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EXPUNGING EXPORTERS EXPECTATIONS!

AN ANALYSIS OF IMPEDIMENTS TO THE OPERATIONS

OF SMALL AGRICULTURAL EXPORTERS

by

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Abstract

Substantial Government and industry effort has been directed at improving Australia's export performance in recent years and a considerable amount of research has been done into various issues impacting on export performance. There has been very little work done however, at the domestic end of the export chain, focusing on turning export opportunities into realities. While it is well recognised that a number of external factors have a considerable impact on access by Australian exporters to overseas markets, it is hypothesised that domestic arrangements (government and industry regulations, associated compliance costs and inefficient infrastructure) are also a major factor limiting the growth of agricultural exports.

Industry surveys and several case study analyses were carried out in five agricultural export industries, with the intent of identifying and measuring domestic impediments to their entry into and development of overseas markets. In general it was found that some regulations comprised an unwarranted impediment, while other impediments identified were the result of 'myths' perpetuated through poor extension, or support services from Government and industry that did not meet exporter needs.

Key Words: agricultural exporters, regulatory impediments, microeconomic reform.

* The opinions and views expressed in this paper are those of the authors and may not reflect the policy of NSW Agriculture or the NSW Government.

INTRODUCTION

Considerable Government and industry effort has been directed at improving Australia's export performance in recent years. An increasing share of this effort has been allocated to the manufacturing and tertiary sectors, and the export of services. However, the facts cannot be ignored. While the contribution from these sectors to total Australian export earning is growing rapidly, the export of agricultural commodities is still of major importance to the Australian economy (RBA, 1995). The redistribution of support to other sectors would seem to imply that the 'problems' in exporting agricultural goods have been largely solved, however, there still seems to be little export orientation in many agricultural businesses and poor export confidence.

While a number of external factors, such as trade barriers, relative exchange rates and transport distance, all have a considerable impact on how successfully Australian exporters can enter overseas markets, this research hypothesised that domestic factors also significantly impede the competitiveness of Australia's agricultural exports. It was posited that factors such as government and industry policies, regulations, associated compliance costs and inefficient infrastructure also impose significant costs on new and existing exporters, thereby reducing their ability to both enter and effectively compete in world markets.

The aim of this study was to investigate the domestic factors that might be impeding exports of primary products, focusing on the exporting process as a whole, from farm gate to overseas destination. The main objectives were to identify and report what exporters currently perceive to be the major factors impeding their development, analyse the findings from a policy perspective, make appropriate policy reform recommendations, and widely disseminate the results and recommendations to government and industry. In the context of this study, an impediment was defined as something that stops or hinders the move towards full potential, be it either limiting volumes to current markets or hindering progress into new markets.

This paper provides a brief overview and discussion of the main findings of the study.

PREVIOUS STUDIES.

There have been a considerable number of inquiries and studies into exporting Australian agricultural products. In the past these studies have tended to fall into two distinct groups, firstly, identifying overseas markets and future opportunities for specific products and industries (AACM, 1991; Galea, *et al*, 1990, Hassall and Associates, 1991; Kaiser *et al*, 1993) and secondly, studies of specific micro-economic reform issues, and domestic development and competitiveness (ACIL, 1993; IC, 1993; Strategic Initiatives, 1994). A large number of these reports have stated that a particular regulation, policy or situation impedes the development of export operations, yet they tend to examine the impediment via their effect on economic activity as a whole, with little attention usually being given to specific export processes.

Among the most recent reports released have been comprehensive horticultural and meat processing industry studies covering a gamut of issues relating to exporting, ranging from overseas market

opportunities to microeconomic reform (IC, 1993; HPC, 1994; HTF, 1994). It was not the intention to reiterate the recommendations made by these reports. Instead emphasis was placed on the issues not covered, to examine the role of government regulation and policy in the formation of domestic impediments and to revisit progress being made on recommendations from earlier studies, where applicable.

In June 1993 the Commonwealth Government referred meat processing (abattoir products other than smallgoods and poultry) to the Industry Commission for an inquiry and report (IC, 1993). The Commission was asked to specifically report on a wide range of industry issues, including barriers to Australian exports and the efficiency with which they are being addressed. A number of recommendations were made relevant to a decrease in regulation and increase in efficiency. For example, these included reform in abattoir licensing, arguing that the granting of licenses should be based only on compliance with necessary hygiene, construction, animal welfare and environmental standards. They also made a number of recommendations concerning AQIS and related issues; quality assurance systems and brand name promotion.

The Commission also recommended that the Australian Quarantine and Inspection Service (AQIS) should be separated into two independent agencies – a regulatory agency and a service agency. The regulatory agency would be responsible for auditing and accrediting service providers, for participating in negotiations with foreign countries on export inspection standards, and establishing appropriate standards.

The service agency would perform meat inspection in those export markets that specifically require meat to be inspected by a Commonwealth Government agency. In all other markets, exporters would have the freedom to use the inspection quality assurance arrangements which best suited their needs. These could include the AQIS service agency, other government agencies, private inspection companies or quality assurance arrangements.

Individual brand names and brand promotion play an integral role in reducing the need for a government based quality control. To encourage processors to undertake brand promotion, the Commission recommended that levy payers be able to recover a proportion of their levy contributions, as determined by industry, if they carry out approved marketing activities in export markets.

In 1992 the Horticultural Policy Council (HPC) decided that the factors affecting the horticultural industry's international competitiveness needed to be investigated. The study, 'Winning the Race: International Competitiveness in Australian Horticulture' (HPC, 1994), identified factors to be addressed at the individual, industry and government levels. The Council found 11 factors which they believed to be important to all horticultural sectors. These factors included:

- lack of co-ordination of marketing – small individual shipments;
- information – little understanding of international market place requirements and competitor activities by growers and exporters;
- transport – high cost of freight, little use of 40 foot containers and charter services;

- education and training – low levels of business training amongst growers and processors, compared to rest of agricultural sector and major competitors;
- product development and innovation – growers and packers slow to adopt new technologies;
- export commitment – lack of commitment to export by growers and processors;
- quality – lack of continued product quality;
- finance – effective cost higher than for competitors, not available for infrastructure;
- cost/price competitiveness – need to contain costs and maintain cost/price competitiveness;
- promotion and branding – lack of product differentiation and branding by exporters and processors; and,
- government regulations and charges – significantly higher in Australia than for overseas competitors.

The Council identified a need for a review of the extent and nature of all government charges on exports and what impact these costs have on the international competitiveness of Australian horticultural exports. They recommended that AQIS costs be reviewed to ensure that the public good component is not included in the overall AQIS charge and, further, that competition be introduced into export inspection by allowing appropriately experienced private companies to provide export inspection services.

In 1994, the Horticultural Task Force (HTF) identified a number of impediments which needed to be overcome before Australia could become a major exporter of horticultural products (HTF, 1994).

