



SUBMISSION IN RESPONSE TO

**FIRST-PRINCIPLES REVIEW OF THE APVMA'S COST
RECOVERY ARRANGEMENTS**

5 OCTOBER 2012

INTRODUCTION

CropLife Australia (CropLife) is the peak industry organisation representing the agricultural chemical and biotechnology (plant science) sector in Australia. CropLife represents the innovators, developers, manufacturers, formulators and registrants of crop protection and agricultural biotechnology products. The plant science industry provides products to protect crops against pests, weeds and diseases, as well as developing crop biotechnologies that are essential to the nation's agricultural productivity, sustainability and food security. The plant science industry is worth more than \$1.5 billion per year to the Australian economy and directly employs thousands of people across the country.

CropLife Australia member companies spend more than \$13 million a year on stewardship activities to ensure the safe use of their products on the environment and human health. CropLife ensures the responsible use of these products through its industry code of conduct and has set a benchmark for industry stewardship through programs such as **drumMUSTER**, ChemClear[®] and Agsafe Accreditation and Training.

Our members' crop protection products include herbicides, insecticides and fungicides that are critical to maintaining and improving Australia's agricultural productivity, as well as meeting global food security challenges in the coming decades. Each of these products is rigorously assessed by the Australian Pesticides and Veterinary Medicines Authority (APVMA) to ensure they present no unacceptable risk to users, consumers or the environment. Without access to these tools, farmers could potentially lose as much as 50 per cent of their annual production to pests, weeds and diseases.

The Agricultural and Veterinary Chemicals Code Act 1994 (the Agvet Code) is the primary Act regulating agricultural chemicals in Australia. It operates a pre-market regulatory intervention by requiring that any active constituent or product must first be approved or registered by the APVMA. The costs of administering all the functions specified under the Agvet Code are recovered from applicants and registrants through a series of fees and levies. CropLife members are each subject to these fees and levies, and hence have a strong interest in ensuring they are appropriately, legally and fairly collected and used. Any policy imperatives served through current cost recovery policies must be reconsidered in the light of contemporary circumstances.

CropLife members recognise the need for a strong, adequately resourced and effective regulator for agricultural chemicals and their products. CropLife also recognises the need for the cost of some APVMA functions to be recovered from applicants and registrants. However, CropLife is concerned that current arrangements do not reflect existing government cost recovery policy and are based on out-dated and inaccurate presumptions about the Australian market.

To this end, CropLife has welcomed the *First-Principles Review of the APVMA's cost recovery arrangements* and has previously asserted that such a review is essential to ensuring that the Authority's cost recovery arrangements are equitable, consistent with government cost recovery policies and, if appropriate, encourage innovation in the development of new agricultural chemical tools. Furthermore, we are deeply concerned that rectification of this significant inconsistency is not addressed in the discussion paper.

CropLife's submission to this review process should be read in conjunction with its previous submission to the APVMA's Cost Recovery Discussion Paper submitted to the APVMA on 29 February 2012. A copy of that submission is at **Attachment A**. The issues raised during that process should be considered by DAFF through this review process.

The issue of cost recovery arrangements is of major significance to the industry and goes to the core of the efficiency of the registration system. Accordingly, CropLife has invested significant resources in seeking to critically assess the issues regarding cost recovery arrangements. To this end, CropLife commissioned an independent economic study by Deloitte Access Economics to provide an assessment on a number of key issues regarding the resourcing of the APVMA, the economic impacts of the costs of the registration system and any proposed increase, as well as the nominal efficiency of the Authority at the moment. At **Attachments B and C**, we provide that study as part of this submission.

With the Federal Government in the process of developing a National Food Plan, its current Better Regulation of Agricultural and Veterinary Chemicals proposals and its National Harmonisation of Agricultural and Veterinary Chemicals process, it is crucial to recognise that the plant science industry is a critical component to the productivity and competitiveness of Australian agriculture. A low cost, efficient registration system is essential to enable the industry to support the Australian farming sector. The consequences of an internationally uncompetitive and expensive registration system will be a loss of crucial products in the Australian market, a delay of new innovative products coming to the Australian market, as well as farmers paying more for existing registered products, all of which must be avoided and should be the focus of this review and the associated regulatory reform initiatives.

