



Representing *the best* of the plant science industry

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The Secretary
Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

Via: prebudgetsubs@treasury.gov.au

Dear Secretary

On behalf of CropLife Australia, I provide the attached submission in response to the Assistant Treasurer's call for input to the 2016-17 Budget.

This submission identifies those areas where additional investment by government or policy decisions are required to ensure Australia's regulatory system for agricultural chemicals and agricultural biotechnology can rapidly respond to emerging agricultural issues and facilitate the ability of Australian farmers to compete in global markets.

The Government's decision to fund and develop a minor use and specialty crops agricultural chemical (agchem) program for an initial four year period in its first budget was warmly welcomed by CropLife, the plant science sector and the broader agricultural industry. Such a program is crucial to the nation's agricultural productivity and international competitiveness, as well as being imperative to ensuring Australia's farmers have access to the tools and products essential for meeting future food security challenges. CropLife has specifically called for the program to be fully funded and secured and accordingly, this submission outlines a budget structure for the Government's consideration.

The issues outlined in this submission all go to the long-term growth and sustainability of Australia's plant science industry, which is a crucial support sector to Australia's farmers. The economic imperative of our industry in supporting Australia's farmers was highlighted through analysis by Deloitte Access Economics in their 2013 report entitled *Economic Activity Attributable to Crop Protection Products*, a copy of which is attached for your information and reference. Most importantly, it notes that nearly \$18 billion of agricultural productivity is directly attributable to our industry's products. Genetically modified (GM) crops are also proving to be a crucial part of Australia's agricultural success. Australia is experiencing the economic, agronomic and environmental benefits of the adoption of agricultural biotechnologies and our farmers are receiving the financial benefits of use of GM crops. Ensuring an efficient regulatory system for such new technologies is crucial if the nation is to take full advantage of the benefits of these innovations.

Please do not hesitate to contact me should you require clarification or elaboration in respect to any aspect of this submission.

Yours sincerely

(SIGNED)

Matthew Cossey
Chief Executive Officer

Attach:



2016-17 PRE-BUDGET SUBMISSION

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INTRODUCTION

CropLife Australia (CropLife) is the national peak industry organisation representing the agricultural chemical and biotechnology (plant science) sector in Australia. CropLife represents the innovators, developers, manufacturers and formulators 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 key to the nation's agricultural productivity, sustainability and food security. The plant science industry is worth more than \$20 billion a year to the Australian economy and directly employs thousands of people across the country.

CropLife and its members are committed to the stewardship of their products throughout their lifecycle and to ensuring that human health, environment and trade issues associated with agricultural chemical use in Australia are responsibly and sustainably managed. Our member companies contribute more than \$13 million a year on stewardship activities to ensure the safe and effective use of their products. CropLife ensures the responsible use of these products through its mandatory industry code of conduct and has set a benchmark for industry stewardship through programs such as **drumMUSTER**, ChemClear[®] and Agsafe Accreditation and Training. Our stewardship activities demonstrate our commitment to managing the impacts associated with container waste and unwanted chemicals.

The plant science industry's crop protection products include herbicides, insecticides and fungicides that are critical to maintaining and improving Australia's agricultural productivity to meet global food security challenges in 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 and the environment. CropLife member companies can spend more than \$250 million over 10 years, testing more than 140,000 compounds to find one new successful crop protection product. Without access to these tools, farmers may potentially lose as much as 50 per cent of their annual production to pests, weeds and diseases. According to a 2013 Deloitte Access Economics report entitled *Economic Activity Attributable to Crop Protection Products*, 68 per cent of the total value of Australian crop production can be attributed to the use of crop protection products.

Crop protection products must be used sparingly, carefully and responsibly. The responsible use of agricultural chemicals must be supported by a regulatory scheme that maximises the benefits associated with their responsible use, while minimising the costs from excessive, inappropriate and ineffective regulation. Farmers need these products because of the benefits they provide to their businesses and consumers need these products to ensure they have access to safe, affordable and nutritional food. While it is important for governments to provide for appropriate and rigorous regulation of pesticides and biotechnologies, any regulation must be mindful of the effects that poorly considered and excessive regulation will have through increasing production costs, discouraging investment and innovation, while not delivering any improvement in safety, health or environmental outcomes.

The 2016-17 financial year represents a period of significant change for registrants and developers of agricultural chemical products. New approaches to regulation potentially involve significant additional cost to registrants that may have detrimental impacts on the capacity of companies to provide Australian farmers with innovative new products. The APVMA's 2012 Cost Recovery Discussion Paper¹ highlights the significance of some of these costs associated with unnecessary regulation. The focus, however, is on ensuring that Australia's regulatory system for agricultural chemicals is effective, efficient and provides an opportunity for government to ensure they have all the necessary tools in place to support Australian innovation in agricultural production.

