

10th June 2021

Department of Agriculture, Water & the Environment
GPO Box 858
Canberra ACT 2601
Email: Via Web

Re: Submission: Cost Recovery Implementation Statement: Plant Export Certification

Dear Sir/Madam,

Thank you for the opportunity to reply to the call for submissions on the Cost Recovery Implementation Statement (CRIS) for the grain industry in relation to plant export certification services charged by the Department of Agriculture, Water & the Environment (DAWE).

Grain Trade Australia (GTA) is a member of a Department of Agriculture Grain and Plant Products Export Industry Consultative Committee (GPPEICC). GTA is the focal point for the commercial grain industry within Australia. It facilitates trade and works to provide an efficient, equitable and open trading environment by providing leadership, advocacy and commercial services to the Australian grain value chain. GTA is non-political, industry driven with a primary focus to ensure the efficient facilitation of commercial activities across the grain supply chain including a strong focus on the logistics of grain through transport storage and ports.

GTA's has over 280 organisations as members ranging from regional family businesses to large national and international trading, storage and handling companies, grain marketers, consumers, and processors. The vast majority of grain contracts executed in Australia refer to GTA grain trading standards, standard-form grain contracts and GTA Trade Rules. Most of Australia's grain storage and freight movements are made by GTA members. Key national and state producer representative groups are also GTA Members. A list of GTA Members is attached.

1. Value of Australian Export Regulations

The grain industry has a reputation as a reliable supplier of quality grain on the international market. This reputation is supported and enhanced by the export regulations as managed by DAWE to ensure grain meets importing country quarantine requirements. GTA fully supports those regulations and would not support any major changes arising from the current cost review.

2. Government Direction & DAWE Strategy

The decision announced by government on 6 October 2020 to freeze regulatory fees and charges in 2020-21 for exporters and to invest \$328m to modernise was welcomed by GTA and its members.

The majority of this investment (\$222.2m) to upgrade the Information Technology that underpins the government export system is a much-needed investment. Delivery of the projects associated with this funding is critical to streamline and simplify DAWE processes and export services and to transform the it into a modern and efficient partner for industry.

However, progress to date on these projects and system upgrades has not been as timely as required with lengthy delays. These continue to hamper the efficiency of industry and prevent the Australian grain industry from benefitting from the recent surge in activity on global reforms in the transfer of data between countries. GTA has made comment on many occasions seeking improvements to progress of these reforms and information on the activities being undertaken. Given the tenure of the projects it is felt DAWE should be able to now provide a clear timeline and detailed steps and milestones to complete the upgrades.

Information on progress of specific projects is viewed as critical for GTA members given industry is progressing with development of systems independent of DAWE activities. We ask to keep GTA informed especially if any assistance or testing is required that will improve the outcome for both government and industry.

An alignment of industry and government strategy and supporting projects is welcomed by GTA and it is proven to provide benefits and a deeper understanding of each sectors objectives and issues. The joint approach to Storage Asset & Operational Standards and other projects will release value and assist in the long term towards the goal of DAWE being the modern and efficient partner for industry that we all desire.

3. Review of the Departments Efficiency and Effectiveness

It is noted in the CRIS that DAWE commissioned an independent review of the efficiency and effectiveness of the department's delivery of export regulatory services. This review includes several key messages that are supported by GTA:

- a) Industry wants DAWE to work to create efficiencies to lower costs.
 - o GTA's view is this is critical and relies on deliveries of system enhancements and progress towards strategies that support new processes supported by technology.
- b) Antiquated systems were impeding efficient processing of export consignments.
 - o GTA anticipates this will be addressed in the near term via the current Congestion Busting project.
- c) DAWE needs to focus on improvements while still delivering routine regulatory activities.
- d) Smaller exporters are finding it difficult to enter and compete on the global market without assistance from the government.
 - o GTA agrees a focus on the impact of DAWE fees across different sectors and the impact they may have on small exporters should be considered during any DAWE fee review. *An example is provided in the DAWE Discussion paper relating to the DAWE requirement to purchase 5 job functions as part of the AO Learning and Assessment process when a small exporter may only require access to one of the 5 job functions. This is a practical solution and should be implemented.*
- e) Industry predicts increases could cause significant hardships for producers and exporters who are recovering from a period of severe drought and natural disasters.
- f) If prices need to rise, they should do so in a stepped way, to prevent shocks to business.
 - o It is noted the CRIS shows proposed increases over a number of years. However, some costs rise significantly from the present values and could not be supported. The above two points warrant consideration as part of the CRIS review as market conditions and supply chain shocks to participants should be considered including the market participants ability to absorb any additional cost increases. This should be performed by way of a **strategic partnership approach**. This discussed further in the next section.

4. Cost Recovery for Economic Efficiency

GTA considers it is critically important to consider the effectiveness of the DAWE cost recovery model and the impact it has on the grain industry's efficiency and its ability to absorb cost increases. The grain industry operates under global market influences and for Australian participants to be successful a low cost and competitive operating environment is required including the provision of government services.

The Productivity Commission Guidelines on Cost Recovery by Government Agencies describes the key principle of government cost recovery mechanisms as:

“Cost recovery should be implemented for economic efficiency reasons, **not merely to raise revenue**.”

However, cost recovery may not be warranted where:

- it is **not cost effective**;
- it would be inconsistent with policy objectives; or
- it would unduly stifle competition and industry innovation”.