The issues raised were:

- the need for a substantially improved export marketing effort;
- reform of the activities of AQIS;
- the need for increased R&D, improved access to capital;
- the need for reductions in production and distribution costs;
- improved access to capital;
- the need for greater leadership;
- reductions in production and distribution costs;
- improvements in government support programs;
- improvements in education and training in horticulture;
- better labour relations; and,
- continuing microeconomic reform in the transport industry.

In total the Task Force report made 61 recommendations which they believed needed to be fulfilled for Australian horticulture to achieve its potential as a substantial export industry. AQIS operations were a major issue and the recommendations were similar in nature to those suggested in the Industry Commission meat processing inquiry. The Task Force in fact recommended that AQIS 'franchise' its export inspection activities to the States to administer in accordance with national standards established by AQIS. They further recommended that within the two years of this change there be an integrated examination of future options to improve the efficiency of inspection services through the introduction of greater competition.

The above mentioned reports tend to support less government intervention and in particular, less monopoly control by AQIS. They call for quality assurance programs to be made available and for private operators to be able to supply export inspection services.

These reports also made recommendations on a variety of other issues, including education and training, transport, shipping, waterfront reform, quality and export commitment. Some of these issues will be reported within this paper, as will the findings of reports into specific regulatory issues, such as the ACIL report into regulatory regimes (ACIL, 1994), the RIRDC funded report into the airfreight economics of perishable goods (Strategic Initiatives, 1994), and reports on other sectors such as the processed food industry (AATSE, 1994) and the high value-added manufacturing sector (Australian Manufacturing Council, 1993).

OBJECTIVES OF THE STUDY

The main objectives of the study were to:

- determine and report what agricultural exporters currently feel are the main factors impeding their development into overseas markets;
- analyse the issues raised with particular reference to the impact of government and industry regulations that either increase the direct cost of private exporters or impose indirect costs in the form of excessive compliance requirements and inefficiency; and,
- to identify and recommend to government and industry ways of increasing the efficiency of export procedures.

Typically there has been a tendency in the meat processing and horticultural industry reports and others of the same genre to reach broad conclusions, such as the 'the lack of uniform quality standards' or 'the poor adoption of quality assurance programs' is an impediment to development, without examining the reason the industry has not developed solutions to overcome these perceived problems. This study attempted to examine any regulatory reasons for these situations to occur. While making recommendations to government and industry will be an important outcome of the research, the study has not yet reached this stage.

METHODOLOGY

To accurately determine what the exporters themselves thought was impeding their growth into export markets, a series of case studies were completed of practicing exporters throughout Australia. While all the case study subjects were currently involved in exporting, there was a strong emphasis in the selection process on those exporters who were involved in producing the product rather than businesses that purchased domestic goods for the purpose of export. Consultations were also held with export agents in Sydney and Melbourne, although these businesses were not considered as case study subjects.

After a number of preliminary case studies were completed, repetitious issues were recognised as important impediments to the development of export markets. With this in mind, a questionnaire was developed covering the main issues raised. Due to the small sample size and non-random selection of the cooperators the results were not analysed as survey data. The questionnaire did, however, prove very useful in 'ordering' the concerns of the cooperators and enabling them to quantify how important/large they perceived an impediment to be.

Industries Studied

The time and financial resources available to the study did not allow a comprehensive study of all industries. With the various constraints in mind, it was decided to concentrate the study on:

- developing industries with considerable export potential, where comparative advantage in production was apparent;
- industries where the exporters operating are relatively 'small'; and,
- covering a range of industry structures, from highly vertically integrated businesses where export activities are carried out within the business to those typified by the use of export agents.

The industries selected on this basis were; fodder products, a variety of horticultural products, goat meat, deer products, and organically grown food products. Horticultural produce covers a very wide range of products, some of the more traditional products, for example onions and potatoes, are declining in export significance (relative volume and value), while others, such as asparagus, are increasing in significance. The project concentrated on the latter group.

Fodder products are shipped from ports in NSW, WA, SA and Victoria. The main trade is in oaten hay, where the largest market is Japan. A smaller trade exists in semi-processed lucerne products, such as chaff, pellets and cubes. The industry has been typified by vertically integrated businesses (Kaiser *et al.*, 1993; Nash, 1993). Australia can be classified as self sufficient in horticultural produce and, although the export market is a minor one, is a net exporter. Horticultural industries are typified by a high usage of export agents, where producers and processors remain removed from export operations (DPIE, 1993; Nash, 1993).

Goat meat is currently a small but rapidly growing proportion of total meat exports from Australia. In 1993-94, 14 000 tonnes of goat meat was exported from Australia as a whole. Total tonnage fell very slightly from the previous year, while in the four years previous, goat meat exports increased by 5.3, 25.5, 24.7 and 34.9 per cent respectively (AMLC, 1993; Nash, 1993). The world consumption and trade in venison is significant, providing export market opportunities for Australian producers. There is very little venison or velvet currently exported, but considerable export markets for Australian venison have been identified (AACM, 1991; Nash, 1993).

Agricultural production using organic methods is a growing industry in Australia and many other parts of the developed world, due to increasing environmental and personal health concerns. Both food and fibre products are currently produced organically in Australia, with some being exported. It is considered that Australia has a production advantage over the European countries, who appear to be the largest consumers (and thus importers) of organic products. Australia's advantage is primarily in the hot

dry climate that is conducive to natural insect and fungal control, relatively uncontaminated soils and fewer diseases and pests (M. Burlace, Organic Officer, NSW Agriculture, pers comm, 1994; Hassall and Associates, 1990).

Case Study Problems

While the intention was to examine intending as well as practicing exporters, there was a bias towards those already exporting, particularly the longer established and possibly more viable exporters. A contributing factor was that the industries chosen were relatively new, where a lack of industry organisation meant that official records were not kept and the group in question was small and fragmented.

Some producers identified as possible exporters declined to become part of the study, for a number of reasons. As the industries chosen were relatively small and there was strong competition between producers, it was difficult to obtain the necessary financial information to investigate the impact of government charges on the exporting chain. The poor quality and reliability of the original information on who was exporting in a particular industry also led to businesses who were no longer in the export industry being contacted. Others felt that the project was not relevant to them or that they did not have anything to offer as they were using an export agent rather than being directly involved in export. A number of exporters in this situation eventually agreed to be interviewed.

Some felt they had nothing to offer because they were successfully exporting and felt that they did not face any difficulties. It was suspected that rather than not having any difficulties, these exporters were concerned about the time needed to participate in the study. Some of these exporters were eventually persuaded to take part in the study. Other potential cooperators declined to take part because they did not want further government interference or surveys, as much of their marketing and processing information had considerable commercial value, something that had not been respected by government bodies in the past. Despite these difficulties, 24 case studies were carried out.

