The Taskforces are co-chaired by industry and the Executive Manager of the Biosecurity Services Group (BSG) Food Division. The Ministerial Taskforces have each drafted Work plans, which are available on the Departmental website. See Export Certification Reform Package (ECRP) - DAFF. The Meat Ministerial Taskforce information is located at: Meat MTF - DAFF

The total amount of funding provided for the ECRP from November 2009 to June 2011 was \$127.4 million which consisted of

- \$85.3 million for fee rebates to assist exporters to transition to the new fees and charges. This funding will be used to provide a 40 per cent offset of the full cost impact on export industries to 30 June 2011. It will also address the revenue shortfall for AQIS export programs that accrued to 30 November 2009 as a consequence of the Senate's disallowance of AQIS export fees and charges on 15 September 2009.
- \$16.1 million for reform of the regulatory and export supply chain.
- \$26 million for meat inspection reform.

The majority of the funds were allocated to fund the 40 per cent rebate. The funds for rebate and reform were allocated to each commodity based on the proportion of the costs of their export services from the previous year. Meat exports contribute the greatest amount of AQIS costs. The amounts allocated to each commodity for the entire ECRP are listed in Table 1 below.

Table 1

Sector	\$'000
Dairy	2,231
Fish	5,522
Grain	13,082
Horticulture	7,877
Live Animals	6,532
Meat	<u>92,156</u>
Total	127,400

The size, structure and export value of the export industries varies. Table 2 below provides information regarding the number of registered exporters and export establishments for each of the major export industries and the value of their exports in 2009-10.

Table 2:

	Number of registered exporters or establishments ¹	Value of exports (million) ²
Meat	324	\$5,447
Fish	683	\$1,007 (edible)
Dairy	375	\$2,393
Grains	637	\$6,115
Horticulture	627	\$1,147
Live Animal Exports	55	\$1,007 (sheep, cattle, goats)

Current figures provided by the export meat industry are that it provides employment for close to 50,000 workers across 2,500 companies. These workers and companies cover

¹ Source: DAFF Establishment Register

² Sources: ABS, ABARES Australian commodity statistics, Livecorp 2009-2010 Annual Report

activities from the farm gate to processing, and include smallgoods manufacturers, wholesalers, distributors, boning rooms and independent retail butchers consists of over 2,500 companies. In addition, there are at least the same number of Australians involved in the road transport, shipping, carton and equipment manufacture, insurance, banking, laboratories and other ancillary industries that are involved in the red meat processing and export sector. The industry is worth annually an estimated \$15 billion to \$17 billion to the Australian economy. And this total does not include estimates of employment in the farming sector and ancillary businesses that support that meat industry.

In 2005, the livestock export industry reported that the industry was responsible for around 13,000 jobs throughout the livestock export supply chain. This included producers, transporters, stock agents, stevedores and regulators. The industry claims livestock exports are currently worth approximately \$1 billion, with 74% of this total flowing directly back to producers.

In 2009-10, the dairy industry reported that it employed approximately 40,000 people and exported products valued at around \$2.4 billion. Exported product was around 45% of total production, with the rest going onto the domestic market. Farm gate value of production was around \$3.4 billion.

The seafood industry advises that it employs supports approximately 16,000 jobs and seafood production is valued at approximately \$2 billion.

Grain, sheep and beef cattle farming employed 148,250 people nationally in 2009-10, while horticulture and fruit growing employed 63, 250. This represents around two thirds of total employment in agricultural production in Australia.³ Further information regarding the grains and horticulture industries will be provided in the RIS for the Plant and Plant Product Orders currently being developed.

Current export system

The *Export Control Act 1982* and subsidiary export legislation prevents the export of prescribed goods unless they meet the conditions set out in the export legislation. AQIS cannot issue an export certificate to allow a prescribed product such as meat to be traded, unless the product has been prepared in line with the requirements in the export legislation, which are primarily focused on food safety and labelling. The export legislation includes the requirement that exports must comply with importing country requirements. Export certificates reflect the assurances that have been negotiated with a trading partner to gain access to the market.

Importing country requirements vary from commodity to commodity. In the case of dairy and fish commodities, most importing country requirements are not significantly different from domestic requirements; so there is no need for an on-site AQIS presence. An export establishment's ability to meet importing country requirements can be verified through audits, which, in the case of fish have been carried out by AQIS fish inspectors and in the case of dairy are carried out by the relevant state dairy authority, with the state dairy authority advising AQIS of findings.

