Australian Government Department of Agriculture, Water and the Environment

Response to 2021-22 Agricultural Export Cost Recovery Implementation Statements

June 2021

Australian Fresh Produce Alliance
Growing a healthier Australia

About the Australian Fresh Produce Alliance

The Australian Fresh Produce Alliance (AFPA) is made up of Australia's key fresh produce growers and suppliers. The members include:

- Costa Group,
- Perfection Fresh,
- Montague,
- One Harvest,
- Pinata Farms,
- Fresh Select,
- Mackay's Banana Marketing,
- Driscoll's,
- 2PH Farms,
- LaManna Premier Group,
- Rugby Farming,
- Freshmax, and
- Fresh Produce Group.

These businesses represent:

- half the industry turnover of the Australian fresh produce (fruit and vegetables) sector - $4.5 billion of the $9.1 billion total,
- a quarter of the volume of fresh produce grown in Australia - 1 million of the 3.9 million tonne total,
- more than a third of fresh produce exports - $410 million of the $1.2 billion export total,
- more than 1,000 growers through commercial arrangements, and
- more than 15,000 direct employees through peak harvest, and
- up to 25,000 employees in the grower network.

The key issues the AFPA is focusing on include:

- packaging and the role it plays in product shelf life and reducing food waste landfill,
- labour and the need for both a permanent and temporary supply of workers,
- market access to key export markets for Australian produce,
- product integrity both within and outside of the supply chain,
- pollination and research into alternative sources, and
- water security, including clear direction as to the allocation and trading of water rights.

The AFPA's aim therefore is to become the first-choice fresh produce group that retailers and government go to for discussion and outcomes on issues involving the growing and supply of fresh produce.

Products grown by AFPA Member companies include:

Apples	Blueberries	Cherries	Nectarines	Raspberries
Apricots	Broccoli	Fioretto	Onions	Salad leaf
Asparagus	Broccolini	Green Beans	Oranges	Spinach
Avocado	Brussel Sprouts	Herbs	Peaches	Strawberries
Baby Broccoli	Butternut	Lemons	Pears	Sweet Corn
Baby Corn	Pumpkin	Lettuce	Pineapples	Table grapes
Bananas	Cabbage	Mandarins	Plums	Tomatoes
Beetroot	Cauliflower	Mango	Potatoes	Water Cress
Blackberries	Celery	Mushrooms	Cucumber	Wombok

Executive Summary

The Australian Fresh Produce Alliance does not support the proposed changes to the fee and levy structure of the Department of Agriculture's horticulture export cost recovery arrangement. The proposed changes will double the cost of exporting and limit the future, export led, growth of the fresh produce industry.

In July 2019, the Prime Minister, Scott Morrison, announced the creation of a plan to grow Australian agriculture to $100 billion by 2030. The fresh produce industry will be critical in growing the value of Australian agriculture. In order to achieve this growth, the fresh produce industry requires a resourced, aligned and well-equipped Department of Agriculture to deliver efficient, effective and innovative government services, particularly for export.

In the 2021-22 Budget papers, the Government announced that it will provide $850.4 million over five years from for a package of measures to back in the farm sector's ambition of a $100 billion industry by 2030, support Australia's soils and biodiversity stewardship, and maximise the benefits of Australia's fisheries and forestry resources.

On 14 May, the Department of Agriculture, Water and the Environment released the Government's '2021-22 Agricultural Export Cost Recovery Implementation Statements'. For horticulture, the statements propose to double the export fees and charges for exports of fruit and vegetables, significantly disadvantaging Australian farmers. Given the diverse nature of fresh produce exports, the AFPA is not in a position to support implementation of either the proposed cost model or the alternative. Each model has a significant impact on different exporters in the industry, and neither address the key concerns outlined.

Cost recovery in agriculture has extended beyond fee for a specific service into cost recovery for policy development and funding for the Department's recurrent operating budget. Implementation of the proposed cost recovery arrangements for agriculture will significantly exacerbate the current unbalanced financial position of the Department and negatively affect farmers' ability to grow their industry through export. The way forward is to restore balance into the cost recovery model, the Department's budget and the impost on industry. The Australian Fresh Produce Alliance recommends that the Australian Government:

1. **Pause implementation due to the adverse impact on horticultural exports**
2. **Undertake a review of export competitiveness**
3. **Remove indirect costs from the proposed charges**
4. **Assess the proportion of Cost Recovery across Commonwealth Departments**

The Commonwealth Government budget allocation to the Department must increase to reflect the level of ambition outlined in the Government's Ag2030 strategy. A properly resourced, aligned and well equipped Department of Agriculture is a key component of the future success of Australian agriculture. Implementing the proposed cost recovery model now will pre-empt the Government's agriculture strategy and limit the future growth of Australian agriculture.