Profile of Case Study Participants

The case study group tended to be small businesses (generally family businesses with domestic and export annual gross sales turnovers of less than \$100 000), although two of the cooperators reported gross export sales in excess of \$2 million for the previous financial year. The group members had entered exporting in a number of ways. Some had considerable backing in the domestic market, and had then chosen to methodically develop plans for moving into overseas markets, while others had entered export markets, before developing domestically, after being approached by Australian export agents or by overseas importers.

All exporters in the case studies had been at some stage involved with the production of the raw product, whether they were growers/processors, or they also purchased some product for re-sale. A number were involved in value adding but only to a small extent, estimating that at the most they added 50 per cent to the raw value.

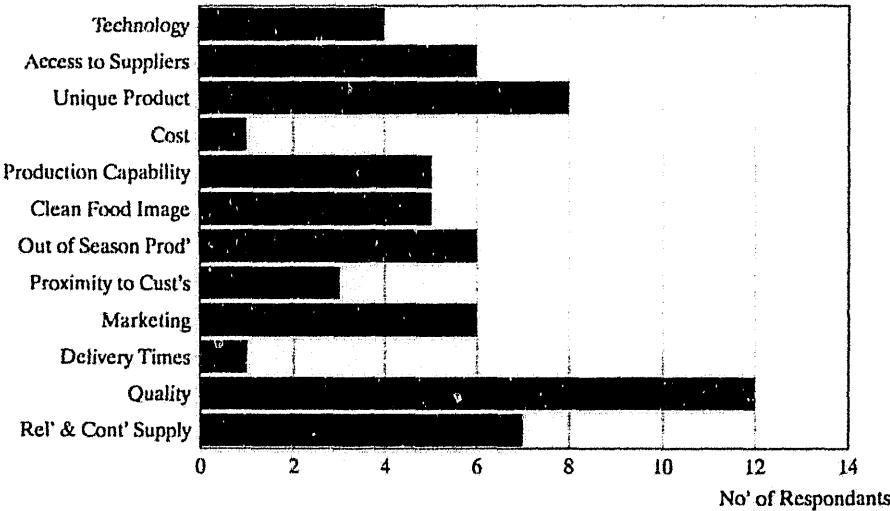
They used a variety of different export 'methods', ranging from involvement in every aspect of the export process until it reached a retailer in the importing country, to exporting through an agent where the only contact with the overseas market was retaining the exporter's brand name on the carton. The horticultural exporters typically used export agents while the fodder industry were typically vertically integrated. Contrary to expectations from the literature (HPC, 1994; HTF, 1994) a large percentage appeared to be reasonably innovative when surmounting difficulties, developing products and adopting new technologies.

From Figure 1 it can be seen that the cooperators considered that their main competitive advantage lay in the quality and uniqueness of their product, and being able to offer reliable and continuous supply. Cost and delivery times were only nominated by one exporter each, and very few thought that the proximity to customers or Australian technology offered any advantage.

The poor response to 'proximity to customers' is an unexpected finding, considering the supposed advantages of exporting to Asia, Australia's nearest neighbours. Results such as these however, can only provide a broad picture of the attitudes of the majority of export operators in these industries. Of the 24 cooperators, only 15 consented to the questionnaire, reducing the size of the sample considerably and therefore reducing the value of the data for making specific observations.

FIGURE 1

Exporter Perceived Competitive Advantage In Exporting



IMPEDIMENTS IDENTIFIED – CASE STUDY RESULTS

Overview

The case study participants identified a large number of impediments to either increasing the volumes exported to their existing markets or entering new markets. The main 'across the board' concerns were in the areas of:

- the present system of inspection and regulation of export products and the operation of AQIS;
- the practices and powers of export agents;
- port costs – concern that the benefits from reform and increased competition have not been passed on to the exporter as lower costs;
- lack of support by the rural banks and little knowledge by staff of the finance needs of small exporters;
- lack of assistance to exporters by both State and Commonwealth Government departments facilitating trade;
- the lack of training and education available;
- high exchange rates;
- high domestic transport costs;
- high domestic processing costs relative to major competitors;
- lack of skilled labour, for processing and packing to export standards;
- the high cost of shipping; and,
- low availability of airfreight space.

Information from the survey allowed broad rankings of the least to most important issues, although it should be noted that within individual industries, these rankings changed.

The issues of the least concern were a lack of demand for exports, increasing domestic competition and high quality demands. Surprisingly, international barriers to trade were not considered at all significant. Instead, the main areas of emphasis were finance, management skills, quality control and product regulations, inspection charges and exchange rate movements. Some categories did not give conclusive answers, for example, high quality demands and registration fees were very important for the horticultural producers, and not an issue for fodder exporters, while transport issues and port costs were most important to those that exported bulky containerised products such as hay.

Unfortunately some issues were not included as an option on the survey form, and were only brought out in the interviews. Therefore there are no quantitative data available on those. Because only 15 of the 24 case studies chose to complete the questionnaire the available quantitative data were further reduced.

These data cannot be compared to previous studies, as there are no known studies that have attempted to rate or rank the relative importance of the issues as barriers to export activity.

TABLE 1
Ranking The Impediments Identified

Question: <i>How important are the following constraints to achieving high export growth?</i>	<i>Not an Issue</i>	<i>Small Issue</i>	<i>Moderately Important</i>	<i>Very Important</i>	<i>Critically Important</i>	<i>Not Listed</i>
Lack Of Demand For Exports	7	2	0	1	2	3
Increasing Competition	7	2	1	1	0	4
- domestic	3	3	3	2	1	3
- international	1	1	4	0	6	3
Lack Of Market Information	2	1	0	3	8	1
Lack Of Finance	8	1	0	1	2	3
Restricted Market Access	8	2	0	1	1	3
- Japan	10	1	0	0	0	4
- Other Asia	9	1	0	0	2	3
- Europe	4	3	3	1	1	3
- USA	3	0	3	6	1	2
Lack Of Skilled Employees	6	0	0	5	2	2
Lack Of Management Skills	2	0	3	4	4	2
Inspection Charges	5	2	1	0	4	3
Registration Fees	3	1	3	1	4	3
Transport Regulations	2	4	1	2	3	3
Port Charges	2	2	3	0	6	2
Exchange Rate Movements						

Perceived Impediments and Researcher Bias

At this point it must be stressed that the objective of the study was to identify the impediments perceived to exist by exporters. The researchers consciously avoided introducing bias into the recorded results of the interviews based on their knowledge of the current regulatory environment. There was no attempt at this stage to 'censor' the information received, by judging whether the perceived impediments were true or real on any type of economic basis.