This submission identifies those areas where additional investment by government is required to continue to drive innovation and to ensure Australia's regulatory system for agricultural chemicals can rapidly respond to emerging issues and facilitate Australian farmers' ability to compete in global markets.

For noting, the plant science industry has since 1996 also been providing Australian agriculture with the benefits of crop biotechnology in the form of genetically modified (GM) crops. The utilisation of these innovations has delivered significant benefits in producing safe and affordable food, feed and fibre to the nation and the world. GM crops that are in the innovation pipeline have the opportunity to further improve the environmental benefits by allowing more efficient use of water, nutrients and other crop production inputs.

¹ http://www.apvma.gov.au/consultation/public/2012/interim_cost_recovery.php

Future GM crops will produce healthier oils and starches and other major human health benefits, as well as have a greater tolerance of salinity and acid soils.

Similar to the regulatory approval process for crop protection products, every GM crop in Australia is subjected to intense scrutiny and rigorous regulatory assessment. The Gene Technology Regulator protects the health and safety of people and the environment by identifying risks posed by gene technology and by managing those risks through regulating certain dealings with genetically modified organisms. Food Standards Australia New Zealand (FSANZ) is required to approve any GM food or food ingredient and the APVMA regulates those GM crops with inbuilt pest protection. The GM canola and GM cotton crops that are grown in Australia have passed all of these regulatory assessments and delivered Australian farmers more than US\$885 million² in additional farm income benefits during the period 1996-2013.

Emerging global food security challenges highlight the critical need to properly support Australia's farming sector and the critical supporting industries to agriculture, such as plant science. Should the following identified activities and initiatives be funded and implemented, they would complement current reform processes and result in a comprehensive package of reforms.

Australian agriculture and its associated industries generate over \$155 billion each year and underpin 12.1 per cent of Australia's GDP. The agricultural chemical and biotechnology industry is an integral input driving this performance.

² Brookes G and Barfoot P (2015) 'GM crops: global socio-economic and environmental impacts 1996 – 2013', PG Economics, Dorchester, United Kingdom

RECOMMENDATIONS

1. Bring forward budgeted funding of the Minor Use and Specialty Crops Program

Costs of registering agricultural chemical products are prohibitive and act as regulatory barriers to commercialisation. Efficient and effective regulation is essential to support an innovative, productive and sustainable agricultural industry in Australia. Unfortunately, from an agricultural chemical perspective, innovation is undermined by a regulatory system that is inefficient and operated to discourage investment in modern crop protection technologies.

CropLife Australia has long advocated for the introduction of a comprehensive, publicly funded program for minor uses of agricultural chemical products. The Government's initial funding in the 2014 Budget of \$8 million over four years to a minor use and specialty crops program is significant and welcomed by CropLife, the plant science industry and the nation's farming sector.

Such a program is crucial to the nation's agricultural productivity and our international competitiveness, and it is imperative to ensuring Australia's farmers have access to the tools and products essential for meeting the food security challenges of the future.

The Government's investment over four years shows the commitment to ensuring farmers have access to the same products as their overseas competitors, creating a more diverse and productive farming sector.

It is essential that such a crucial program for Australia's agricultural sector has secured funding for development and implementation. The funding to date has secured the development of an operating model and facilitated the relevant agricultural industries and producer groups to identify the priority areas. This process also very pleasingly identified that there are already products available for nearly 70 per cent of the identified problems - it is just a matter of them getting through the Australian regulatory system. It is CropLife's view that for Australia's farming sector to gain early access to the first benefits of such a program, it is necessary to bring forward the budgeted funding of the Minor Use and Specialty Crops Program from year four of the program to the 2016-17FY. Such a change will provide the foundation for the program to be a success and ensure farmers have access to the latest innovations from the plant science industry and their full range of uses sooner.

Furthermore, it is crucial if the program's achievements and successes to date are to be translated into direct benefit to the Australian farming sector that future funding beyond the 2016-17FY be confirmed and funded in the 2016 Federal Budget as referenced in Recommendation 2

2. Increased investment in the Minor Use and Specialty Crops Program: a comprehensive, publicly funded program for minor use and specialty crop uses of agricultural chemical products.

The Government's initial \$8 million commitment (as referenced in Recommendation 1), if utilised properly, will be a profitable investment in Australia's agricultural sector. Similar programs in the United States were established over 30 years ago and have demonstrated that every dollar invested in a minor use program generates a net return to the US economy of US\$550. Targeted investments would also leverage complementary and collaborative investments from users and registrants. CropLife, however, estimates that total funding of \$45 million (including the initial \$8 million allocation) spread over four or five years would be the likely requirement for crop protection products for the program to deliver the full and genuine economic benefits to Australia.