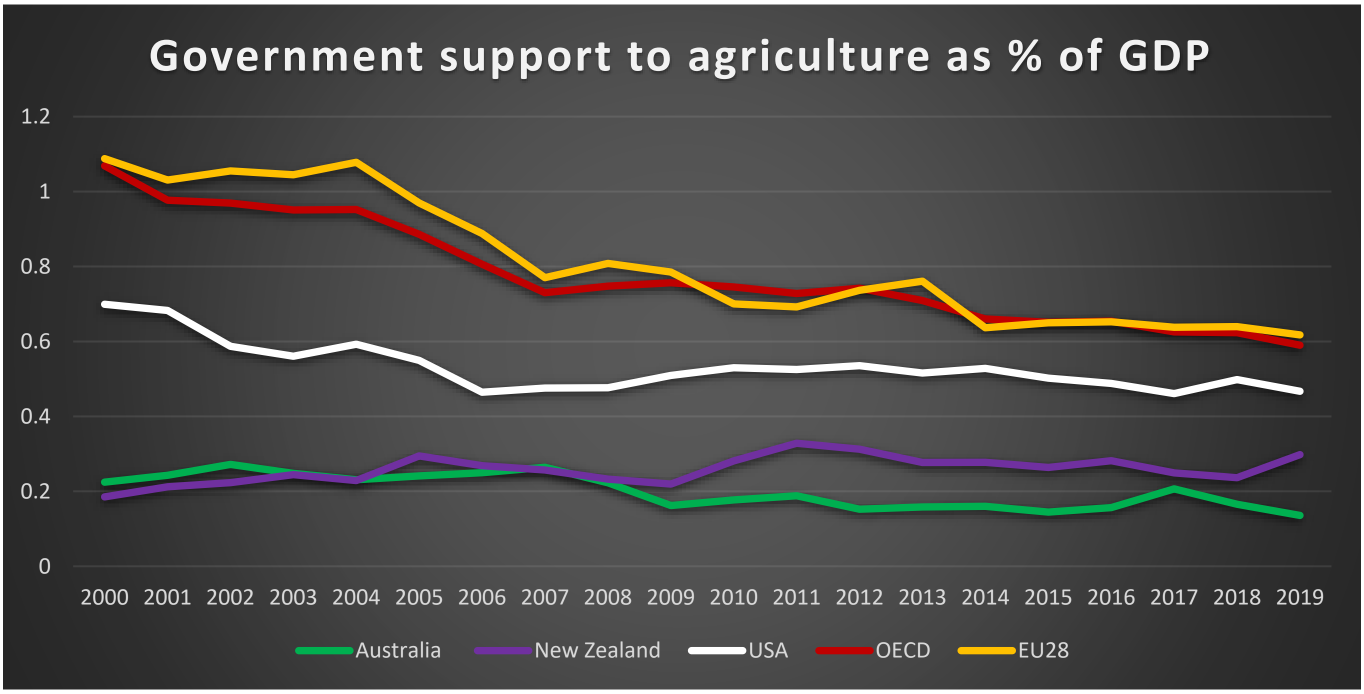
Introduction

In July 2019, the Prime Minister, Scott Morrison, announced the creation of a plan to grow Australian agriculture to $100 billion by 2030. The fresh produce industry will be critical in growing the value of Australian agriculture. In order to achieve this growth, the fresh produce industry requires a resourced, aligned and well-equipped Department of Agriculture to deliver efficient, effective and innovative government services, particularly for export.

In the 2021-22 Budget papers, the Government announced that it will provide $850.4 million over five years from for a package of measures to back in the farm sector's ambition of a $100 billion industry by 2030, support Australia's soils and biodiversity stewardship, and maximise the benefits of Australia's fisheries and forestry resources.

The Government's 'Delivering Ag2030' (May 2021) highlights trade and export as one of 7 key pillars – and industry knows that export is the only way to realise the ambition of a $100 billion agriculture sector by 2030. Separately, during COVID the Government announced the $328 million Busting Congestion for Agricultural Exporters package which was designed to slash unnecessary red tape.

Australian Government support to agriculture has been lower than the New Zealand Government's support to their agriculture sector for more than 10 years. While this has resulted in many Australian agriculture sectors becoming globally competitive, commercial and resilient, there remains significant challenges given Australia's high cost economy – namely high labour and regulatory costs. Government support is essential to access new export markets and develop effective agriculture policy. Critically, Australian farmers must be operating on a level playing field with their international competitors, we cannot be subject to multiple levels of disadvantage. If government charges to farmers continue to outstrip the value received, we have reached a tipping point that will limit the continued growth of the agriculture sector.



Source: OECD Total Support Estimate https://stats.oecd.org

The Organisation for Economic Cooperation and Development (OECD) calculates that Australia's total government support to farmers was just 0.13 per cent of GDP in 2019, lower than New Zealand's support to farmers (0.30 per cent of GDP), and well below the OECD average of 0.62 per cent of GDP.

