Cost Recovery Proposals for Food and Plant Export Certifications

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Unit 1, 20 Napier Close Deakin ACT 2600 | PO Box 3572 Manuka ACT 2603 | P 02 6282 6822 | E enquiry@asf.asn.au | W www.asf.asn.au

INTRODUCTION

The Australian Seed Federation (ASF) is the peak national body representing the interests of Australia's sowing seed industry, worth over $1 billion annually to the Australian economy and providing hundreds of jobs in rural and regional Australia. The membership of ASF comprises stakeholders from all sectors of the seed supply chain including; plant breeders, seed growers, seed processors and seed marketers.

The ASF is a member of the Department of Agriculture's Grain and Plant Product Export Industry Consultative Committee (GPPEICC) and sits on the Grains Industry Market Access Forum (GIMAF). In Australia, the seed industry is a vital link in the development of crops that are critical to the nation's agricultural productivity, sustainability and food security.

ASF welcomes the opportunity to provide comments on the new cost recovery proposals for food and plant export certification. Many of the ASF members involved in plant exports are small and medium enterprises and the fixed cost increases that are proposed will have a disproportionate impact on these business as compared to those companies that are larger and better placed to absorb the proposed changes.

The ASF submits some general overarching comments below, followed by several specific case studies, from different sized companies – both export service providers, and direct exporters. The case studies are important to help the Department understand the real-world impact increasing cost recovery charges will have on ASF members.

GENERAL COMMENTS

Despite the introduction of processes to reduce the Department's cost base, it does not appear that the expenditure budget has reduced to the forecast levels. Whilst the principle of cost recovery is supported by industry, the transparency of the overall cost base and the reasons for the need to increase cost recovery fees and levies is not immediately clear. It is important to the ASF that seed companies are only paying for specific cost recoverable activities related to the export of seed, and not for associated Departmental functions that should be properly resourced through appropriation funding.

Since the repeal of the *Export Control (Plants and Plant Products) Orders 2005* and the transition to the Authorised Officer (AO) model, industry costs have increased, meaning that it has fallen to industry to manage both the AO costs *and* the increased cost recovery charges imposed by the Department. To give industry greater surety that we are only paying for export activities undertaken and not cross-subsidising Departmental functions that should be appropriation funded, greater transparency of all Departmental costs is required.

To assist small exporters, it is vital that the Australian Government maintain its *Package Assisting Small Exporters* program as this is crucial to enable small companies to meet the costs imposed by the Department to export seed lots from Australia. It is also imperative that the Department explores ways in which registered establishment fees for small exporters can be reduced.

Grain and plant product export cost recovery charges were last updated in December 2015. Whilst it is fair to review these charges after a period of 4 years, the magnitude of the proposed increases appears profligate, and suggests that expense growth has not been well managed by the

Department. An annual increase in line with CPI (1.5-2% p.a.) would be more palatable for exporters (and easier to justify by the Department).

CASE STUDY 1 – SERVICE DELIVERY 'COMPANY A'

Company A is a service provision company that provides export services on behalf of exporters. All export charges incurred by Company A must be onforwarded and recovered from the product they export.

The calculations below use the assumption of 50 containers per year and 20 tonne per container.

Fixed costs are:

	2019 ($)	2020 proposed ($)
Annual Registration (REF)	3,000	3,333
AO Annual Registration	750	1,000
Standard Audit – 2 hours	288	456
TOTAL	**4,038**	**4,789 (18.6% INCREASE)**
Cost per container	**80.76**	**95.78**
Cost per tonne	**4.04**	**4.79**

Typical variable costs for Company A are the inspection times required for export goods:

- Inspection of container for export 15 minutes
- Inspection of product for export 30 minutes
- Time to do paperwork for export 15 minutes

In total, this is 1 hour at $50.00/hr or $2.50/tonne.

Company A does the work to get the product into the container but is not involved in the RFP or the Phytosanitary certificate as these are costs borne directly by the exporter.

Questions and concerns that Company A has regarding the consultation Cost Recovery Implementation Statement are:

- How are small exporters supposed to get a start into the export business when these are the initial start-up costs, bearing in mind there are extra costs for training of AO's and the initial Establishment fee cost?
- This type of fee structure does not easily cater for opportunistic exports if a season or market permits unless you commit to the annual payment of these fees for the 'just-in-case' opportunities.
- The fixed costs are difficult to wear when the products that we rely on for export are heavily impacted by drought, in our last two years we have exported between 10-20 containers per year but we have to continue to pay the costs involved to stay current otherwise the re-entry costs are similar to paying the annual fixed costs.
- When do the efficiencies flow to the exporter/packer following the implementation of PEMS which was put in place to decrease the time taken to approve exports for the exporter, the AO and the Department of Agriculture staff?
- How is it feasible for small businesses to export small quantities of seed when the export charges are often twice (or more) the cost of the seed?

