

## 7. VISION AND STRATEGY

### 7.1 Vision for Export Assurance

This chapter sets out the vision for future operations under the *Export Control Act*, outlines an administrative framework and model for implementing the vision, and briefly assesses current programs against the Committee's vision. In Chapter 8, specific recommendations are made for changes to the existing arrangements. When implemented, these changes will align individual programs with the vision and ensure the National Competition Policy concerns raised in this Review are effectively neutralised.

The reform of regulatory arrangements for the food industry is already a government priority with the development of COAG policy on food regulation reform following on from the recent Blair Review. The Committee would like to contribute further to this reform by advocating a vision for future management of exports under the legislation.

The Committee's vision has seven elements:

1. the adoption of Australian standards, rather than the most stringent foreign requirements, as the baseline for all export destinations,
2. freedom for individual producers to invest to meet additional standards that may be required by individual overseas governments,
3. cultural change by industry so that Australian food companies produce for a global market (that is a significant shift from the current focus on the domestic market with exports given lower priority),
4. securing the benefits from a partnership arrangement between industry and government,
5. a single provider of certification for human, animal and plant health requirements of product exported from Australia,
6. availability of a comprehensive system for the electronic processing of export documentation and for facilitating access to information necessary to meet regulatory requirements, and
7. promotion of contestability for service delivery through the Act.

A diagrammatic presentation of the Committee's vision is set out in Figure 7.1.