According to the Department of Agriculture's Financial Reports for 2018/19, departmental expenditure was $847 million while cost recovery from industry was $409 million. That is to say, 48 per cent of the department's costs were directly paid for by Australian farmers and exporters on top of any other taxes, fees and charges for operating a business in the economy (expected to be approximately 30 per cent of revenues of the merged Department of Agriculture, Water and Environment). The current cost recovery proposals will further increase charges to industry and undermine the global competitiveness of Australian growers.

Examples of Cost Recovery across the Commonwealth Government 2018/19

Government Agency	Revenue Cost Recovered from Industry	Total Expenditure	% of Costs Recovered from Industry
Department of Home Affairs	$125,422,000	$3,041,400,000	5%
Australian Trade and Investment Commission	$24,436,000	$245,708,000	**10%**
Department of Industry, Innovation & Science	$74,598,000	$508,195,000	**15%**
New Zealand Ministry of Primary Industries	NZ$205,279,000	NZ$714,543,000	**29%**
Department of Agriculture	$409,371,000	$847,741,000	**48%**

Cost Recovery Implementation Statement: Plant exports certification 2019–20

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The Australian horticulture industry understands the need for export certification requirements, as well as the need to fund the biosecurity and market access framework. However cost recovery must be applied in a way that is both fair and equitable to all horticultural exporters. With respect to plant inspection there is no choice but to accept the government as the price setter and producers have no choice but to accept the price. Not accepting the price will result in reduced or no exports and would be detrimental to the industry and individual producers. Costs should not be unreasonably recovered in a way that will be detrimental to the growth of agricultural exports or aimed at reducing the federal budget deficit which has increased through un-hypothecated government expenditure that provides no direct benefit to the agricultural sector.

Australian fresh produce growers are not seeking a handout, they are seeking a fair go from their Government when selling Australian produce overseas and earning export income which benefits our terms of trade and balance of payments.

The following issues are specific concerns on the proposed implementation of the new cost recovery arrangements:

- **Timing due to the impact of COVID** – farmers are facing greater uncertainty and volatility due to the impact of COVID on international markets, labour market disruption and increased commercial cost of exporting. Additional fees and charges now will undermine exports.

- **International Competitiveness** – there has not been an assessment undertaken of how these charges will reduce the international competitiveness of Australian exports.

- **Funding for the Department of Agriculture, Water and Environment** – the Departmental finances have become overly reliant on cost recovery with apparent cross-subsidisation for corporate costs such as rent, IT, and legal fees.

- **Integrity of the Policy Development Process** – the over reliance on cost recovery compared to other agencies has the potential to undermine the policy development process whereby program delivery or the role of the Department as regulator influences proposed policy (i.e. increase regulation to increase charges and revenue from industry).

Recommendations

Cost recovery in agriculture has extended beyond fee for a specific service into cost recovery for policy development and funding for the Department's recurrent operating budget. Implementation of the proposed cost recovery arrangements for agriculture will significantly exacerbate the current unbalanced financial position of the Department and negatively affect farmers' ability to grow their industry through export.

The way forward is to restore balance into the cost recovery model, the Department's budget and the impost on industry. The Australian Fresh Produce Alliance recommends that the Australian Government:

1. **Pause implementation due to the adverse impact on horticultural exports:** Australian horticulture is being significantly affected by measures in relation to COVID, labour challenges, and supply chain pathways overlayed by security requirements. The proposed significant increases for export fees and charges will critically impact Australia's competitiveness, reduce export growth and adversely affect all stakeholders across the value chain pathway, including regional and rural communities.
2. **Undertake a review of export competitiveness:** The Department has separately confirmed that there has been no assessment of the proposed cost recovery arrangements against equivalent arrangements in our key competitor countries. The Government must undertake a detailed assessment of the impact of the cost recovery on Australia's international competitiveness.
3. **Remove indirect costs from the proposed charges:** More than one third of the proposed charges to Australia's fruit and vegetable exporters are for indirect costs such as office space, IT, legal and finance support. These costs cannot be reduced by farmers and are core costs of government. These indirect costs must be removed from the cost recovery calculation.
4. **Assess the proportion of Cost Recovery across Commonwealth Departments:** As highlighted earlier, in 2018/19 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 (expected to be approximately 30 per cent of revenues of the merged Department of Agriculture, Water and Environment). This is proportionally much higher than other Commonwealth departments, and the comparable Ministry of Primary Industries in New Zealand.

The Commonwealth Government budget allocation to the Department must increase to reflect the level of ambition outlined in the Government's Ag2030 strategy. A properly resourced, aligned and well equipped Department of Agriculture is a key component of the future success of Australian agriculture. Implementing the proposed cost recovery model now will pre-empt the Government's agriculture strategy and limit the future growth of Australian agriculture.