Company A believes there needs to some incentive for developing and low-volume exporters.

CASE STUDY 2 – SMALL EXPORTERS 'COMPANIES B AND C'

Companies B and C are small exporters who face an increase in minimum fixed charges from export service providers regardless of the value of goods they are exporting.

Even though the proposed increase in fees for items such as a phytosanitary certificate are significant to these companies, these increases are manageable when compared to the proposed increases in AO and Registered Establishment fees.

As demonstrated in Case Study 1, export service provider fees (AO's and Registered Establishments) could increase by between $500-$1000. These increases would be passed directly onto Companies B and C.

If the proposed increases prompted export service providers such as Company A to reduce staff (i.e. number of registered AO's) then it would impact on Companies B and C when these staff are no longer available as it could result in delayed shipments. Companies B and C may then have to use a Department inspector, which depending on the availability of an inspector in their location can result in not getting export orders out in time.

CASE STUDY 3 – LARGER EXPORTER 'COMPANY D'

Based on Company D's current average number of exports they will incur additional costs of 42% for the first year (an increase of $14,000 on current costs) and then by a further 8.5% (an increase of $15,000 on current costs) for the following year– a 50% increase in charges over 2 years. These numbers assume exporting 225 containers per year at 20 tonnes per container.

Company D is concerned that they will not be able to pass the increased prices onto its customers without proper justification, and a Departmental budgetary shortfall does not meet this justification.

Company D also notes that there will likely be additional charges that will be passed on from 3rd party suppliers (whom they rely heavily upon) and this could easily add another $5-10,000 per annum in export costs. This estimate is based on the increase in registration charges for independent seed sheds, and an increase in the annual charge for external Authorised Officers.

The adoption of electronic documents and the implementation of the AO program were originally sold to industry to provide cost savings; based on the proposed CRIS it now appears that these savings are being clawed back. Company D believes the proposed CRIS may work well for large grain and cereal exporters; however, because the Department does not differentiate grains from pasture seeds, vegetable seeds etc in the CRIS, these smaller industries are the ones that will suffer most of the direct impact.

The export environment is extremely competitive and increases such as those in the proposed CRIS have a detrimental effect on a company's bottom line as they either miss out on sales or farmers will receive lower prices for their goods once the additional export costs are factored in. Collectively, this has a deleterious effect on industry growth and development.

MARGIN ANALYSIS

The margins typically worked on for niche grain products (such as seed) are:

- Higher volume exports – margins around $10-20 / tonne
- Higher value exports – margins around $1-200 / tonne
- Typically seed exporters try to work on around a 10% margin. The freight costs of getting a seed product to the processor and to port is often 10% of the export consignment.

Any increases in costs eat heavily into these margins and quickly make what is already a line-ball decision uneconomic for small exporters.

Whilst this submission is focussed on exports from Australia, it is important to realise that seed is a fungible commodity that is traded on the international market. If the cost of export increases only in Australia, then the small margins will make us uncompetitive with our global trading competitors.

CONCLUSION

The ASF supports cost recovery where it is justifiable, appropriate and proportionate to recovering the efficient costs of specific government activities. The Department needs to provide industry with greater transparency regarding the increased costs to give industry certainty that cost recovery is not being used to meet budget shortfalls or to fund activities that should more correctly be appropriation funded.

The proposed increases reflect a push by the Department to make any developing exporter to use a Registered Export Establishment who already has AO's onsite to facilitate the nation's small exports.
For those facilities that are already accredited, this may be a business opportunity but has its limitations as well:

- Competition: Company B will not want to divulge export information (customers, products etc.) to a Registered Establishment if that establishment is operating in the same product range and/or export region
- Freight costs and packaging costs: If there is a need to send the product to a capital city to an 'independent' Registered Establishment. Particularly the extra costs involved if the consignment is provisionally rejected for some reason. Many of the treatment options are far more expensive in capital cities rather regional areas.
- Finding a Registered Facility and/or AO with the required/desired level of Independence for the SME and/or developing exporter to feel comfortable with.

Whilst there are a number of Registered Facilities in some regional areas, given the training, time and cost requirements these facilities are very industry-specific; for example, some are purely accredited for bulk and bagged product into containers and as an AO only approved to inspect these products and empty containers. There are other facilities that can only do fresh fruit, so although there may be a number of facilities within a region it is unlikely they will be able to cover all the bases required for a developing exporter until they are to a scale which accommodates the costs of a Registered Establishment and AO.

Given these limitations for a developing exporter they could turn to a Department Inspector, but they are also very limited in number and hence more costly having to travel greater distances to various regions

The Department needs to be cognisant of the real-world impacts the proposed CRIS will have on smaller and medium-sized exporters who are not bulk grain and cereal exporters. Some differentiation of costs as they apply to these companies may be in order.