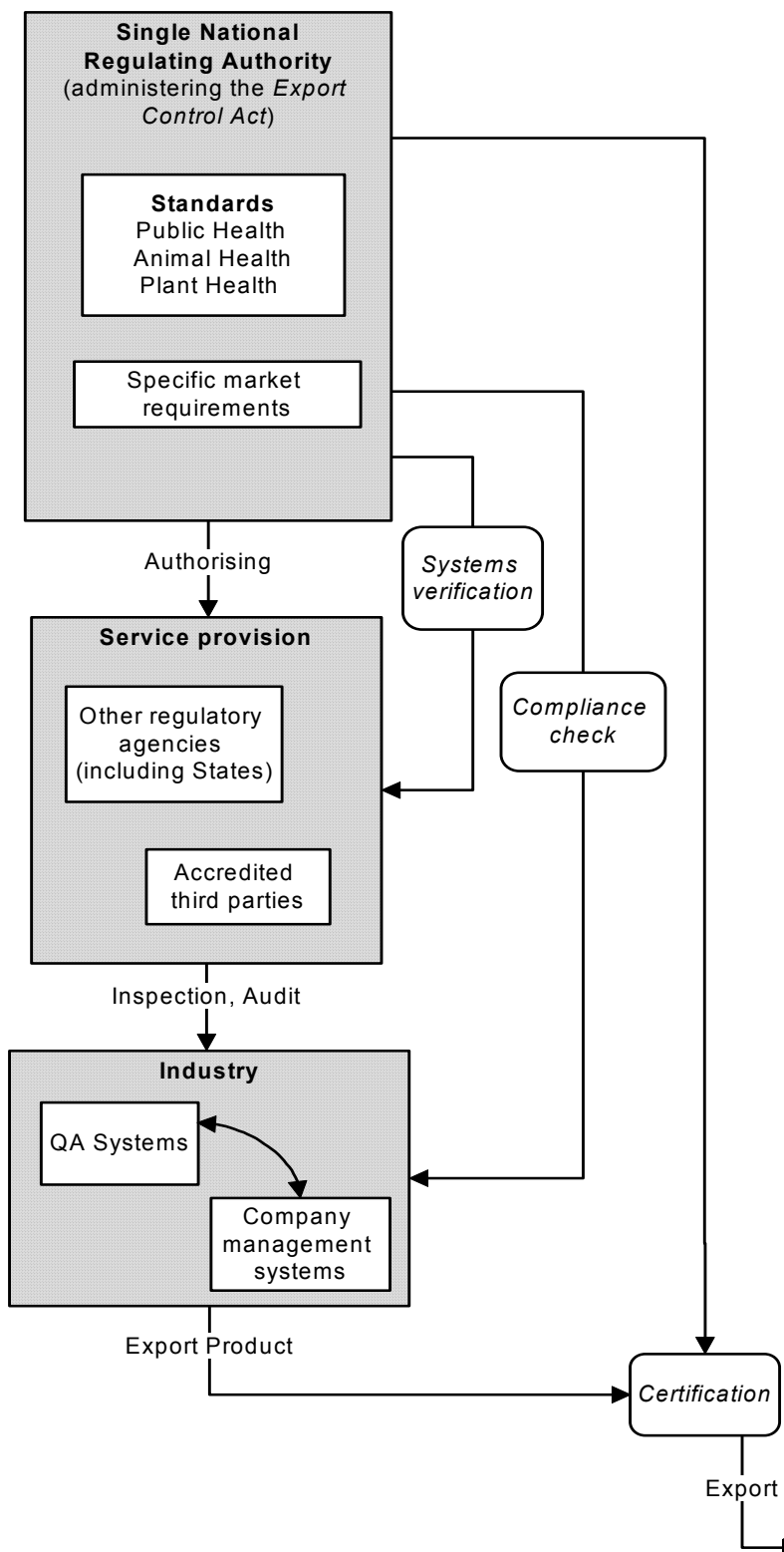
### 7.2 Implementing the Vision

The Committee believes that attaining the vision would be conditional on the adoption of the following principles:

- enhancing the government/industry interface as driving the establishment and implementation of strategies and operational detail of programs under the Act,
- incorporating HACCP based quality assurance arrangements for risk assessment and risk management,

- establishing an outcomes basis for all programs to facilitate equivalence and accommodate technological change, and
- providing for third party arrangements to verify compliance across all commodity programs.

**Figure 7.1 Vision for Export Assurance**



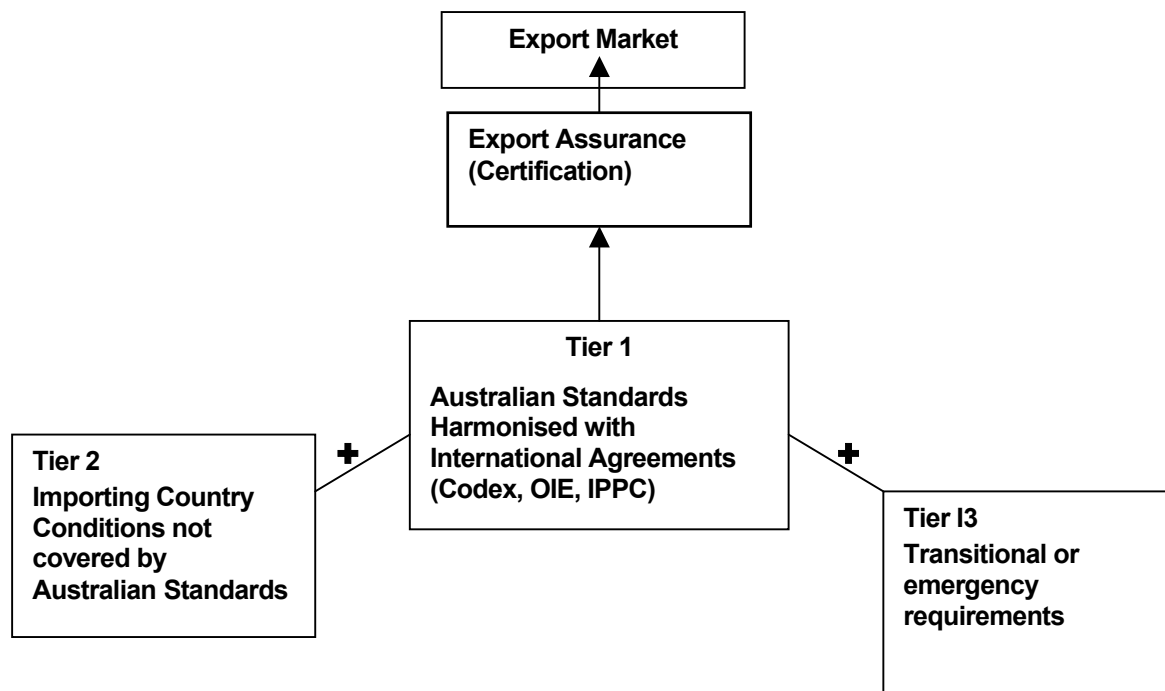
### 7.3 Administering the Act via Three Tiers