SUMMARY OF RECOMMENDATIONS

1. The First Principles Review should be suspended until the finalisation of the Department of Finance and Deregulation's review of the Australian Cost Recovery Guidelines.
2. The First Principles Review should be suspended until the finalisation of the Better Regulation of Agricultural and Veterinary Chemicals process as well as the development of the model for National Harmonisation of Agricultural and Veterinary Chemicals
3. A full Business Process Review should be undertaken as part of the First Principles Review Process
4. The APVMA's cost recovery process should be benchmarked against other regulators and government agencies and departments
5. The APVMA's cost recovery process should be benchmarked against the performance of equivalent international agencies
6. Costs recovered from registrants should only be applied to activities directly connected with product registration
7. Levies should not be used as a balancing item for the total annual budget of the APVMA
8. Investment in process efficiency measures must translate to actual efficiency or be discontinued

1. The First Principles Review should be suspended until the finalisation of the Department of Finance and Deregulation's review of the Australian Cost Recovery Guidelines.

CropLife considers that any cost recovery scheme must be fully consistent with Australian Government guidelines for designing cost recovery schemes. This is problematic for the current process as the Australian Cost Recovery Guidelines are under review by the Department of Finance and Deregulation (Finance). It would be undesirable for any review of the APVMA's cost recovery arrangements to be developed on the basis of principles that were shortly thereafter found to be inappropriate.

CropLife contends that the current First-principles Review should not be finalised until such time as any changes to the Australian Government's Cost Recovery Guidelines (the Guidelines) are finalised. This will ensure that the APVMA's cost recovery arrangements are contemporary and reflect current best practice approaches. While CropLife considers that delaying this process is essential to ensure the best outcome, this does not negate concerns that the proposed approaches to cost recovery are inconsistent with the existing Guidelines.

The Department of Agriculture Fisheries and Forestry (DAFF) may receive some valuable insights into potential new cost recovery arrangements by considering where the current APVMA cost recovery arrangements are inconsistent with the existing Guidelines.

Cost Recovery Principles

The cost recovery principles in the current Guidelines are grouped into the following sections:

- Economic efficiency;
- Design principles;
- Operational principles; and
- Efficiency principles

Economic efficiency

“The general principles relating to economic efficiency support cost recovery as an important means of improving economic efficiency by:

- *Sending an important pricing message to users or customers about the cost of resources involved;*
- *Reducing the call on general taxation revenue and avoiding the high efficiency losses from higher taxation revenue;*
- *Improving horizontal equity by ensuring that consumers or beneficiaries of products pay for the costs; and*
- *Improving agency performance through transparency of costs and increased cost consciousness in both agencies and users.*

Design principles

Design principles require that cost recovery arrangements:

- *Avoid cross-subsidisation across user groups;*
- *Are subject to the same public administration principles that apply to all government activities; and*
- *Incorporate an appropriate level of industry consultation to drive agency efficiency.*

Operational principles

Operational principles require that:

- *All cost recovery arrangements should have clear legal authority;*
- *Cost recovery charges should be linked as closely as possible to the actual costs of activities or products;*
- *Costs recovered should relate to specific activities, not the agency that provides them;*
- *Targets should not be set for the level of costs to be recovered;*
- *Over recovery is inappropriate;*
- *Outputs or activities that have ‘public good’ characteristics may be taxpayer funded;*
- *Costs to be recovered may exclude activities undertaken for government where they are not integral or directly related to the provision of regulatory activities; and*
- *Partial cost recovery is not appropriate.*

Efficiency Principles

A key principle is that cost recovery should be based on the “efficient costs” of the activity and should avoid:

- *Regulatory creep, where additional regulation is imposed without adequate scrutiny;*
- *Gold plating, where unnecessary high standards or facilities are adopted or there is simply over-regulation; and*
- *Cost padding, where costs are artificially inflated in the knowledge that all costs can be recovered.*

These principles present a useful framework for considering the appropriateness of current cost recovery arrangements for the APVMA. As CropLife is yet to see the results of the Finance review, CropLife has made a series of observations about consistency against existing principles. If DAFF insists on proceeding with reviewing the APVMA’s cost recovery arrangements in advance of the Finance review, CropLife would expect strict compliance with the current arrangements.

2. *The First Principles Review should be suspended until the finalisation of the Better Regulation of Agricultural and Veterinary Chemicals process as well as the development of the model for National Harmonisation of Agricultural and Veterinary Chemicals*

The First-principles Review is only one of a number of current review processes that will have a significant impact upon the way that agricultural chemicals are regulated in Australia. In addition to this review of the APVMA's cost recovery arrangements, the Australian Government is also progressing its *Better Regulation* reforms, which are designed to streamline and enhance APVMA processes.

Better Regulation will also require the APVMA to administer and resource additional regulatory functions and services such as:

- re-approval and re-registration schemes;
- ensuring community confidence in the regulatory system;
- providing pre-application assistance; and
- developing a comprehensive risk framework.

In addition federal, state and territory governments are seeking to develop a model for the national harmonisation of agricultural chemical regulation in Australia. These reforms may also have implications for APVMA resourcing, as states and territories seek greater involvement with APVMA governance arrangements.

The impact that each of these review processes will have on the APVMA is not currently known. However, adding new process and functions potentially confound any attempt to confirm cost recovery arrangements. On this basis, CropLife considers it will be critical that the results of this this First-principles Review be restricted to developing principles that can be applied, modified and potentially even changed when the full scope of APVMA responsibilities is known upon finalisation of the current reform processes.

3. *A full Business Process Review should be undertaken as part of the First Principles Review Process*

A full Business Process Review needs to be undertaken to ensure that as much as possible of APVMA revenue is directed to its functions of registration of product applications. Such a review is activity that should be funded by the Government through DAFF and not the Authority itself.

CropLife notes that the Australian Fisheries Management Authority (AFMA), in presenting its 2010 Cost Recovery Impact Statement made the following observations;

- The agency had conducted a Business Efficiency Review.
- The agency had revised its organisational structure and advisory and regulatory processes.
- Prior to 2009-10, AFMA's domestic compliance had relied for around 50 per cent of its budgeted activities on the contracted provision of compliance services by states/Northern Territory fisheries and/or police agencies. It had also involved the allocation of activities and costs across all Commonwealth managed fisheries to avoid cross-subsidisation that could otherwise result from cost recovery of these activities. These arrangements are "relatively inflexible once annual allocations of funding and service level agreements are made with the state agencies. This inflexibility has generally been at the expense of a more effective risk-minimisation approach to compliance.
- AFMA's Business Efficiency Review identified \$1.5 million of savings in the short term and up to \$3.5 million savings in the medium term. AFMA also advised that "while the majority of savings identified have been achieved, some further rationalisation and savings can be achieved".

It is important that a Business Process Review be undertaken by DAFF in respect of the APVMA's operations as part of the First-principles Review. Such a review should be conducted on a zero cost base, rather than using the legacy model of activity based costing currently utilised by the APVMA.

4. The APVMA's cost recovery process should be benchmarked against other regulators and government agencies and departments

CropLife accepts and supports that agricultural chemicals require an appropriate level of regulation to assist in safeguarding user safety, human health and environmental protection. CropLife also accepts that some regulatory functions should be funded by applicants and registrants of agricultural chemicals and products. However, the function of any regulatory intervention must not only be to manage the risks from misuse, but to also facilitate the safe, legal, responsible and sustainable use of agricultural chemical products for the benefit of users, consumers and the wider community. To this end, the Government must consider the impact that inappropriately applied cost recovery has on incentives for companies to innovate and bring newer, safer and softer chemicals to the Australian market. Excessive regulation incurring unnecessary costs serves as a significant disincentive for companies to invest in registering new products. It diminishes the return that can be achieved from products that are registered and also operates to preclude extensions to labels to accommodate minor uses.