While the primary focus of the study was on direct cost and regulatory issues, some attention was also given to the issue of impediments that were based on misinformation or misinterpretation rather than fact. Many cases occurred where an exporter perceived a problem to exist with a particular regulation, yet further examination revealed a different interpretation. A common example was the guidelines relating to funding opportunities from Austrade, which is discussed later in the paper. In other cases a regulation had been changed or it had simply been misinterpreted. In many instances it was simply misinformation stemming from hearsay. In the absence of information readily available from official sources (an issue that is also examined later in the paper), the exporters gained advice and information from other exporters and it appears that a number of 'myths' have developed in this

manner. However, if the exporter incorporates a 'perceived' impediment into their decision making process then it matters little whether or not the impediment really exists or not. In this case, the misinformation is the impediment and could indicate a breakdown in information markets, as opposed to a direct regulatory issue.

Categorising The Issues

On the whole, a wide range of issues were raised. Some of the areas identified were direct cost issues impacting at various stages through the export process, but there were a number of concerns with over-regulation by government, and a lack of support for small exporters. To assist with the further analysis and discussion of the issues, it was beneficial to divide the issues into three groups (as below). The allocation of specific issues across the three groups is shown in Figure 2.

1. Macroeconomic issues, which fall outside the scope of this study.
2. Microeconomic issues that can be considered institutional problems and that have long been characteristic of the exporting environment for Australian agricultural products. It is recognised that while this group have far reaching impacts in the industries involved and will likely provide fruitful ground for further deregulation and microeconomic reform, they have been dealt with extensively in the past and some very detailed economic analyses have been carried out. In the context of this paper, there was deemed to be little value in going further with these issues than to illustrate the relative importance exporters placed on them.
3. Other microeconomic issues – many of which are rapidly coming to the forefront, and where it was judged that there was scope for some immediate reform to occur.

FIGURE 2

Categorisation of Impediments to Exporting

Group One	Group Two	Group Three
<ul style="list-style-type: none"> • Exchange Rates • Barriers To Trade 	<ul style="list-style-type: none"> • High Domestic Transport Costs • High Shipping Costs • High Processing Costs – Labour Costs • Export Agents, Their Practises And Powers • Port Costs 	<ul style="list-style-type: none"> • Quality Control/Quality Assurance – AQIS • Education, Training, Extension • Government Organisations Facilitating Exports • Road Transport • Air Freight • Finance • Skilled Labour

The focus of this paper was narrowed down to the third group of issues. To examine the effect of these impediments on agricultural exporters, each impediment/issue was analysed and discussed in light of the current regulatory environment.

GOVERNMENT CONTROLS ON EXPORTS

The Commonwealth Government, through the Australian Quarantine and Inspection Service (AQIS) of the Department of Primary Industries and Energy, imposes a number of restrictions, in the form of regulations and orders that have to be met, on agricultural products intended for export. The control of exports from Australia is administered by the Australian Customs Service in terms of the Customs (Prohibited Exports) Regulations. The importing country may also make requests for certain export treatments and inspection of products, such as fumigation and the issuing of a phytosanitary certificate.

The legislation under which these regulations are formed is the *Export Control Act 1982*. The objectives of the Act are described as '*...to protect legitimate traders and the reputation of the national industries of Australia and to meet the specific requirements of the importing country.*' (College of International Business, 1993). What this means to exporters is that regulation exists in a number of areas, specifically, consignment documentation, product quality, trade description, product labelling of the end product, and the standard of processing and packing premises.

To ensure that these regulations are met, most agricultural produce exported from Australia are inspected by AQIS. AQIS also conducts initial inspections and subsequent audits of export registered premises. In some cases, export inspection procedures are carried out by the States under an agency agreement with the Commonwealth. In NSW, meat inspection is carried out by AQIS, with the inspection of fruits, vegetables, grains, fodders etc, being carried out by the State.

During the course of the study, the operation of AQIS and quality control and quality assurance measures were found to be of considerable concern to exporters. Many aspects of the current arrangements were considered to be significant impediments. In the survey, cooperators were asked to rate the issues according to how great they perceived an impediment to be. The current inspection system was perceived to be an important or very important issue by the majority of cooperators. Inspection charges were identified as a significant cost burden and the most significant impediment, followed by over-regulation and the inflexibility of the current system. The issues raised and the suggested remedies supported the outcomes of earlier studies such as ACIL (1993), HPC (1994) and HTF (1994).

Impediments

The impediments raised can be summarised as:

- higher production costs from inspection charges;
- higher production costs through loss of time efficiency; and
- barriers to the export of some products, based on quality restrictions

The specific issues raised were:

- the nominal cost of inspection under the user pays system;
- over regulation – inappropriate levels of quality control over the characteristics of produce exported, redundant inspection procedures, inspection at numerous points in the processing chain;
- time and cost inefficiency of the current system of quality control and inspection;
- hindrances to the development of quality assurance programs;
- poor co-operation by AQIS with industry in areas such as abattoir accreditation;
- inflexibility in situations straying from the norm and one-off requests; and,
- poor understanding by AQIS personnel of the commercial realities of exporting and the economic cost of time delays.

Nominal Cost

AQIS is now required to recover 100 per cent of the cost of running its inspection and certification services. The cooperators felt that a user-pays system is equitable for the provision of inspection services, they did not believe that the charges currently levied were a fair reflection of the work carried out. The belief was that charges are set at above cost recovery levels.

As an example of these charges, all case studies except the meat exporters, were charged for inspection services by NSW Agricultural inspectors under the Fruit, Vegetables and Non-Prescribed Grain Charges Schedule. The basic charge on this Schedule, at the time of the study, was \$86 for the first half hour and \$43 for every subsequent quarter hour for the inspection of produce and the initial inspection and subsequent audits of registered premises. Inspection charges were lowered marginally in late 1994, after charging review committees found that there had been an over-recovery of almost \$15 million in the year 1993/94. However, follow up discussions with cooperators revealed that they welcomed this reduction, but still had considerable concerns about inspection costs.

There is a complex pricing structure for the inspection of meat products. Charges for meat inspection services are passed either directly or indirectly back to the exporter by the abattoir and were stated by the goat and deer exporter case studies as their most significant cost after transport and processing, although supporting financial data from the study are not yet available.

Quality Control

A related issue is the role of government controls on export product quality. Exporters in the study were unanimous in that an importer must be certain of receiving a certain standard product before trade will freely take place. The cooperators felt, however, that the government controls impeded their sales growth and opportunities by distorting the market forces that exist through placing unneeded and non-commercially orientated quality restrictions on export products.

As an example, a fodder exporter had the opportunity to export very poor quality hay (based on the usual quality assessment measures) to Japan, for the purpose of straw for animal's stalls, but was at the time unable to do so, for quality reasons. They believe they should have been able to export, as they trade on their own merits and have built up a good relationship with their clients, and the

exporting of a low quality product (as contracted) could not harm the prospects of the Australian industry as a whole.

The economic argument for government-enforced minimum quality standards is to protect Australian industries and to raise average returns by removing the spill-over effect, where exporters who cheat on export standards impose negative spill-overs on honest exporters (Wills and Harris, 1994). This occurs when exporters supply a product of much poorer quality than specified in their contracts, which affects the reputation, and consequently sales, of the whole Australian industry, because importers frequently judge quality by the country of origin.