The Committee believes the vision could not be attained without a fundamental change in the manner by which Australian food and agricultural products are currently regulated. Australian exports of food and agricultural products have been disadvantaged by working under a combination of two systems – domestic and export – and legislation that is excessively prescriptive. The Committee believes that a single system should be in place within which production of food and food products is undertaken for a global market. Under this system, it is assumed that Australian health, hygiene and quality standards are built into the production process. Such an approach must have the confidence of markets in Australia and in overseas countries.

The Committee suggests that the single system be built through adoption of three tiers for meeting export requirements. The key objectives of this tiered structure are to support a single national system for the production of food and agricultural products and to harmonise Australian standards in a way which leaves the producer/ processor free to choose to supply either the domestic market or importing countries that do not have special requirements. An additional objective is to provide flexibility for individual producer/ processors to make their own decisions about supplying individual markets that have additional requirements.

Elements of the three-tier model are described below.

**Figure 7.2 Features of the Three-Tier Model**



**Tier 1** All Australian food and agriculture product manufacturers would be required to comply with established Australian standards. These standards would cover the essential health and hygiene issues and would be based on and incorporate the accepted international standards. This would ensure Australian standards would meet the nominated requirements of most importing countries. Any producer/processor meeting the Australian food safety and hygiene standards would have automatic right, subject to certification, to export to countries which did not have requirements additional to Australia's Tier I standard.

Adoption of Standards under Tier 1 would be uniform throughout the States and Territories within Australia. Systems would be established to verify that Standards are applied consistently.

Food safety standards forming the basis of production systems under Tier 1 would incorporate HACCP principles and be set by ANZFA.

Standards for other commodities or products under Tier 1 would be set and endorsed by the relevant Commonwealth/State Ministerial committee.

**Tier 2** Tier 2 requirements would be market specific.

They would be negotiated between the Australian government and the government of the importing country. The instruction would be to keep requirements as close to Tier 1 requirements as possible. The agreed entry conditions would be established by AQIS in an industry export program with provision for certification by AQIS that all requirements would be met. This suitability for a particular market would be noted on the export certification for the goods.

Independent monitoring mechanisms will be in place to verify that conditions in the various Tiers are in place and are working. These may involve inspection of product and /or audit of assurance systems by AQIS or third parties including regulators in the importing country. The decision about investing to comply with the additional standards would be made by the individual producer/processors.

Tier I conditions would have to be met as well as requirements set in Tier II.

**Tier 3** This Tier could cover all non-health and hygiene requirements such as quality requirements or product descriptions not specifically required by Tier II. Such requirements would be in addition to the domestic (Tier I) and any importing country requirements.

There will be occasions when government or industry may want one or more additional requirements to be met by all exporters of

a particular product to a particular market. This may be part of an industry strategy to gain a foothold in a new market or to retain access to an existing market in the face of an unforeseen adverse development or market failure.

Because Tier 3 requirements would be an additional impost on industry, the potential impact of any new requirements should be assessed in NCP terms prior to formal adoption as a Tier 3 requirement. Measures under Tier 3 must also be defensible under WTO rules.

These requirements could be enforced by the legislation for a limited period, reflecting the time necessary for industry to either introduce a quality assurance based response under industry control or have the Tier I standard changed to respond to the market demand.

Decisions about requirements to be covered by this Tier would be made jointly by government and industry.

### **7.3.1 How the Three-Tier Structure Addresses NCP Principles**

The Committee's findings outlined in Chapter 6 included a judgement that the current Act is inconsistent with elements of the NCP principles. Adoption of the three tier structure would address the inconsistencies with respect to application, duplication, and the cost of compliance.

The 'application' shortcoming would be addressed because the three tiers provide freedom for exporters to produce for the domestic market and those overseas markets which will accept Australian standards. This approach allows exporters freedom to decide whether to invest to supply other overseas markets which impose different standards from Australia's.