CropLife suggests that DAFF takes the lead and conduct a full and comprehensive study of the APVMA's current cost structures. CropLife remains concerned that a disproportionate amount of the APVMA's activities are not directed to the APVMA's core business of providing timely risk assessments and product registrations. Indeed, the Activity Based Costing provided by the APVMA in response to CropLife's request under Freedom of Information clearly shows that \$10.84 million or 41 per cent of its total costs are in corporate overheads.

Clearly, this should be benchmarked against other regulators and other government agencies or departments as to its size and the activities covered by such overheads. CropLife suggests that such size of corporate overheads should also be benchmarked against those of private enterprise to conclude whether or not they are excessive.

Similarly, CropLife would recommend that DAFF also examine whether other agencies have cost recovery arrangements that would better meet the needs of the APVMA, as well as stakeholders including applicants, approval holders and registrants. For example, DAFF should consider the Australian Competition and Consumer Commission's (ACCC) cost recovery arrangements. The ACCC is one of the Australian Government's largest regulators and recovers only a small proportion of its budget from fees and charges.

5. The APVMA's cost recovery process should be benchmarked against the performance of equivalent international agencies

Imposing cost recovery has effects throughout the agricultural production line. Any genuine attempt to assess the impact of cost recovery on Australian agriculture must also consider the impact that the cost burdens will have on the competitiveness of Australia's trade exposed agricultural sectors. Indeed, the relatively small size of the Australian market (Australia's agricultural chemical market is only 1-2 per cent of global agricultural chemical trade) can mean that even quite small changes in registration costs can result in changes in investment patterns by global chemical companies.

The costs of similar regulators in other jurisdictions (such as the US, Canada and Europe) should be examined to assess any potential competitiveness impacts from higher Australian regulatory costs. CropLife notes that data it has obtained through Phillips McDougall for 2010 indicates that sales of crop protection chemicals in Australia are approximately one sixth the size of the USA and nearly one tenth the size of Europe. Benchmarking regulatory expenditure relative to the size of the Australian market and scope of the regulator, against the size of the market in other jurisdictions would demonstrate whether the cost recovery arrangements.

6. Costs recovered from registrants should only be applied to activities directly connected with product registration

CropLife members have always viewed the funding of the National Registration Scheme as an important component of good corporate citizenship and accordingly have been, and remain prepared to pay fair and equitable fees for product registrations, applications and assessments. However, it is CropLife's position that other aspects of the APVMA's activities should be funded by government appropriation.

An industry based cost recovery fee and levy system should only be seeking to recover such monies as required to support the directly attributable activity of the APVMA in connection with the registration of products.

CropLife considers that there are significant areas of the APVMA's activities where cost recovery from applicants and registrants is inappropriate. Any first-principles review of the APVMA's cost recovery arrangements must consider the appropriateness of these functions continuing to be cost recovered. CropLife is of the view that many of these activities should and must be resourced through a Government appropriation to reflect the public nature of the benefits.

The current Australian Government Cost Recovery Guidelines provide examples of activities that *should be funded through appropriation*, a number of which are currently cost recovered from registrants and applicants. These include:

- Public goods, such as information activities, including newsletters and websites that inform communities;
- Explicit public policy decisions to under recover in some areas, for example, to encourage innovation; and
- Parliamentary servicing and advising functions.