³ DAFF 2011. *Australian Food Statistics 2009-10*.

Importing country requirements for grain and horticulture exports are primarily related to phytosanitary (plant health) standards, rather than food safety. Grain and horticulture consignments are sampled and inspected prior to export to ensure their compliance with imported country requirements. Grain and horticulture inspectors are AQIS employees that may work with one or more exporters.

Live animals consignments require veterinary inspections prior to export to ensure that meet importing country requirements. This activity is carried out by AQIS veterinary officers. They ensure animals are fit and healthy and have no diseases of concern to importing countries.

Importing country requirements for meat are more onerous than for other export commodities. Generally each animal must be inspected prior to slaughter by a government veterinarian, with two or three points of official inspection along the processing chain, depending on the species concerned. To meet this requirement, AQIS currently provides each export abattoir with an AQIS employed veterinarian and a number of AQIS employed meat inspectors. The number of meat inspectors supplied is dependent on the number of animals processed by the abattoir. The veterinarian has overall responsibility for verifying that all export requirements in the abattoir are met. The introduction of Hazard Analysis Critical Control Point (HACCP) based programs into abattoirs in the mid 1990s and the adoption of documented and verifiable overarching controls have improved the way that risks are managed. HACCP controls complement meat inspection to ensure food safety and that importing country requirements are met

AQIS has been steadily devolving responsibility for process control and accurate labelling of product to export meat establishments, while retaining oversight of the production process itself. Human health statistics, results of laboratory testing and independent verifications conducted by both the Australian government and importing country governments have demonstrated marked improvement in safety and suitability of meat and meat products as the export meat system has evolved.

Problem

An overview of the export programs is provided in table 3 below and demonstrates that there are differences in the current service delivery models and importing country requirements for each commodity.

Table 3: Export Programs Overview

<p>Meat</p>	<ul style="list-style-type: none"> • Meat exports involve the most labour intensive and costly process of certification. • This involves the physical checking of each carcass and the presence of an on-site veterinarian in most abattoirs. • Meat is the major driver of this reform and is the most significant beneficiary of the reform package. • Due to the complexity of overseas country requirements for meat and meat products the major risk to any reform is any potential loss of market access.
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Fish	<ul style="list-style-type: none"> • Fish is characterised by multiple products (over 1000) and multiple establishments (740). • Fish also uses a risk-based inspection model and verification process that results in a significantly lower impact on industry, when compared with other commodities.
Live Animal	<ul style="list-style-type: none"> • Live Animal Exports (LAE) involves certification for exporting livestock, companion animals and reproductive material. • The industry is heavily regulated following the Keniry Report into the Cormo incident. • The service delivery model involves a complex application process followed by physical inspections, veterinarian checks and on-vessel care and reporting. • The major risk to any reform in this area is the potential for any service delivery changes to have an adverse impact on animal welfare.
Dairy	<ul style="list-style-type: none"> • Dairy industry export reform has been evolving for many years so that dairy establishment audits are undertaken by State Regulatory Authorities, and these audits are verified by AQIS. • As a result the Dairy Export Program within AQIS is relatively small (3.5 FTE, \$2M budget) and this reform program is not expected to deliver significant benefits to the group.
Horticulture	<ul style="list-style-type: none"> • The horticulture export inspection regime involves inspecting specific volumes of products. There is an extensive range of products that are inspected. • Some importing countries visit Australia to undertake inspections, which is very expensive for the exporter.

Source:- Ernst and Young Export Certification Reform Package Preliminary Estimate of Program Benefits, March 2011, Page 6

The current export certification process meets the requirements of trading partners. However, it does not provide the flexibility for businesses. For example, exporters are currently unable to reduce their costs by negotiating salaries for inspection services, nor does it permit them to assign inspection staff to other activities when they are not required for inspection functions. For example, current costs for an AQIS meat inspector are in the order of \$142,000 per annum with approximately 42 per cent of this figure attributable to departmental and program overhead costs. Meat export establishments are not able to determine the work activities of AQIS meat inspectors.

Under the ECRP, the Government has directed AQIS and industry to increase the efficiency of the export system and reduce regulatory costs of export as much as possible. The terms of reference of the ECRP Ministerial Taskforces are at Attachment 1.