The 'duplication' is similarly addressed through removal of the export/domestic demarcation and establishment of Tier 1 as the base standard with Tier II only to exist if overseas governments insist on different standards to Australia.

Adoption of the three-tier structure would reduce the cost of compliance because common domestic and export standards would apply. In addition, this structure would terminate the current requirement that all exporters must comply with the most stringent standards, irrespective of whether they wish to export to the country with those.

### **7.3.2 Implementing the Three-Tier model**

The Committee advocates the adoption of the three-tier model as a matter of priority. Since some legislative change is involved, the Committee realises that implementation may stretch over the next two to three years, because of the normal legislative process.

The Committee envisages that the harmonisation of risk-based systems for export assurance will, over time, result in the reduction of Tier 2 and Tier 3

requirements in favour of a more robust and widely accepted set of Tier 1 systems and arrangements.

It is inevitable that individual commodity programs would progress towards the Committee's vision and adopt the three-tier structure at different rates.

Consultation will be needed to convince both exporters and their clients that adoption of arrangements based on Tier 1 is a sound long-term proposition and will not disrupt trade in the short term. Investment of time and money will be required to secure the advantages offered by this new arrangement.

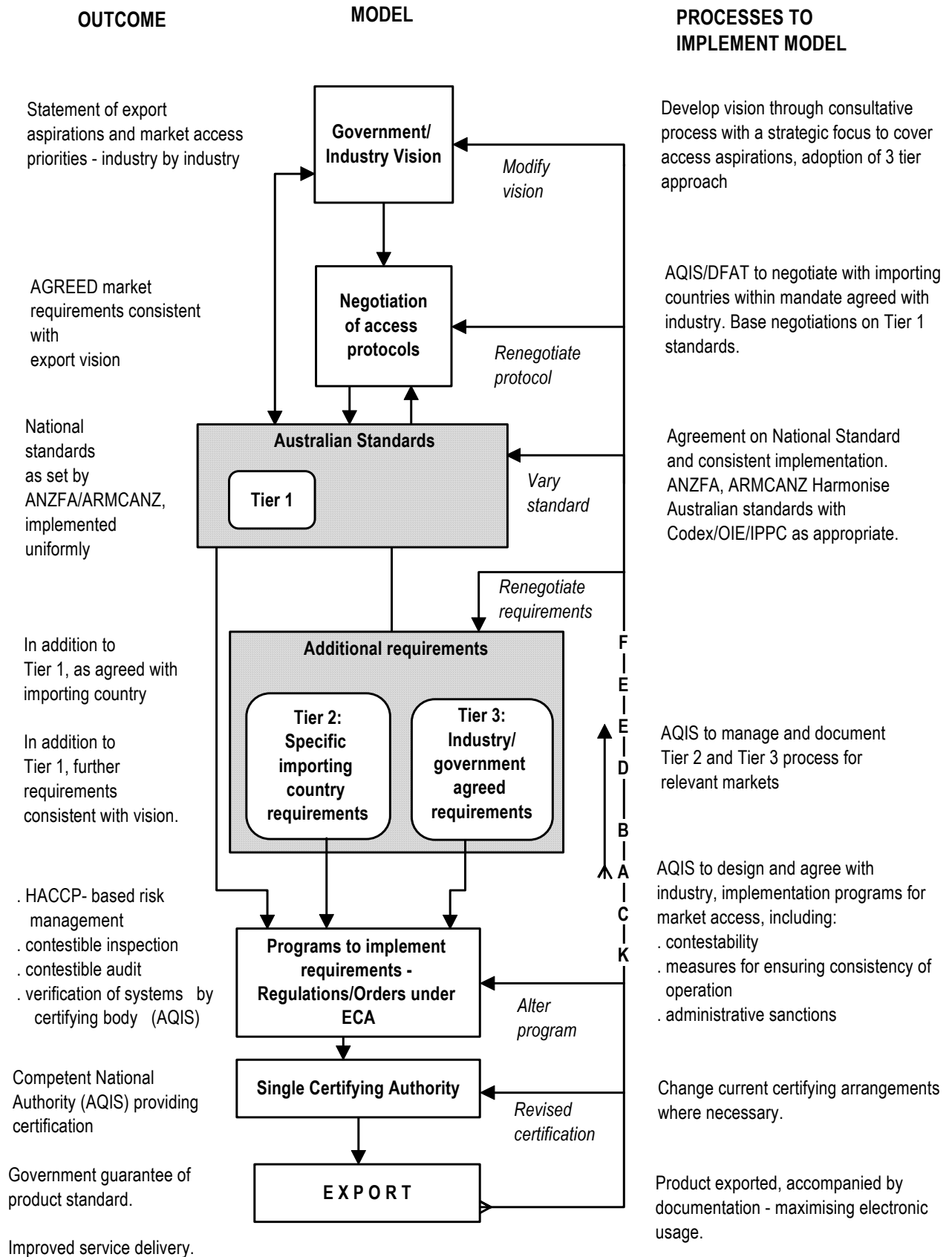
The Committee regards it as essential that a management plan be developed to ensure that the three-tier model is implemented progressively within existing arrangements.