Not only will the Minor Use and Specialty Crops Program increase the productivity of Australian agriculture, it stands to enable more environmentally friendly pest management practices. Accessibility to modern, target-specific chemicals can reduce the excessive use of older, broader-spectrum chemicals. The Minor Use and Specialty Crops Program will also encourage more investment in developing these products.

A lack of pest and weed control options has a number of consequences. Farmers may be forced to rely on a permit system that is not ideally suited to facilitating the development of new uses on product labels. Should a farmer not have access to a registered or permitted product, they may be forced to rely on some state legislation that may in some circumstances allow 'off-label' uses, which are not risk assessed. Some off-label uses may therefore result in unacceptable risks to users, consumers, trade or the environment. As such, CropLife does not support off-label use of agricultural chemical products.

CropLife promotes improved harmonisation of state control of use regulations in Australia to remove duplication and inconsistencies, as well as reduce unnecessary costs to industry. CropLife members find it difficult, confusing and costly to meet the multiple regulatory requirements of all the jurisdictions in Australia. The Minor Use and Specialty Crops Program will enable registration of chemical products for use on minor and specialty crops, thereby reducing the need for off-label uses and providing a platform by which national harmonisation could occur.

A lack of available pest and weed protection products provides a significant barrier to the development of new agricultural industries. New crops are less likely to be commercially cultivated for domestic and export markets if there are no options for pest control. Horticultural crops, in particular, face challenges as the smaller areas under production often make it uneconomic for registration of new chemical products.

The consequences are not limited to minor crops. Major commodities such as wheat and barley can still be susceptible to minor pests and diseases that are not significant enough to justify investment by registrants to extend labels or develop new control technologies. Major commodities are just as susceptible as minor crops to new pest and disease pressures brought about by unusual and unexpected weather conditions in a particular season.

The small size of Australia's crop protection product market on a global comparison means that the implementation of this initiative is vital so that Australian agriculture is assured access to the latest innovations from the plant science industry and their full range of uses.

Appropriately funded, the Minor Use and Specialty Crops Program can safeguard Australian agriculture by increasing its productivity and diversity. Ensuring farmers have access to adequate crop protection technologies can also facilitate:

- Development of new industries growing new crops for domestic and overseas markets;
- Agricultural development of new regions for new crops as pest issues can be sustainably controlled; and
- Ongoing sustainable production within existing farming systems as new tools facilitate better, more effective and long-lived resistance management strategies.

Critically, support for minor uses can reduce risks to users, consumers and the environment from off-label use. It will also minimise reliance on APVMA issued permits increasing its capacity to provide high quality risk assessments and registrations.

If structured properly, such a program would attract further investment from crop protection product companies, grower groups and Research & Development Corporations that would deliver an even better value proposition for the Australian taxpayer, as well as even bigger returns to the Australian economy.

What is essential is that the program is structured so that the funding provided by the Government goes directly to correcting the market failure caused by a mandatory regulatory system and not simply absorbed in administrative costs by the Department of Agriculture and Water Resources or the APVMA. Funding must generate real outcomes that deliver more registered uses of crop protection products that assist farmers improve farm output or facilitate new crop opportunities.

Successful development and implementation of a fully funded Minor Use and Specialty Crops Program would represent one of the Government's key reforms to drive productivity and efficiency in Australian agriculture.

3. Government regulators that impose industry fees and levies being subject to the same productivity dividends as other government agencies

Prohibitive cost recovery arrangements from government regulators leads to inequity and reduces Australia's agricultural competitiveness. Currently, the cost of the APVMA is almost entirely met through application fees and levies recovered from applicants and registrants of agricultural chemical and veterinary products. This has led to some public criticism that agricultural chemical manufacturers have captured the APVMA, leading to perceptions that the decisions of the APVMA are not independent and expose users, consumers and the environment to excessive risks from chemical use.

CropLife accepts that cost recovery is an important and appropriate tool to recover the costs associated with the APVMA's risk assessment and registration functions. That stated, CropLife accepts that an equally strong and valid argument might be made for the APVMA to be fully funded through general revenue.

While CropLife accepts the need for cost recovery, different elements of the APVMA's functions may be considered separately. CropLife considers there is a difference between the registration and assessment functions of the APVMA, and the monitoring, compliance and enforcement functions. The significant public benefit enjoyed by consumers and the environment from assurance about the safety, quality and integrity of the regulatory system justifies consideration of the appropriate level of public funding.