The fact that the current cost recovery arrangements of the APVMA are entirely outside these Government Guidelines is a matter that must be addressed immediately and prior to any regulatory reform changes. Costs that are not directly related to active constituent approvals, registering products or processing other applications should not be recovered from industry. CropLife contends, and has previously asserted that there are also strong equity and policy reasons for not recovering the costs from monitoring and compliance activities from registrants. Compliance, adverse experience reporting and chemical review programs are also designed to confirm the integrity of the regulatory system for the benefit of public health and safety, as well as the environment, and should not be cost recovered.

Similarly, CropLife would argue that the costs associated with freedom of information requests should not be funded by registrants. As such, appropriation and a more equitable balance between cost recovery and government funding is appropriate and should be sought.

Furthermore, the costs associated with the range of other activities undertaken by the APVMA, such as community communication and consultation, should be funded in line with other government regulators and authorities, and not provided totally by industry levy and fees.

Other APVMA activities may need to be funded directly by government once revised guidelines are confirmed.

Together, this would result in a significant reduction in pre-market barriers to market entry for new, innovative active constituents and products. It would also ensure that the farming sector is not paying inflated prices for crop protection products as a result of unnecessary or inefficient regulations, or activities that should in fact be funded by government.

7. Levies should not be used as a balancing item for the total annual budget of the APVMA

Mix between fee and levy

CropLife understands that the current mix between fee and levy was originally determined at the time the then National Registration Authority (now the APVMA) was established. CropLife recognises that the policy intention of recovering only 40 per cent of registration and approval costs from application fees was to lower barriers to entry for smaller companies in order to encourage innovation and enhance the capacity for small and medium companies to obtain approvals and registrations.

There is little evidence that the current fee and levy mix has led to any marked increase in innovation in the Australian market. Rather, the current structure is an inhibitor to innovation. The excessive cost and time required obtaining an approval or a registration discourages potential applicants.

Innovative new chemicals and products are generally registered by large companies with significant resources to invest the several hundred million dollars required to discover, research and develop a new chemical product. The cross-subsidisation inherent in the current mix between fee and levy acts as a significant disincentive to Australian registration.

If it was true that small to medium companies were supported by this approach at the time the National Registration Authority was established (and this is doubtful) it no longer represents an appropriate policy response to contemporary circumstances.

The APVMA’s approach to cost recovery, as demonstrated through its Cost Recovery Discussion Paper, describes a series of objectives for cost recovery. These are that:

- Is it efficient to recover all of the costs of products and services where the beneficiaries are a narrow and identifiable group? The APVMA has added to this by stating “with partial cost recovery to apply only where new arrangements are phased in, where there are government endorsed community service obligations or for explicit government policy purposes”.
- Cost recovery should not be applied where it is not cost effective, where it is inconsistent with government policy objectives or where it would unduly stifle competition or industry innovation.
- Costs that are not directly related or integral to the provision of products or services (eg, some policy and parliamentary servicing functions) should not be recovered. Administrative cost should generally be included when determining appropriate charges.

The current system of cost recovery by the APVMA fails to meet these objectives. Using levies as a balancing item to ensure full cost recovery, when a more sustained effort should be put into gaining efficiency of operation, is inconsistent with the operational principles specified in the Finance Guidelines. Levies should not be utilised as a balancing item.

Economic analysis of split between fee and levy

CropLife commissioned Deloitte Access Economics to undertake an economic study based on the APVMA increasing its fees (by changing cost recovery on registrations and changes in the imposition of levies) by \$8 million as originally proposed in the APVMA Cost Recovery Discussion Paper. The study indicated that increasing total intermediate inputs supplied from the agchem sector to the end users would result in the following effects:

Agvet chemical cost increase	\$ 8 million
Change on Australian GDP	- \$ 21 million (negative economic impact)
Change in Australian GNP	- \$ 18 million (negative economic impact)
Change in Australian exports	- \$ 17 million (negative economic impact)

These impacts are purely from the additional cost of regulation on existing agchems offered for sale. They do not include the additional benefits that may accrue to Australia from having access to beneficial chemicals, which due to the current regulatory costs and timeframes, companies choose not to offer for sale or seek to register for the Australian market.