## 7.4 Securing Change

An outline of how the Committee's vision would operate in practice for an individual commodity program is set out in Figure 7.2. The following steps are involved:

- determination of a vision for each commodity program;
- harmonisation of domestic and export standards;
- negotiation of access arrangements into individual overseas markets;
- establishment of arrangements to ensure requirements are met, and
- certification by a single authority.

**Figure 7.3: A Model of the 'Vision in Practice'**



As noted in Chapter 5, the Committee acknowledged that the existing arrangements were in conflict with NCP principles in the multiple roles performed by AQIS and the lack of contestability for the provision of some services.

It will be evident from the above diagram that under the Committee's vision, AQIS retains a role in each of the key functions.

Under the proposed approach, the AQIS role of policy initiation will be shared with industry through the establishment of visions and priorities for each program.

With respect to negotiation of access arrangements with overseas governments, AQIS will work to briefs prepared in consultation with the relevant industry representatives and the Department of Foreign Affairs and Trade. Moreover, the standing direction for such negotiations will be acceptance of the Australian standard as the base.

With respect to the functions of inspection and audit, AQIS is currently the prime service provider. These functions can be performed by accredited third parties including State Government agencies. There is already evidence of the functions being opened to contestability under individual programs. Certainly, the Committee is satisfied that the formal AQIS policy is to provide an opportunity for the functions to be undertaken by non AQIS organisations. However, the offering of such services to open competition is dependent on agreement by overseas governments. For some commodities, such agreement has been relatively easy to secure; for others, such as meat, it is unlikely that agreement will be obtained from some countries in the short term.

On balance, the Committee accepts that contestability for inspection and audit is already available or under consideration for most programs. The exceptions are in programs in which overseas governments continue to insist on government engaged inspectors (eg meat) or there is strong industry support for continued government involvement (eg certain cereals).

#### **7.4.1 Existing Programs versus the 'Vision in Practice' Model**

As part of the evaluation of its model the Committee examined each of the existing programs against the individual elements that make up the vision. The outcome is set out in Table 7.1 and in comments which follow on individual programs. The comments also include an indication of the possible first steps to secure change.

In the table, H 'high' means that the program is close to attaining the objectives of the vision, M 'medium' means that some progress has been made, and there are some limits to further progress, and L 'low' means that there are more severe limits to progress.

The Committee acknowledges that quite a number of the barriers to progress are not under the control of either industry or government in Australia. This is why the Committee is emphasising the role of joint industry/government development committees in assisting with a strategic role.

**Table 7.1 Comparison of Progress with Vision Elements**

	<b>Meat</b>	<b>Dairy</b>	<b>Fish</b>	<b>Horticulture</b>	<b>Grains</b>
Established vision	L	M	L	L	M
Export market acceptance of Australian standards	L	H	L	M	L
Degree of adoption of co-regulation	M	M	M	L	L
Progress away from highly prescriptive process	L	M	M	M	M
Availability of contestability	L	M	M	L	L

**KEY: H = High, M = Medium, L = Low**

The Committee sees significant opportunities for each program to progress toward the model, but that guidance from the Development Committees will be needed because of the complexity of the issues and because of the need to establish balance between competing considerations. This work should be undertaken as part of ongoing reviews of individual programs and in the formal examinations by AQIS and industry of the recommendations contained in this Report.