There are restraints on the reforms that can occur in the export system. No reform can compromise:

- the food safety or animal and plant health status of Australia's animal and plant exports,
- Australia's market access by not meeting a trading partner's import requirements, or
- Australia's reputation as a supplier of safe animal and plant product exports.

If the reforms were not to progress, industries would continue to be disadvantaged by a costly, inflexible system which limits their ability to manage their businesses and does not enable them to find efficiencies. This would come at a time when global competition is growing; importing country conditions are increasing and costs of compliance with these new and existing conditions are pushing the cost of exporting up; the Australian dollar is at an all-time high; climatic phenomenon are impacting on livestock production; and some overseas governments are continuing to subsidise their agricultural producers and/or exporters.

Objective

The objective of the ECRP is to address the inefficiencies of the prescriptive export certification system and to enable exporters to reduce their costs as much as possible, thus increasing their global competitiveness.

Options

Options under regulatory reform of export certification include:

1. Status quo

AQIS would continue to maintain the current level of regulatory oversight under this option. Regulatory costs would continue to be a significant cost to the export industries, particularly the export meat sector which has significant regulatory involvement. Further, the export industries will not have the flexibility to introduce efficiencies into their systems.

2. Reduced regulatory involvement.

This option involves the development of new export certification service delivery arrangements for most export industries that reduces AQIS's regulatory presence and enables industry to engage competent persons to undertake the regulatory activities formerly provided by AQIS. This option reduces regulatory involvement and export costs.

3. Removal of government regulatory control

Under this option, the export legislation would be repealed and the government would no longer be involved in the certification of exported animal, plant and food products. The export industries would be left to develop and comply with any self-regulatory arrangements they might chose to initiate. This may also involve voluntary compliance with national or export requirements where they exist. While this would decrease regulatory costs for exporters, it would jeopardise market access for those agricultural products prescribed under the export legislation.

The Productivity Commission Research Report, *Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety* (Dec 2009), concluded that Australia's regulatory system for exports was less able to take up improvements in the domestic food safety system than that of New Zealand, particularly the move to less prescriptive and more

outcomes based standards in the domestic system. It notes, however, that AQIS has reported its involvement in meat exports, for example, reflects the fact that trading partners do not accept compliance with the domestic standard for production of meat products, (*Hygienic production and transportation of meat and meat products for human consumption*), but have additional requirements for which they require AQIS certification to provide assurances of compliance.

The removal of regulation from the export system will not meet the importing requirements of Australia's major agricultural markets. These markets specifically require government-to-government certification to enable the entry of food, grain, horticulture and live animal products. Importing competent authorities regularly audit the Australian regulatory system that provides certification to ensure appropriate legislative control over the industries exporting. Australia continually reviews the extent of the export regulatory requirements to ensure they are the minimum necessary without jeopardising access to export markets. As such, this option is not explored in the impact analysis section of the RIS.

Revised export certification service delivery arrangements

This option was developed by Ministerial Taskforces, who have worked to develop revised export certification service delivery models that reduce, but do not eliminate, regulatory controls. They have also undertaken projects to reduce costs or increase returns associated with other aspects of the export process.

Under the ECRP, each MTF has considered the delivery of auditing and inspection functions and whether personnel other than AQIS employed personnel could carry out these functions, while noting market access limitations to regulatory requirements for some markets. Due to the cost of overheads, AQIS employed personnel are likely to be more expensive than company employed personnel. Additionally, they are unable to perform other tasks for exporters. A company-employed person could carry out export inspection or auditing activities, and then carry out other tasks. Further, commercial auditors and inspectors can carry out auditing or inspection for a number of different purposes, such as audits or inspections against the quality requirements for buyers which are not undertaken by AQIS. AQIS audits and inspections relate specifically to areas such as food safety and animal and plant health only. Auditing and inspection activity was highlighted by the export industries as areas in which efficiencies could be gained.

To ensure that company engaged auditors and inspectors meet the requirements of overseas countries, the revised export certification systems includes the requirement that company auditors and inspectors will be authorised under the export legislation, competent and trained in the requirements of different markets. Non-AQIS personnel will be required to enter into deeds of agreement with AQIS.

Pursuing this option would require the development of new instructional material and training modules, so that auditors and inspectors have a full understanding of their part in the regulatory process. In addition, auditors involved in food safety auditing must be competent in the areas in which they wish to be authorised to audit.