In November 2008, CropLife and the Animal Health Alliance (Australia) jointly commissioned ACIL Tasman to undertake an independent review of the APVMA and its cost recovery policies, which was provided to the APVMA and for completeness is at **Attachment D** to this submission.

The review, in part, examined the effectiveness of the APVMA's cost recovery structure and made the following observations:

- There is no systemic market failure in the use of agvet chemicals in Australia that justifies the use of an uncapped levy based on the sales value of registered products designed to promote the domestic Agvet chemical industry.
- A sales levy subsidises chemicals of low market value, which:
 - Creates disincentives for R&D in an industry where R&D is the key source of future growth;
 - Creates perverse incentives for products to be registered that may have little or no value to the Australian community. This increases the costs of regulation and delays the registration of higher value chemicals; and
 - Increases the input costs of Australian farmers (who have limited capacity to pass these costs on) and reduces the range of chemicals offered than would otherwise be the case.
- The current cost recovery system is not aligned to the externality risk of registered agricultural chemicals and veterinary medicines and therefore does not create any incentives for them to be better managed by the supplier companies or consumers.
- An uncapped levy system does not create incentives for the APVMA to be responsive to the industry's needs or to become more efficient in its delivery of regulatory, ministerial and public good services.
- Chemical companies and consumers face strong incentives to meet international trade standards, and to ensure their products do not unduly affect the capacity of other exporters to meet voluntary export contract specifications.

APVMA statistics bear out these observations, namely:

- The levy on wholesale product sales represented approximately 66 per cent of APVMA income;
- 843 companies renewed registrations on a total of 9551 agvet chemical products and the majority of these companies had sales of less than \$5 million;
- Of 843 companies with registered agvet products, 176 companies had all products with zero sales'
- Another 594 companies had sales of less than \$5 million;
- The 594 small companies had a total of 3,814 products registered;
- The average product sales for small companies (as defined by the APVMA) was \$93,000;
- The average product sales for medium companies (as defined by the APVMA) was \$199,000; and
- The average product sales for large companies (as defined by the APVMA) was \$686,000.

As the APVMA has pointed out in its own analysis, about half the products registered earn less than \$25,000 in sales, more than a third of the registered products have no sales and based on the APVMA analysis a large cohort of these products continue to record zero sales in subsequent years, meaning that the APVMA will never recover the cost of the initial registration of these products.

It therefore must be assumed that despite the current system the nominal 40 per cent recovery on registration costs will never be sourced from applicants and therefore to even require under its current revised model as presented in the APVMA's Discussion Paper a 40 per cent recovery of application costs from applicants will still build in inefficiency and cost burden on registrants paying levies that should otherwise be borne on levy payers.

CropLife would submit that further detailed analysis needs to be undertaken during the First-principles Review to understand which products are currently paying levies and the quantum of such per registrant and per product. This should clearly identify the level of cross-subsidisation that is inherent in the current system. In addition, such analysis would clearly identify whether the permit system subsidisation is being reduced through product sales generated from the issuance of permits. Models that fully recover registration costs from applicants for products not currently covering the full cost of registration over a defined period must therefore be worth consideration.

Any revision of cost recovery must also bear in mind the current applications that at any time are being assessed by the APVMA and have been under recovered in the initial stages. These applications in most cases do not recover 40 per cent of the cost of the application process of the APVMA. These under recoveries are a sunk cost in many instances (and the cost being subsidised by more successful products) as they will never generate sufficient sales under either the current model of cost recovery or in the model proposed in the APVMA Cost Recovery Discussion Paper. This requires further analysis by the DAFF and such analysis could be fed into the Business Efficiency Review of the APVMA, as mentioned in **Recommendation 3** of this submission.

Achievement of the 40/60 split of fees and levies as stated above is not achievable and therefore the premise under which the Signatories Working Group recommended the system apply fees to applications needs to be closely examined.