However, the cooperators believe that increasingly, with brand name development and marketing, importers identify the exporter personally for the product quality, therefore the risks in supplying a product outside specifications are the exporter's own and there are few if any spill-overs.

Approved Quality Assurance Programs

Because of the general level of dissatisfaction with the present inspection system, a current issue among many of the cooperators was viable alternatives. AQIS has implemented alternatives, but the cooperating exporters believed they were not yet useable in practise.

Exporters are able to bypass normal export quality control inspection (where the final product is inspected by government inspectors) by implementing one of three AQIS devised quality assurance programs under the Export Control (Quality Assured Foods) Orders. Manufactured food exporters are able to enter into Approved Quality Assurance (AQA) arrangements, meat and meat product processors (not for export markets) are able to enter into Production Quality Arrangements (PQA) and grains, fruit and vegetable exporters are able to enter into Certification Assurance Arrangements (CAA).

These processes are intended to increase exporter's involvement in the inspection processes along the production chain and reduce the need for AQIS inspection. They must be approved by AQIS and then audited on a regular basis (PQAs are audited daily) to ensure standards are being maintained. What this means for an exporter is that they have more involvement in and more responsibility for the inspection and quality of their products. Under CAAs the exporter may personally sign an Export Clearance Notice, conduct empty container inspections and complete phytosanitary certification (the certificate must still be signed by AQIS).

A number of the fodder and horticultural exporters were having difficulty in becoming accredited to implement CAAs and felt that the commitment by AQIS to these individual programs was very weak or non-existent. They stated that under these arrangements, an exporter must submit a detailed quality manual documenting their quality assurance system. The main impediments raised were the rigid and very comprehensive guidelines for the completion of the manuals and the related issue of the time cost involved in the preparation.

A number of the cooperators were approved to complete empty container inspections but had been unable to complete the required manuals and fully develop quality assurance procedures. The time

and labour cost involved prohibited them from pursuing the matter further. They felt that no scope was given in making the manual relevant to their particular product and that rigid requirements and expectations prohibited 'realistic and workable' systems being developed and approved. Comments were made to the effect that '*...only by copying out the current AQIS guidelines will you ever get it approved...*' and one fodder exporter stated that '*...it would take one of the partners 3-4 months solid work to complete the manual, an unbearable cost on a small business like this...*'.

The main issue is that small operators are being effectively excluded from developing and implementing QA programs because the regulatory requirements imposes too great a cost burden. However, larger companies with the resources to implement a quality assurance program have been very successful in reducing inspection costs. A large exporter based in Brisbane stated that the cost of export grain inspection fell from \$0.38 per tonne, to \$0.09 per tonne after implementation of a CAA (Collins, 1994).

Brand Name Development and Vertically Integrated Business Structures

Quality assurance programs as opposed to quality control and inspection work most effectively when importers are able to distinguish between individual exporters and differentiate their product from the homogenous 'Australian' product. The survey seems to indicate that brand name development is very strong. The cooperators unanimously agreed that the cost of developing a brand name did not outweigh the benefits, and that there were few regulatory and cost impediments to developing, registering and using a brand name. Brand development provides opportunities to replace quality control with quality assurance.

However, while brand name development is strong, it is suspected that aggressive brand name marketing is rarely practised. It might be expected that the business structure most suited to aggressive brand name development would be a vertically integrated firm, as this structure limits the ownership and control of the product through the marketing chain to only one or two operators. This reduces the number of places contamination can occur, leading to the premise that an exporter will be more confident of the quality of the product and more likely to lay their reputation on the line by marketing the product under their own brand name.

Vertical integration, however, is not common in agricultural industries. The fodder industry has been a notable exception, however, there are indicators that this structure is beginning to breakdown. There does not seem to be any regulatory impediments or taxation disincentives to the formation of a vertically integrated business structure relative to other structures. Instead it seems likely that the lack of an export ethic in Australia and the state of export education and training is largely responsible. The relationship between these issues is discussed more fully in subsequent sections.

Regulatory Issues

The current system of export control, inspection and the operation of AQIS, although changing, seems to impose a substantial direct cost burden as well as costs through excessive regulation and compliance on agricultural exporters. Review and reform of these processes is an ongoing process, however there are concerns that this progress is not as fast as is possible, unnecessarily impeding development.

The splitting of AQIS into two agencies, regulatory and service, and introducing competition to inspection services as recommended in other studies (ACiL, 1993; HTF, 1994; HPC, 1994) seems likely to lower the nominal cost of inspection. However, in all cases AQIS has been nominated as the body regulating the entry and practises of private operators, raising the concern that excessive regulation, which may impede the entry of new operators and impose additional costs in them, will continue. In other words it is thought that the fall in inspections costs may not be as beneficial as anticipated.

Earlier studies do not appear to have considered the impediments to the further development of QA programs and the role they may play, nor have they considered the appropriateness of the remaining level of quality control. Under the current recommendations these issues would remain under the control of the regulatory body. Quality control and assurance are a separate issue to inspection costs and need to be addressed in their own right.

Other Issues

There were many other impediments raised which were of concern to particular industries. Horticultural exporters were concerned about the 'revenue raising' motive of shed registration. Many stated they had not been audited since initial registration, whereas the regulations actually require annual inspection. Therefore they feel they are not receiving the benefits of compliance, where only premises of a certain standard are eligible to export. Many in the deer industry were concerned with the lack of accreditation of abattoirs, but it seems likely that this issue has much more to do with individual abattoir operators and the deer industry itself than the operation of AQIS.

Over-regulation was an issue raised by many industries. A particular example was fodder exporters who containerise their product at the plant. They considered that empty container inspections as well as final inspections were unnecessary.

While a lack of flexibility was also an issue, this was perceived to be at the policy and administrative level. Most field inspectors, with the possible exception of those in the meat industry, were described as flexible and were regarded by the exporters/agents as having considerable empathy. They were reported to work very closely with exporters in most cases, applying the regulations in a practical manner and taking into account the commercial objectives of the exporter.

EDUCATION, TRAINING AND EXTENSION

Over the last decade there has been a general push for agricultural producers to become more involved in the value adding and marketing of their product, including export marketing. Exporting is considered necessary for an economically viable and sustainable agricultural sector, and with continued deregulation from marketing arrangements, it has become necessary for more personal involvement by producers and processors in the marketing of their product and increased producer awareness of the operation of the processing chain beyond the farm gate.

These changes might have been expected to proceed a move away from primarily production-driven extension work and industry research, yet the cooperators raised the issue that these sectors have been slow to adjust and meet the changing needs of producers and exporters. There was generally a very high level of concern by the cooperators that they were not being fully supported in their export endeavours by government and industry research, extension and education, and that this was a major impediment to development.