Verification of the performance of AQIS authorised officers involved in auditing and inspection will be conducted by AQIS. AQIS will also verify the performance of the plant through the collection of performance data relevant to each industry.

Reform IT initiatives

Several IT initiatives have been undertaken across the export industries. The initiatives are aimed at underpinning the revised service delivery models, providing a continuous business improvement tool for export industries and enhancing and streamlining current AQIS IT systems.

i) Audit Management System (AMS)

This IT system manages audits and analyses performance data from export establishments across all sectors. It provides for:

- the management of audits, including scheduling of audits, storage of audit findings, detailing of corrective actions, and
- analysis and reporting on performance through data provided by each establishment. High-level analysis and reporting will be provided to enable national trends to be determined and deviations of individual establishments from the national trends to be identified. This will provide important feedback for establishment management and AQIS.

AMS will support export market access activities, but more importantly will enable both AQIS and industry to direct their management efforts to the areas of the export chain where food safety or other issues are evident. Audit schedules will be set based on establishments' performance within defined parameters. AMS will provide useful information to auditors, including overseas auditors on the ability of an establishment or the Australian system on its ability to comply with overseas requirements.

ii) Trace

An IT program for the live animal exports, the Tracking Animal Certification for Exports (TRACE) project, will allow electronic transfer and storage of information relating to export consignments between live animal exporters and AQIS. This will provide better management of live animal exports and enable the introduction of efficiencies into the live animal export system through the reduction of AQIS staff required to support the current manual system for exchanging and storing consignment information.

iii) Market Import Conditions and Requirements

A further development in IT systems is a searchable database that allows exporters to interrogate market access conditions. Historically AQIS has developed, in consultation with the relevant industry, (meat, grain, horticulture, and live animals) a series of databases and documents that list all negotiated requirements of overseas markets for these commodities. The new IT system is a modern, web-based application that is readily accessible to exporters, more user –friendly than existing systems and supported by a strong search engine tool. Additionally, importing country conditions for dairy and fish exports will be included. These innovations improve the accessibility of market access data, thus allowing exporters to more easily consider information to assist them to decide whether to pursue an export market. This provides possible efficiencies by reducing the number of enquiries from potential exporters to AQIS.

iv) EXDOC enhancements

A number of upgrades have been made to the existing AQIS IT system responsible for the issuance of electronic export documentation called EXDOC that will assist export industries.

Legislation

The Export Control (Plant and Plant Product) Orders 2005 have been reviewed to bring them in line with other Export Orders and replace prescriptive requirements with more outcomes focussed legislation. No other export legislation requires amendment to introduce the proposed reforms. The reforms to the Export Control (Plant and Plant Product) Orders 2005 will be the subject of a separate Regulatory Impact Statement.

Market access

This is an essential element of the reform process and includes:

- Ensuring major export markets accept the revised service delivery arrangements, and
- Increasing and improving market access so that exporters can maximise the benefits from the reformed export certification processes.

Fees and charges

Fees and charges must reflect the reformed costs for the delivery of AQIS export programs under the new service delivery arrangements to enable exporters to realise the full potential of the efficiencies possible under the reforms.

Impact Analysis

Option 1 above is that the status quo remains. Maintaining current regulatory arrangements, and therefore also the associated export certification service delivery arrangements for export industries, means that AQIS will continue to maintain the current level of regulatory oversight. Under this option, AQIS will continue to be a significant cost for the export industries, particularly for the export meat sector, which is the most highly regulated. Further, export industries will not have the flexibility to introduce efficiencies into their systems under the status quo.

Option 1 was not preferred by any of the Ministerial Taskforces. Under the reforms associated with Option 2, savings in the cost of AQIS's export programs are in the order of approximately \$30 million. This will be passed on to export industries.

Option 2 involves a reduction in regulatory involvement. For most export industries this includes the development of new service delivery arrangements that reduce AQIS regulatory presence and enable industry to engage competent persons to undertake these activities.

An independent analysis of the benefits likely to flow from the implementation of revised export certification service delivery arrangements was conducted Ernst and Young from December 2010 to February 2011. Their report covers all the export industries involved in the Ministerial Taskforces, with the exception of the Grains Ministerial Taskforce who elected to conduct a detailed cost and benefit analysis as one of its projects. The Grains Ministerial Taskforce project is due to be finalised at the end of July 2011. A separate RIS has been prepared to cover proposed Ministerial Taskforce Reforms to the legislation for the grains and horticulture industries.