Currently, in addition to funding the regulatory scheme for agricultural chemicals, CropLife and its member companies contribute to, and sponsor a range of other stewardship programs that support the safe, sustainable and responsible transport, handling and use of agricultural chemicals. Our **drumMUSTER** and ChemClear[®] programs are world leading initiatives to responsibly deal with waste containers and chemical products. Our resistance management strategies support the effective responsible use of chemical products to delay and prevent the development of pest and weed resistance. Our Accreditation and Training Program also ensures that facilities that handle and store agricultural chemical products are compliant with all Commonwealth, state and territory legislative requirements. These activities minimise the burden on jurisdictions to enforce their legislation.

Collectively, the sector contributes more than \$13 million each year to stewardship activities that reduce the risk from agricultural chemicals throughout their lifecycle.

The APVMA's monitoring, compliance and enforcement activities are critical to supporting and maintaining the integrity of the current regulatory system. Maintaining this integrity does require that the APVMA take a broad approach to monitoring and compliance. The APVMA must not only focus on product registrants and approval holders, but manufacturers and importers that deliberately seek to avoid Australia's regulatory system.

The Australian Government's Cost Recovery Guidelines³ also outline that it is usually inappropriate to cost recover some government activities, such as general policy development, ministerial support, law enforcement etc. In certain circumstances, cost recovery may also be contrary to intended policy outcomes such as industry support. The Guidelines also point out that if the same cost recovered activity is provided to both government and non-government stakeholders, charges should be set on the same basis for all stakeholders.

³ Department of Finance, 'Australian Government Cost Recovery Guidelines', Resource Management Guide No. 304, July 2014 - Third edition

Publicly funding monitoring, compliance and enforcement activities of pesticides will offer significant benefits to governments, industry and the community. It will:

- Ensure that the magnitude and scope of compliance and enforcement activities can be effectively matched to the size of the problem. It need not be restrained by the APVMA's limited budget;
- Demonstrate that registrants and approval holders have not captured the regulator and increase public perception of an independent compliance function;
- Address current inequity where the APVMA provides resources to identify non-compliance, gather evidence and conduct prosecutions, but is not able to access the proceeds from any fines imposed. Under the *Better Regulation* package of reforms, introduction of more extensive civil penalty provisions may result in a greater reliance on fines for legislative breaches; and
- Facilitate greater voluntary stewardship initiatives by industry to support government compliance functions.

CropLife considers an appropriately funded regulatory scheme should reflect the commitment of all interested parties to enforcing the scheme. Increasing public resourcing for compliance and enforcement would represent a significant increase in the Government's commitment.

CropLife recommends that despite the fact that the APVMA is a cost recovered agency, it should still be subject to the same productivity dividends as other government agencies, with those dividends either being reinvested into core operations of the agency or providing fee relief to registrants. Indeed, a more equitable split between cost recovered and government funding should encourage the APVMA and the Department of Agriculture and Water Resources to seek out and implement genuine efficiency and productivity reforms.

Alternatively, comprehensive public funding for the APVMA would lead to a much greater perception that the APVMA was independent of any inappropriate influence by industry. Comprehensive public funding would also significantly reduce barriers to market entry for smaller registrants and facilitate the deployment of new products by small and medium businesses tailored for smaller crops and industries.

Noting the *Review of the Australian Government Cost Recovery Guidelines* being finalised by the Department of Finance, CropLife considers it imperative that any revised guidelines provide clarity on exactly what can and cannot be cost recovered, and exactly what agency expenses can be included for calculating cost recovery fees and levies. CropLife does not consider the revised guidelines are clear enough with regard to this matter.

Similarly, there remains a lack of clarity around when levies can be used in addition to fees under a cost recovery model. Equally important is a justification of the efficiency of a levy system, particularly with regard to ensuring agency operations are not being inappropriately subsidised by larger levy payers.

Office of the Gene Technology Regulator Cost Recovery Plans

In the 2013 Budget, the former Government announced the assessment and development of a cost recovery model for services provided by the Office of the Gene Technology Regulator (OGTR). The Department of Health assessed options for cost recovery of OGTR operations. On behalf of the sector, CropLife provided very clear and detailed feedback to the consultants undertaking the process and outlined very serious concerns for significant negative impact on the plant science industry, public research and development, Australian agriculture and the operations of the OGTR itself.

Australia is already one of the most expensive markets in the world to bring a regulated GM crop product to market. The plant biotechnology industry is already subject to regulatory cost recovery via FSANZ, and the APVMA (if there is an agricultural chemical registration required). There is significant regulatory overlap for certain gene technology products between the OGTR and the APVMA. To avoid 'double charging' this overlap would need to be removed. Similar overlap between the OGTR and FSANZ, would need to be very closely examined to ensure double charging did not occur.