Whilst GTA supports cost recovery as a mechanism to provide key services not covered through Government consolidated revenue, this is based on being provided with access to information and discussion with DAWE that provides satisfaction the cost is balanced by the provision of an effective

and efficient service. GTA cannot confidently answer the question whether the proposed increases in Export Certification fees in the draft CRIS for plant export certification 2021-22 **are truly based on economic efficiency reasons as opposed to revenue raising under the guise of cost recovery.**

GTA values its collaborative relationship with DAWE and seek this is further enhanced through **greater transparency across the overall certification cost budget.** Better and more detailed consultation is warranted to explain the direct and indirect costs of DAWE as applied to the grain sector.

Analysis of the CRIS indicates increases in Fees that are well above market driven increases. Whilst these are explained as cost recovery **how does industry determine the value proposition** of the fees given there is no market that operates for government services?

Some methods to consider may include **benchmarking against other government departments** as this would create greater transparency of the overall costs borne by the grain industry. We would encourage specific examples, and metrics such as FTE (full-time equivalent) information to be included. There is a sense of frustration within industry (i.e., fee payers) that there is little scope **to interrogate or analyse actual costs as the nature of the charges appear fluid and subjective.**

Similarly, other than brief discussion at GPPEICC meetings (3 per year), GTA is unaware of any dialogue held with industry to assist DAWE with forecasting of cost related activity including the provision of anticipated forward export activity. **Forecast tonnage exports per month** are a critical component of all commercial company budget preparation and it is not clear whether DAWE has built this into the forward forecasts in the CRIS.

Analysis of the 2021-22 CRIS supports this view as shown in Table 1:

Table 1.

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Forecast Revenue	16,306,774	14,956,307	13,275,993	11,650,020	11,429,520	N/A	12,910,006	11,569,523	13,701,993	14,794,595
Forecast Expense	22,945,560	14,640,753	13,081,349	11,684,169	11,544,338	N/A	16,072,045	14,606,713	15,016,400	14,909,836
Actual Revenue	16,306,774	16,223,705	24,305,568	15,128,807	11,641,099	10,110,020	12,243,179			
Actual Expense	22,945,560	19,237,847	17,677,644	17,353,875	14,337,997	12,848,167	12,895,689			

Insufficient rigour in forecasting is indicated by past performances as detailed in Table 1 and in the forecast for **Season 2021-22, which is a year for potential above average exports.** However, the forward revenue forecast included in the CRIS does not support this with a forecast revenue of \$11.60m. Similarly, the forecast expenses for 2021-22 are questioned given the base cost utilised is not aligned to the **actual expense from the previous year of \$12.90m.**

These types of anomalies and non-market driven forecasting raise questions and doubts regarding the CRIS process that **cannot be resolved through the current engagement process.** GTA preference, as with other strategic industry / DAWE initiatives, is to move towards a **strategic partnership approach** regarding forecasting of revenues and expenses and the agreement of fees rather than the current CRIS process that is difficult to interrogate and understand given the lack of adequate detail. GPPEICC may be a suitable forum for this strategy.

Greater transparency afforded through a strategic partnership approach should provide long-term benefits to industry and DAWE, resulting in potential cost savings to industry and a reduction in the overall budget of the Plant Export Operations branch responsible for provision of the regulatory function.

5. Efficiency or Cost Transfer?

As noted in previous submissions into the CRIS, GTA is somewhat disappointed that industry has experienced consistent increases in export certification fees whilst proactively accepting the challenge and additional costs to exporters of uptake of the Authorised Officer Program (AOs).

The recent drought highlighted the challenge for industry given the annual fixed cost (internal cost and DAWE fees) in maintaining accredited AOs that is met by industry. These costs either must be absorbed by the registered export facility or are passed through to exporters.

The transfer of activities such as AOs from DAWE to industry is a stated strategic objective of DAWE and is fully supported by industry. These arrangements need to be **equitable and sustainable** across different scenarios and seasonal conditions.

DAWE and industry need to ensure where activities and cost are transferred from DAWE to industry there is an equitable arrangement to manage poor adverse seasonal condition (and also above average seasonal conditions). Whilst government should transfer activities to industry where it makes sense (i.e., reduce duplication and costs) there still needs to be recognition that government has some responsibility to step in where the market will not support the activity such as in a prolonged drought period. **This needs to be considered and an outcome determined through GPEICC.**

A further concern relating to the transfer of activities from government to industry is to have greater **understanding and access to information on the allocation of government indirect costs.** Whilst the grain industry considers there is value in the transfer of activity from government to industry the lower cost provided should also be reflected in reduced government overheads and indirect costs.

7. In Summary

- GTA supports the Congestion Busting projects and anticipate the dividend and benefit to industry from this investment will be reduced fees and charges from the cost-recovery program. Therefore, delivery against the Congestion Building projects is seen as a critical priority. Industry will work with DAWE to achieve the objective of delivery on all projects as announced in a reasonable timeframe.
- The CRIS arrangements and the level of transparency between DAWE and industry are insufficient to provide confidence DAWE's services are benchmarked and cost effective.
- Data in the CRIS is difficult to analyse, and charges appear to be fluid and subjective.
- GTA preference is an industry / DAWE initiative of a **strategic partnership approach** including forecasting of revenues and expenses and the discussion and agreement of fees.
- DAWE and industry need a process to ensure where government activities and cost are transferred to industry there is an equitable arrangement to manage poor adverse seasonal conditions (and also above average seasonal conditions).

GTA consider such proposals to be aligned with the Government's policies of Modernising Agriculture and the vision to grow Agriculture industry value to \$100 billion by 2030.

For your information, in addition to the Department's formal notice to Industry, GTA called for submissions from its members on these issues and has reviewed the issues through its Technical Committee structures.

Thank you for this opportunity to comment. Please do not hesitate to contact GTA at any stage to discuss further.

Yours faithfully,



Pat O'Shannassy
CEO, Grain Trade Australia