The Ernst and Young report highlighted the possible cost savings for industry as a result of the reforms and valued the net financial benefits across the five MTFs at between \$15 and

\$17 million per annum. Of the measures contained in the revised service delivery models, the use of AQIS Authorised Officers (AAOs) to undertake regulatory inspections provides the majority of the savings likely to be achieved. The reform IT systems will also provide a high level of savings. Both of these measures are considered in detail below.

In their analysis, Ernst and Young identified current AQIS inspection / certification costs subject to AAO arrangements and a range of potential annual savings provided in table 4 below.

Table 4:

	Annual AQIS Staff Cost subject to AAO change (\$M)	Range of potential annual savings from AAO arrangements (\$M)		
		5%	15%	25%
Meat	\$8.5	\$0.4	\$1.3	\$2.1
Fish	No change			
Live Animal	No change			
Dairy	No change			
Horticulture	\$1.9	\$0.1	\$0.3	\$0.5
Total	\$10.4	\$0.5	\$1.6	\$2.6

Source:- Ernst and Young Export Certification Reform Package Preliminary Estimate of Program Benefits, March 2011, Page 11

Ernst and Young also reported that,

AQIS, and to some degree industry, expect that the provision of inspection / certification services by persons other than AQIS staff will result in cost savings for industry for a number of reasons, including:

- Payroll cost savings as industry employed / contracted AAO will not be subjected to Australian Public Service terms and conditions, including leave entitlements and participation in Commonwealth defined-benefits superannuation schemes;
- Improved labour use efficiency through redeployment of AAO labour when inspection / certification tasks are not required (e.g. use for administrative / processing tasks)
- Reduced travel times through the use of locally based AAOs rather than regionally based AQIS officers; and
- Incorporation of export inspection / certification processes into existing quality assurance processes.⁴

The Ernst and Young work did not include a detailed analysis of the costs associated with the new arrangements, but did consider that industry would need to engage personnel to

⁴ Ernst and Young *Export Certification Reform Package Preliminary Estimate of Program Benefits*, March 2011, Page 11

undertake the auditing and inspection activities currently undertaken by AQIS and the resultant 'cost transfer' to industry. As noted in the Options section above, the cost of an AQIS meat inspector is currently approximately \$142,000 and 42 per cent of this figure is attributable to corporate and program overheads. Under the revised service delivery arrangements, exporters will be able to negotiate salaries and work conditions directly with their inspection staff. They also have control over the level of their business overheads.

The Ernst and Young report did not include analysis of risks, but makes the point the AQIS and industry should regularly update the analysis and track achievement of benefits through implementation and post-implementation.

Each of the revised service delivery arrangements includes the option for exporters to continue to use AQIS officers for audit and inspection activities and therefore the impact of reduced regulatory involvement by AQIS on each exporter is determined by the individual. While it may be more cost efficient for the larger establishments to engage AAOs to undertake inspection activities, there are still efficiencies to be achieved by the smaller establishments in engaging AAOs under various business arrangements. For example, several horticulture exporters located in close proximity may decide to 'share' an AAO to inspect their export consignments.

The new IT systems support the new service delivery arrangements and are a measure that will also deliver significant benefits to export industries. For example, AMS will assist in audit management and provide a repository for performance data and enable that data to be analysed. The performance data has been, or will be, agreed by each Taskforce, with an emphasis on utilising data currently collected as much as possible. Existing industry IT infrastructure can be used for the AMS. Data currently entered into existing individual company systems will simply be entered into the new IT system under this proposal. Any additional costs to industry should be offset by the increased efficiency of a new national IT system. Further, AMS will enable compliance of exporters with requirements to be better monitored and good performance to be rewarded with reduced audits by AQIS.

The AMS will support a risk management approach to the oversight of export establishments. For example, for highly compliant export meat establishments, audit hours are expected to decrease once AMS is fully rolled out and establishments have developed a history of performance that is monitored and analysed by the system. The Ernst and Young⁵ report states that abattoir audits may drop from 12 to 2 per annum, cold store audits may drop from 7 to 4 per annum, boning room audits may drop from 8 to 2 per annum and wild game processor audits may drop from 12 to 2 per annum. A decrease in audit activities will save industry staff time estimated at around \$209,000 per annum. Savings within the department are expected to be approximately four veterinary officers totally \$1million. Further departmental savings will flow from automation of reporting and data entry. The data available from the AMS will also better support market access negotiations.