The following perspectives elaborate on the table, but are only an indicator of some of the issues involved.

#### **Meat**

- There are both export and domestic standards in place, and harmonisation of these is a priority. Some elements of co-regulation are established but contestability for inspection services is very limited. Negotiation continues with overseas markets to gain acceptance of less government involvement in inspection and audit.
- Risk based procedures must be kept under review with industry because of the potential for adverse events to have impact on consumer confidence. This is likely to result in greater emphasis on government controls.

**First steps towards Vision:** Harmonise standards, strengthen the vision for joint industry/government systems to replace end-point controls, continue efforts for importing country acceptance of QA based processes.

**Risk Element:** There will be significant risks if the inspection based structures are dismantled before confidence has been established in alternative methods. Adverse events force increases in the level of controls.

## Dairy

- This industry is well advanced against the 'model'. Exports are increasing, backed by a high level of investment in technology and QA
- Contestability is in place for inspection and audit functions. However, a view exists within the industry that total outsourcing of service to third parties is not desirable because of potential conflict of interest.

**First step:** Address auditing/outsourcing issue to ensure confidence in monitoring arrangements.

**Risk element:** The lack of government-based resources to respond to adverse events under the co-regulatory arrangements may create a situation where an inadequate regulatory response results in damage to consumer confidence, and hence exports.

## Fish

- There is a multiplicity of small processors, with no single industry focus. The industry is characterised by rapid development with an opportunity to progress to the model. There is relatively little formal QA uptake at the moment.

**First step:** Organise an effective industry voice, examine a QA model which fits the characteristic of this industry and move towards greater contestability for services.

**Longer term:** The industry should progress to a fully integrated co-regulatory arrangement, adapted to continually emerging market conditions which may include public health issues.

## Grain

- Coregulatory arrangements have not been adopted in the bulk grains industry. There has been perseverance with inspection and lack of cost competitors for the service. Phytosanitary issues are the prime concern in importing countries rather than public health.

**First steps:** To find a means of motivating industry, to adopt QA systems on farms and in storage/handling. Determine whether a separate strategy for non bulk grain commodities will assist with new market opportunities.

**Risk element:** Other legislation controls bulk grain export, and it is conceivable that all export control requirements could be managed under such legislation rather than under the *Export Control Act*. Therefore, the effectiveness of controls under the *Export Control Act* should be kept under review.

## Horticulture

- This grouping is artificial. There is no such thing as a Horticulture industry; rather there are many groups of exporters and potential exporters often working from small farms/economic units with relatively limited expertise and asset base.

- This 'industry' has its own legislation very similar to the *Export Control Act* which can address all of the issues including certification. Some progress has been made with contestability and QA but this is not consistent across all participating groups.

**First step:** Consider QEAC program evaluation recommendations and finalise the vision for this industry.

**Longer term:** Determine whether the Act is necessary as well as the *Australian Horticultural Corporation Act 1987*.

### **Other Programs**

#### **Live Animals**

- This industry is significantly different from the others because there is no processing step involved in the exports chain. Animal welfare and transport are the dominate concerns in this industry.
- Significant progress has been made with QA and contestability for inspection and a review of existing arrangements is currently being undertaken.

**First step:** Continue to emphasise effective industry control from farm to departure with reduced reliance on government inspection.

**Risk element:** Effective management of animal welfare and transport issues is required.

#### **Organics**

- A different nature – 'organic' is an overlay of food legislation, an extra requirement, relating to the means and method of production. Potentially, requirements relating to 'organic' could apply to any product under the Act. It is important, therefore, that requirements be consistent across products. It is critical that potential consumers have confidence in a certification that production meets 'organic' requirements.

**First step:** Ensure ongoing consumer confidence.

**Risk element:** Retention of high standards by all accrediting organisations.