The cost of establishing, managing and signing-off on large scale, multi-year, multi-jurisdiction field trials to generate data for the OGTR is a significant cost already borne by the applicant. The cost of managing an Institutional Biosafety Committee is already a significant cost borne by the applicant. The regulated gene technology sector in Australia remains a fledgling industry, with a very limited number of companies in the commercial agricultural biotechnology market. Other cost recovery schemes entitle the applicant, once successful, to access the market. Due to ongoing state moratoria on commercial GM products, this is not the case for products approved by the OGTR, where a successful application can still be denied commercialisation by state governments.

Given the relatively small size of the Australian market in global terms, if the cost of doing business in Australia becomes prohibitive, CropLife member parent companies may decide to pull out of the Australian market altogether, resulting in a major stifling of plant science innovation in this country and a concomitant loss in productivity for Australia's farmers. Maintaining the ability for Australian farmers to access the latest innovative tools in plant science will be essential if we are to secure a safe and nutritious food supply for both Australia and the rest of the world.

Australia's complex regulatory system for the control of chemicals

Aside from the plant science industry's specific products regulated through and by the APVMA, the broader formulated chemical products sector is heavily regulated which has resulted in an overly complex system made all the more difficult through the duplication of roles and responsibilities for chemical management between Commonwealth entities, state and territory governments as well as some local government bodies. Governments have recognised the complexity of the regulatory system and the chemicals and plastics sector has been the focus of multiple reform efforts including the Productivity Commission study into chemicals and plastics regulation which was released in 2008.

Australia's costly, complex and fragmented regulatory system for the management of chemicals is a serious issue for the broader chemical industry. Member companies and other related industry bodies have raised concerns at the very slow pace of reform, the ongoing loss of innovation and business opportunities, as well as continuing problems with the decision making and operational performance of our key regulatory agencies involved in chemicals management.

The cost of doing business in Australia is quite high and the cost of an inefficient regulatory system along with significant delays to market caused inefficient registration systems are an unnecessary burden and negatively impact both industry and consumers and the national economy as a whole. Further, Australia is the only advanced economy which imposes 100% cost recovery on industry in order to fund its major regulatory agencies.

Presently there is an opportunity for significant reform to our sector with a number of major reviews currently underway and it is crucial they deliver genuine regulatory efficiency outcomes:

- Implementation of further reforms to the agvet sector;
- NICNAS reform process;
- Implementation of the National Standard for Environmental Risk Management of Industrial Chemicals; and
- COAG's review into Australia's chemical assessment regime.

CONCLUSION

Australia's farming sector, agricultural competitiveness and the broader economy would benefit from a greater public funding contribution to the agricultural chemicals regulatory system. Secured and increased funding of the Minor Use and Specialty Crops Program has the potential to significantly improve Australia's agricultural productivity through continued innovation and development of plant protection products for minor and emerging industries.

The Government's initial investment of \$8 million to a minor use and specialty crops program is significant. Though most estimates suggest that a targeted, moderately funded minor use and specialty crops program in Australia would require further one-off funding in the order of \$35-\$40 million for the cropping sector, CropLife considers that bringing forward the \$8 million already committed, together with further funding for the Minor Use and Specialty Crops Program, will safeguard Australian agriculture by increasing its productivity and diversity. It will also ensure that farmers have access to adequate crop protection technologies and significantly reduce the need for off-label uses that will provide a platform for which national harmonisation in state control of use regulations could occur, and potentially return \$500 for every \$1 invested.

Specific investments in monitoring, compliance and enforcement will also improve consumer perceptions regarding the independence of the APVMA. While CropLife does not accept the claims that the APVMA has been 'captured' by industry, specific investments to enhance the monitoring, compliance and enforcement functions of the APVMA would substantially address concerns regarding regulatory capture.

A program to no longer apply cost recovery to the APVMA would comprehensively address claims of regulatory capture. Provided that assurances regarding approval and registration performance were maintained, this alternative option would improve community faith in the independence of the APVMA, as well as reducing barriers to market entry for minor use products.

Assessing the seriousness and impact of proposed cost recovery increases and/or new models on both private and public sector applicants is imperative as such actions can seriously disincentivise innovation.

Furthermore, ensuring the range of reform agendas currently being undertaken provide real reform that delivers genuine regulatory efficiency outcomes must be a serious priority of government if the Australia economy is to have the opportunity to take full advantage of the innovation from the Plant Science and broader chemical industries.