TRACE replaces manual systems for exchanging information between live animal exporters and AQIS. The industry has asked that its use be mandated, however, there is no legal power to put this into effect. Rather, AQIS is providing a high level of support and assistance to exporters to take up this initiative. Again, any additional costs to industry will be offset by the

⁵ Ernst and Young Export Certification Reform Package Preliminary Estimate of Program Benefits, March 2011, Page 20

increased efficiency and reduction in time and effort that TRACE will provide exporters in the exchange of information between them and AQIS regarding live animal export consignments. TRACE will enable the program to better monitor the performance of exporters and reward good performance with reduced audits by AQIS.

The Manual of Importing Country Requirements IT system is not a mandatory requirement for exporting, but simply provides importing country requirements in an easily accessible form. This system replaces existing IT systems which are no longer able to be supported by DAFF, with one modern web-based system. The Manual of Importing Country Requirements is easily access through the internet. Costs to exporters are therefore expected to be negligible.

All three IT systems have business cases which identify costs and benefits. They have been built to provide equity across exporters.

Gains from market access are difficult to quantify as they are determined by a range of commercial factors. Legislative changes to the Plant and Plant Product Orders will largely benefit the grains sector and are yet to be quantified. New fees and charges are necessary to enable exporters to realise the potential savings from the new export certification reform models.

Consultation

AQIS has consulted with two broad groups:

- The export industries regulated by AQIS
- Regulatory authorities of overseas trading partners

AQIS does not conduct one-off consultation activities as is normal for other regulatory bodies. Historically, AQIS has close partnerships with the industries it regulates and to the overseas authorities that are responsible for import conditions. Prior to the ECRP, Industry consultative committees met to discuss export, fee and market access issues that were relevant to the industry or government. The Ministerial Task Forces met initially at two monthly intervals and as the reforms progressed met at more frequent intervals, both face-to face and via teleconference. The Taskforces have met over 200 times. Issues were managed as they arose.

Issues raised by the industry members of the Taskforces regarding the reforms included:

1. Potential loss of market access

The industries, particularly the meat industry, were concerned to ensure that any changes to export certification arrangements did not impact on market access. In response, a risk assessment was conducted of the sensitivity of export meat markets to the proposed changes to meat certification arrangements. Senior AQIS officials visited the most sensitive markets to provide information and provided general information to other markets in the margins of international meetings. The US formally confirmed that the proposed changes were equivalent to their requirements in March 2011, with the publication of a Federal Register notice.

Markets for other export commodities were considered to be less of a risk, since the proposed changes to the service delivery arrangements were not significant and were consistent with current import requirements.

2. The reforms do not deliver savings

Workplans for the preferred option were developed by the Ministerial Taskforces. It was clear that regulatory savings of around 40 per cent were not likely to be achieved through the reforms. However, projects not related to reduced regulation, such as increased and improved market access, were also deemed to potentially deliver benefits and were also pursued by the Taskforces.

Industries have had to adjust to removal of the 40 per cent rebate on AQIS fees from 30 June 2011. Additionally, AQIS's costs have increased since the current fee model came into effect in December 2009. The allocation of overheads to the export programs has been reviewed and regional service delivery arrangements are being assessed to reduce the costs to exporters as much as possible. New fees models to underpin the revised service delivery arrangements must enable AQIS to recover costs, but must also enable export industries to obtain the maximum financial benefits provided by the reforms.

3. New service delivery arrangements are mandatory

AQIS has responded to industry concerns across all Ministerial Taskforces that new service delivery arrangements are mandatory by providing the flexibility within the models for exporters to continue with the existing arrangements that use AQIS officers to conduct audits and inspections, should they wish to do so. Alternatively, they may wish to engage AQIS Authorised Officers for inspections or Approved Auditors for food safety audits, under the new service delivery models.

AQIS has drafted information packs that include advice on the reforms plus all forms, standard operating procedures and work instructions that related to company based AQIS authorised officers, so that all export establishments can prepare to nominate suitable technical staff as AQIS Authorised Officers or authorised auditors and have them approved and trained, to enable export establishments to take advantage of the reforms once they commence.