The DAFF has raised the reliance on the levy by the APVMA to fund its activities as a specific issue, noting the notion that it is inherently unstable and dependent on sales, which can fluctuate significantly depending on climatic conditions) and seeking comment on how best to alleviate this problem

Based on the levels of reserves that the APVMA continues to hold, CropLife does not consider that this is the problem that the APVMA contends that it is.

In the economy, there are other factors just as volatile, including exchange rates that are currently driving the costs of imported product downwards due to the entry of new importers of larger volume generic products. The demand for each of the categories of herbicides, fungicides and insecticides can vary from season to season based on weather patterns and outbreaks of differing diseases and pests.

CropLife contends that all of these variables can lead to volatility in levy income and therefore there should not be the continued over-reliance on levies as has been the case since the introduction of the national registration scheme.

8. Investment in process efficiency measures must translate to actual efficiency or be discontinued

CropLife supports measures that allow the APVMA to cooperate and collaborate with overseas regulatory partners. However, to date, the APVMA's collaboration in Global Joint Reviews does not seem to have delivered efficiency benefits or reduced assessment timeframes. As Global Joint Reviews are ultimately resourced by applicants, registrants and approval holders, CropLife would expect that participation would deliver benefits to Australian registrants. If these benefits are not forthcoming, CropLife would question whether Australia's engagement is delivering its intended benefits.

CropLife notes that despite efficiency dividends being imposed across the Government, neither the APVMA nor its external advising agencies (the Department of Sustainability, Environment, Water, Population and Communities and the Office of Chemical Safety within the Department of Health) have delivered efficiency dividends for agricultural chemical assessments. The mere fact that these functions are cost recovered from industry should not excuse these agencies from applying the same productivity measures to their chemical assessment operations as across the rest of their functions.

Over time, CropLife would also expect to see improvements in APVMA performance that should occur as assessors obtain experience and knowledge about the assessment process. Reductions in timeframes from increased assessor experience have not been identified.

Finally, productivity improvements that result from the APVMA making investments in newer, better and more advanced systems for document management, sales reporting, levy payments and electronic applications should drive improvements in APVMA productivity and performance. Unfortunately, this has not been observed. If these improvements in productivity are not to be identified, it raises questions about the utility of making these investments in improved processes in the first place.

Each of these efficiency measures should have delivered improvements in efficiency but unfortunately, this has not been observed. In contrast, CropLife notes that the regulator's staffing levels have increased from 128 in 2002 to 161 in 2011.

Of more concern, however, is the number of crop protection applications assessed in 2002/03, namely 1656 of which 97.1 per cent were finalised within timeframe. In 2011/12 applications finalised were 1802 of which 88 per cent were completed within timeframe. Despite additional resources, and purported efficiency and productivity measures little improvement has been evident in registrations approved and timeframes deteriorating.

CONCLUSION

CropLife strongly recommends that a Business Efficiency Review of current and proposed operational activity of the APVMA be the starting point for the First-principles Review.

Zero based costing of how best the regulator should operate without any pre-conceived outcomes, or based on the way and manner in which the regulator currently carries out its activities should then be presented to stakeholders for consideration.

The current model does not encourage innovation in the Australian market as the timeliness and efficiency of the APVMA's approval process is an inhibitor to innovative solutions. Indeed, the cross subsidisation of different products by the levy system has meant that levy payers have reduced investment on innovation. Levies must not be used as a balancing item in recovering the total annual budget requirement of the APVMA.

The fact that the system has a large number of registrants with no or low sales volumes (therefore paying little to recoup registration costs), cannot continue to be supported by high levy payers.

Whilst the beneficiaries of the APVMA regulatory system are both registrants, suppliers, resellers, farmers, end users and the general public it would be difficult to introduce a system that would move any of the requirements for cost recovery further down the supply chain.

CropLife contends that there is a number of current cost recovered activities that should be paid for from general government revenues in that an industry based cost recovery fee and levy system should only be seeking to recover such monies as required to support the directly attributable activity of the APVMA in connection with the registration of products.