Some specific issues raised were:

- the lack of information on export processes for the new exporter and those previously using agents;
- the lack of formal education and training available in this area – trial and error seems to be the only (very risky) option;
- the lack of readily available market intelligence and its relatively high (compared to competitors) cost;
- a poor knowledge of available services and sources of information by government and industry extension staff; and,
- a disincentive to develop vertically integrated export operations and an incentive to use agents, with the resulting concerns of poor price signals, poor margin reporting etc.

The Invisible Barrier – Learning How to Export in Australia.

The cooperators felt that an invisible knowledge barrier and a lack of assistance to break this down prevented many potential new exporters from entering export markets.

It has been commonly recognised that current generation Australian producers have not grown up in an 'export culture' nor do they have an 'export ethic', compared to major competitors, for example, New Zealand. From the cooperators, it seems that most Australian producers lack a basic knowledge of the export process as a whole, who drives the various components and how it all works – arranging contracts of sale, organising freight, inspection and documentation, and getting paid.

In an export culture, knowledge of the exporting process and the gaining of the skills required, seems likely to be gained in much the same way as gaining production knowledge and farming skills in Australia; learning 'on the job' in the family business, and formal education and training. An export 'ethic' refers to a strong and stable commitment to international marketing, something that seems to be missing in Australian exporters. Australian exporters have the image that they are very price responsive, thus breaking commitments and not offering reliable and continuous supply.

The lack of appropriate information, which could perhaps be provided through publications and courses for new and practicing exporters, was believed to impede the exporters entry to markets initially and to promoted a high level of dependence on export agents as opposed to private operations. It was also felt that the lack of information and training promotes a risky 'trial and error' approach to exporting, which in turn seems to have fed the view that exporting is something taken on only by big business or foolhardy farmers in 'alternative' industries.

A review of the literature from NSW Agriculture, Austrade, The International Chamber of Commerce, Export Finance and Insurance Corporation, The College of International Business, the major banks and other relevant bodies revealed a number of publications designed to assist both new and existing exporters. However, no publication was found that comprehensively covered the export process, specifically, the different 'methods' of exporting, the use of various types of agents, private operations etc, from a producer's point of view. This type of material was specifically identified as lacking. Others were very complex and used a considerable amount of technical jargon, many were small booklets that offered only basic information, while others were considerably out of date. Another issue is the availability of these publications as they were not available through the usual agricultural extension sources.

A brief survey of public education institutions, primarily TAFE Colleges, institutions of higher education and agricultural training colleges, revealed that practical courses in export related subjects were not offered at undergraduate levels. Training in this field is offered by the College of International Business, a private institution. This training however was of an advanced nature and directed toward professional exporters and thus not suited to the basic information and training needs raised by the study cooperators.

Rural extension services in NSW do not appear to provide workshops or seminars on exporting, however, there has been some interest in export education and information from other sectors. For example, very recently a seminar was held by the North West Regional Development Board and a field-day is currently being organised by the Central West Regional Development Board. Some other states are better serviced, with the Agribusiness Branch of the Queensland Department of Primary Industries, for example, offering seminars and workshops on exporting.

Market Intelligence

The cooperators raised the lack of market intelligence available as an important impediment to their development. They identified two separate deficiencies: (i) the lack of up-to-date general information available when they were initially seeking information on which markets to target for further appraisal and preparing preliminary marketing strategies; and, (ii) a lack of current daily or weekly information on commodity prices in different markets, which would assist with price negotiation with existing buyers and would highlight new opportunities to the experienced exporter who would be able to react quickly to opportunities.

The cooperators expressed a belief that information of this type was much more readily available and often free in other countries, giving importers and competing exporters a distinct advantage. They raised New Zealand as a particular example.

AUSTRADE offers a number of services in this area, such as their market research products. Of those services that are available, the accuracy and timeliness were both criticised. However, details were difficult to obtain on how frequently information was judged to be of a poor quality. The recall of the cooperators, given they are likely to only remember poor information, must be considered as likely to bias their conclusions.

The cooperators were asked to identify their initial and ongoing sources of market information and rate them according to value. The most used and most highly valued source of both initial market information and ongoing information was export agents followed by personal trips overseas. The responses indicated that AUSTRADE was consulted, but that the value was, on average, low.

In their responses, the cooperators indicated that export agents were often used because they had better market intelligence and were familiar with export procedures. However, when questioned regarding whether they intended to take over more of the export process themselves, those selling through export agents generally responded in the affirmative. Staying removed from export operations and concentrating on production was not chosen as an option by any cooperators.

Other Studies

Two recent studies into the horticultural industry both found that education and training needed to be addressed for further industry growth, particularly in overseas marketing. The HPC expressed concern over both the low level of tertiary or trade qualifications in the horticulture sector and the tendency for graduates to have 'narrowly defined training in the science disciplines' when what they felt was needed was 'more business focus in these courses, similar to what is available in New Zealand' (HPC, 1994). They believed that Australia was at a competitive disadvantage when attempting to trade with importers with tertiary business and marketing qualifications and an understanding of strategic marketing. They did not specifically raise the issue raised in this paper of the barrier to initial market entry, but it is implied. They thought this issue should be addressed through both informal (overseas trips to promote a 'seeing is believing' approach to adoption) and formal education.

In its 1994 report, the HTF raised the link between the lack of commitment to export markets and the lack of education. They stated that it is the general view that Australian producers lack commitment toward export markets and that this lack of commitment has given them a reputation as unreliable suppliers. As a result they made a recommendation that '...greater emphasis be given in the formal and informal education systems directed towards promoting an export ethic'. The Task Force also made specific reference to the reported lack of market information available, stating 'inadequate and poor quality market information is impeding the growth of horticultural exports' and 'wider distribution to industry of overseas markets research, product specifications and improved statistics is urgently required'.

While this issue has not been as thoroughly dealt with in reports on other agricultural industries, the results of this study indicate that this problem is not restricted to horticulture.

Policy Issues

It can be argued that it is the role of industry to provide most assistance of this type to producers and exporters. There are however a number of policy issues requiring attention by government. These issues are:

- that these findings indicate that the government-funded trade facilitation bodies may not be meeting their primary objectives;

- that potential remedies to the problems identified would have considerable significance for trade enhancement, across more sectors than just agriculture; and,
- information, education and training are 'allowable' forms of industry assistance in a deregulated world trade environment, and it seems as though competitors are receiving considerable assistance from their governments in this particular area.

GOVERNMENT ORGANISATIONS FACILITATING EXPORTS

There are a number of financial and non-financial services and assistance measures available to potential and practicing exporters from the Commonwealth Government. Financial assistance is principally administered by the Australian Customs Service (Tariff Export Concession Scheme and the Drawback Scheme) and AUSTRADE, who administers grants and loans on behalf of the Australian Government. Austrade also provides a number of non-financial assistance measures, such as market research, in-market support, publications and education kits, referral to other services and general counselling on all aspects of exporting. The NSW Agriculture specialist marketing unit AGSELL was set up to service clients such as domestic food and fibre manufacturers and producers, with the objective of facilitating exports of, and encouraging investment in, the value added processing of agricultural based products and foodstuffs, specifically targeting Asian markets.