The Minister of Agriculture, Fisheries and Forestry is advised of the progress of the reforms in a monthly progress report. The Minister is actively involved in the reform process and has met with industry representatives to discuss their issues and provide his advice.

The main affected industries are involved in the Ministerial Taskforces. Other industries, and any interested stakeholders, are provided with information on the website. The communication strategy has also included advertising in the media in December 2010 and May 2011 to provide information about the reforms and to direct interested parties to the website. There has been little general interest from industries outside the Ministerial Taskforces to the reforms. Discussions of reforms were connected with discussions about cost-recovery. A Cost Recovery Impact Statement has also been prepared for this proposal.

AQIS has been working with affected industries regarding proposed new fee models, including potentially affected industry bodies not represented on the Ministerial Taskforces.

Conclusion

The Ministerial Taskforces have been pursuing Option 2, that is, reform of their respective service delivery arrangements. In the main, this has involved reducing regulatory involvement, where market access permits, by replacing AQIS inspectors and auditors with company engaged personnel (AAOs and Approved Auditors) and implementing new IT systems to support the new arrangements. These measures will provide the most benefit from the reforms. However, other measures include legislative changes, improved market access and the need to implement new fees and charges to ensure exporters gain from the reforms.

Option 1, maintaining the current level of regulatory involvement, and Option 3, moving to no regulatory involvement, were not favoured by any of the Ministerial Taskforces. The current level of regulatory involvement does not provide the export industries with flexibility to reduce costs. Removal of regulatory involvement is likely to compromise market access for agricultural products that require government-to-government certification to gain entry into importing countries.

Independent analysis by Ernst and Young has concluded that the possible net financial benefits for the export industries in pursuing option 2, excluding the grains industry which was not part of their report, are in the order of \$15 to \$17 million per annum. The report identifies further non-quantifiable benefits for the export industries associated with increased industry self-management and inspection/audit delivery flexibility, improved market access arrangements through more effective performance reporting and data management and more streamlined IT systems enabling better practice and improved certification outcomes. Flexibility would allow for significant savings across the majority of the export industries.

Implementation & Review

The ECRP is being managed and tracked via the DAFF project management system and includes an implementation plan. If adopted, the implementation plan includes details timeframes, and actions necessary to meet these timeframes, for the projects associated with the ECRP. It includes:

- legislative changes- eg for new fees and charges, revisions to the Plant and Plant Products Orders
- information and application packages for prospective AQIS Authorised Officers and Approved Auditors and information from export establishments which may wish to engage them
- training for both AQIS officers and AQIS Authorised Officers and Approved Auditors- eg development of materials, scheduling of roll-out
- staff management/HR issues- eg management of redundancies in the export meat program

The IT projects are managed through separate project plans and their implementation of overseen by the ECRP IT Program Management Board which meets fortnightly. The Board regularly reports to the senior executive.

Project management system includes the evaluation of the project and its impact on all stakeholders and regular reporting to the DAFF executive and the Minister.

Attachment 1: Terms of Reference for Ministerial Taskforces
Ministerial Joint Industry/AQIS Task Force on Beale Report Implementation for the
Export Dairy / Fish / Grain / Horticulture / Live Animal / Meat Sectors

Purpose

Building on its review of current arrangements for the delivery of export certification and inspection services and having endorsed a reform agenda, the joint industry – AQIS Ministerial Task Force (MTF) will develop, implement and report on work plans that advance the export certification reform program (ECRP).

Role

Specifically, the MTF will:

- Develop a work plan to implement the agreed reform agenda. The work plan will incorporate objectives, milestones, budgets and timelines for each element of the reform agenda.
- Commission projects and activities under the work plan, including on:
 - better alignment of regulatory and commercial resources and systems in delivery of export certification services
 - governance and institutional arrangements to deliver export certification services
 - legislative reform/amendment
 - scope of information technology systems to deliver export certification including verification, electronic certification and commercial-to-government systems
 - cost implications of reform for industry and government
 - identification of emerging issues relevant to the reform program
- Implement the work plan by monitoring and reporting on commissioned projects and activities;
- Develop strategies to manage possible responses by Australia's trading partners to any (proposed or implemented) changes in the export certification system; and
- Develop and implement a communication strategy for all stakeholders (both domestic and international).

In fulfilling its role, the MTF will recognise the shared responsibilities of Australian and State/Territory Governments and industry.