The results of the case studies and the industry survey indicate that very little use was made of many of these programs. A number of impediments to better utilisation were raised, however many of these were contradictory, which would seem to suggest that agricultural producers and exporters are receiving poor quality information.

The Impediments

The cooperators raised the issue of assistance from Austrade and Agsell, and perceived the main impediments to better utilisation of the assistance available as:

- emphasis on providing support to new exporters;
- emphasis on providing support to large established exporters;
- the confusing array of programs available, and very difficult application procedures;
- emphasis on value added products, where the need for non-financial assistance may not be as great because they already have better management skills; and,
- information on what is available isn't being taken out to agricultural areas.

Over the entire case study group, the ideas on who could get funding and other assistance were often contradictory, everyone thought that everyone else was getting help. Quotes from the case studies emphasise this disparity:

'The only group of exporters that can get Government support through assistance programs are new exporters commencing on a large project'

'Organisations like Agsell and Austrade aim their attention towards the larger exporters and those with more experience'

'These organisations are disinterested in our situations unless we have large amounts of money to spend on overseas trips etc., because we are small we are being fobbed off with little or no information or assistance'.

'Government grants and assistance are not available to the little exporter. The only help you can get for a trip overseas is if you spend at least \$33 000 to \$34 000 total on the trip, others I know have taken some successful overseas trips for a lot less than that' ... 'there is no other assistance available'.

'Austrade is available and willing to help but they mainly concentrate on new exports giving them assistance through different funding programs. There is no funding or support for those already in the export game. There is no incentive'.

The contradiction in these quotes and other anecdotal evidence indicates a low level of knowledge of assistance packages at the grass roots level. The cooperators had varying notions on government programs; what was available, who was eligible and how it could be accessed. Anecdotal evidence from the interviews suggest that many have the opinion that Austrade is a funding agency only. Other services, such as the databases, market research and market intelligence information services, were largely unknown.

In 1994, The Australian Academy of Technological Sciences and Engineering conducted a survey of exporters in the processed foods industry (AATSE, 1994). They found that while a few assistance arrangements were widely known and used, many Government programs did not have a particularly strong awareness or usage in the food industry. A report on Australia's high value added manufacturing exporters (AMC, 1993) found that the delivery of Government services is currently very complex and firms carry the cost of that complexity. They recommended a more integrated delivery in a number of service areas, including; access to finance, export market information, export skills training and access to technology.

The survey also addressed how the cooperators felt about government assistance programs. The results indicated that approximately 70 per cent found that there was insufficient return for effort and larger percentages found that the programs were too confusing in number, and too bureaucratic in the application process and reporting. The AATSE recommended that a review be made of all existing government assistance programs. The Horticultural Task Force also concluded that Government support programs need to be improved to reduce their complexity and to enable easier participation (HTF, 1994). The Task Force was also of the view that there needed to be a review of the costs, relevance, delivery, effectiveness and management of all Commonwealth Government and State support programs. No such review is known to be underway.

Regulatory Issues

Poor levels of participation in available assistance programs by the cooperators do not appear to be due to any direct regulatory impediment. There are, however, a number of concerns that remain to be addressed:

- are these programs deliberately being made inaccessible to the small private exporter and is it an associated policy to promote large businesses and 'large' initial forays into exporting? If so, there is a disincentive for agricultural exporters to approach exporting slowly and to build up their trade gradually, and thus build up good relationships with their importer. The cooperators in this study provided some good examples of what can be achieved with a steady growth path and a commitment to exporting.
- are the poor information and 'myths' that exist due to a lack of commitment by exporters to accessing assistance, or is it due to poor extension by agencies such as AUSTRADE and Agsell? It would appear that the perceived costs to small agricultural exporters of obtaining information from these service agencies are higher than the expected benefit. Improved promotion of programs combined with a degree of regionalisation of trade facilitation services and stronger links between them and regional based business and agricultural support organisations would potentially provide some solutions.

TRANSPORT ISSUES

The fodder and meat (goat and deer) exporters raised road transport issues as a major impediment. Both groups use road transport to move containerised product from the processing plant or abattoir to the port. In most cases, due to the closure of many country rail terminals, rail transport was not an option. However, even if it were, Australian rail transport seems to have gained a reputation with overseas buyers as extremely unreliable and inefficient, to the point where they specify that road transport should be used to minimise their risk. The issues raised by the exporters all relate to the high cost of Australian road transport relative to that in competing countries such as the USA and Canada.

The co-operators raised a number of specific regulatory issues that impede the most economical use of road transport services in Australia. The issues can be split into three subgroups:

- the effect of Commonwealth fuel taxes and excises on fuel prices and consequently, transport prices;
- the inequities between regulations in other countries (particularly major market competitors) and Australia, giving them a competitive advantage because regulatory costs posed on transport operators are not as high overseas; and,
- specific State regulations on load weights, which make it very difficult to use 40-foot containers as opposed to 20-foot containers and thus makes it impossible to capture the road and sea freight economies of scale that exist.

Interstate differences in road transport regulations were also reported as being a significant problem to exporters affected. This issue is being dressed by the National Road Transport Commission in the development of the new National Road Transport Law.

Other Studies

The HTF (1994) and the AHC (1994) both recommended that horticultural exporters be encouraged to utilise 40-foot containers because of the cost effectiveness. They assumed however that the observed low level of utilisation was due to individual exporters being unable to fill these containers. They therefore recommended that exporters should attempt to arrange sharing arrangements. Neither

report made any mention of the likely impact of road weight regulations on potential usage, an issue that this study found was significant.

Regulatory Issues

The impediments raised with respect to road transport were primarily regulatory based. The first issue raised was the relative cost of fuel in Australia (about twice that prevailing in the USA) and its effect on road transport costs. At this time, no on-road vehicles are exempt from Federal fuel excises on diesel fuel, which amount to \$0.32 per litre. There are two options, from the exporter's point of view:

1. lower the rate of excise for all users, thereby lowering all fuel costs; or,
2. provide a rebate on diesel fuel used in export transport activities, as a concession to export activities.

The main issue however was whether the level of current weight regulations was unnecessarily restrictive, an issue of concern for exporters in all States. A number of suggestions were made as to how this impediment may be reduced. These ideas mainly hinged on creating a system of 'special permits' to allow the road transport of goods for export to seaboard to be overloaded. The system used in the USA, where special export permits are allowed, was cited as a model. Before these regulations could be revised, a number of other issues such as the cost of road damage due to vehicle weight and vehicle safety issues, would need to be examined.

AVAILABILITY OF AIR FREIGHT SPACE

Most fresh horticultural, goat and deer meat products are exported from Australia by air. The main reasons for this are time factors, short order to delivery times and the perishability of the product. Another reason given was that for the small consignments typical in these industries, airfreight was the most cost effective mode of transport.

A number of issues concerning air transport of products were raised during the case studies:

- the lack of available air freight space from the closest international airport when required;
- while air freight space is usually found before a product actually spoils, quality problems do occur when alternative transport modes are used;
- poor handling and storing of produce by ground staff, resulting in packaging damage and quality loss; and,
- when products are delayed, there are insufficient coolstores and other infrastructure available to maintain quality.

Some particular comments were:

'Produce is often loaded on to the freighter only to be off loaded again to make space for higher priority products, which are not necessarily perishable'.

'We have had to load onto a domestic flight in Melbourne for Sydney where it is off loaded and re-loaded onto an international flight. There is a time delay and the double handling of a perishable product'.

Many of the case study horticultural producers and their export agents stated that they regularly have difficulty in obtaining space on international flights, particularly from the closest international airport. Anecdotal evidence further indicated that horticultural producers have had to move produce by refrigerated road transport to Brisbane from Melbourne to obtain air space. They considered that all other travel arrangements besides a direct flight from the nearest airport, usually reduced the quality of the product in some way and increased the total transport cost.

Another issue raised was that broken flights increased the potential for 'mix ups', where part shipments are misplaced, shipments do not arrive on the same flight, documentation is misplaced etc. The cooperators indicated that reduced customer satisfaction with the product and total rejection of the product have all occurred as a consequence. The growers feel that it is totally out of their control, yet because it is their brand, they develop an unjust label of 'unreliable'. The cost of airfreight (direct) was surprisingly not raised as an impediment, but the poor facilities (particularly coolstores) available at certain airports was raised as an impediment to consistently exporting a high quality product.

The horticultural case studies were concentrated in southern NSW and the Sunraysia district and a large percentage of the participant's produce was exported from Tullamarine Airport in Melbourne. The issues raised thus applied particularly to that airport and could not be generalised, on the basis of this study, to other airports. Also, it was difficult to obtain any quantitative evidence of how often situations such as those described above actually occur.

A study completed for RIRDC (Strategic Initiatives, 1994), looked at the impediments to the use of air freight services. In that study it was hypothesised that the common perceptions among perishable goods exporters – that export air freight capacity falls short of demand, is expensive and an increased supply of export air freight capacity is required to enable increased perishable goods exports – were inaccurate.

An Air Freight Capacity Supply/Demand Model was developed to test the initial hypotheses. The findings were that only 59 per cent of total Australian export airfreight capacity was used in 1991 and 1992. However, they did not measure the capacity available to individual Australian international airport but did point out that there are domestic linkages by road and air between Adelaide, Canberra, Sydney and Melbourne, which can facilitate the delivery of freight to an airport where export capacity exists. The study concluded that the cost of road freight between ports was relatively inexpensive relative to total distribution system cost and therefore concluded that unused capacity was economically available to the vast majority of exporters.

Some very important issues however seem to have been treated lightly when forming this conclusion:

- the tight time margins available for the transportation of many products. A considerable time elapse is needed to transport produce by road from Melbourne to Brisbane, or even to Sydney. The importance of time in import/export negotiations should not be underestimated.

- are exporters advised that there will be no room for their product early enough for road or domestic flights to be used to still get the product to the importer on time?
- are coolstores available to store the product, to maintain quality while it waits for the next available flight?
- the economic cost of repeated handling of goods.

The HPC (1994) recommended that the horticultural industry develop programs that ensure the cost effective and reliable utilisation of airfreight by horticulture by encouraging the airlines (i) to devise more appropriate methods of handling horticultural products, (ii) to develop training schemes to ensure these methods are understood by airline staff and (iii) to improve (with other authorities) airport infrastructure. They made no mention of the role that mutual profits might play in this process.

Regulatory Issues

While the information from the cooperators and other studies into this issue suggested that a number of airfreight issues impeded export development, there does not seem to be any regulatory impediments to the improved functioning of this market. It seems to be a case of the price that exporters are willing to pay for the transport of meat, fruit and vegetable produce is not sufficient for commercial airlines to provide better services. As the HPC report suggests, greater industry cooperation with airlines may alleviate some of these problems.

FINANCE

As revealed by Table 1, the case studies, supported by the survey, identified finance issues as a major impediment to development. Apart from an international joint venture arrangement and a private company preparing for its first share issue, there was a heavy reliance on traditional financial sources, with the bulk of the case studies using debt finance from the major trading banks for development and operating purposes.

The main impediment identified was a lack of finance for export development, due mainly to poor assessment of export projects and their relative risks. A related issue was the lack of extended operating finance, generally required by exporters. The bulk of the remaining impediments identified concentrated on the services available from the trading banks, where the main issues were:

- lack of knowledge, at the branch level, of the way banks can assist in arranging payments etc, with overseas clients; and,
- poor referral within the banking system to expert advice.

When a business begins exporting their working financial needs change significantly. They need to be able to arrange payments for their exports, normally done through a bank, and they generally need longer term and more flexible working finance arrangements. In addition, many of the case studies indicated that expansion into export markets had been the catalyst for business investment in the form of new plant and equipment, additional facilities etc.

The cooperators raised the issue that the more they become involved in the export business, the more restrained was the supply of credit to them. They perceived that this was due to unnecessarily conservative risk assessments of agricultural exporters by the trading banks.

The exporters stated that they were not getting the full benefit of the expertise available within the trading banks, by not being referred to staff with more expertise, or information being sought outside the local branch. There appeared to be little information readily available on interest rate and exchange rate risk management, and on the different payment options that could be arranged through the banking system for the exporter and their overseas customers.

There was a strong feeling that among the cooperators that if services such as these were not available to them within the banking system, then there were no other real alternatives.

The HTF (1994) also concluded that even the more efficient growers found it difficult to raise the capital necessary for expansion. They proposed to overcome this impediment by industry action, forming machinery rings and encouraging the development of cooperatives. They also saw a greater role for the HPC in assuring the banking sector of the low risk and profitable nature of horticultural exports through the continued provision of up-to-date market analyses. The HPC (1994) also found that the effective cost of capital for Australian exporters is higher than for their competitors, and that this has restricted Australia's ability to improve export performance. Their recommendations were of much the same genre as those from the HTF, where they sought to improve the confidence of the major financiers in horticultural exports.

The AMC (1993) found that there was an inverse correlation between the sales exported and availability of finance. That is, the more export-orientated a firm becomes, the more acute is the firm's finance problem.

Regulatory Issues

While the issue of finance was of considerable importance to the study cooperators, there was no apparent regulatory impediment to the supply or cost of credit. There are alternatives to using bank debt finance, such as forming grower cooperatives or forming joint ventures with Australian and overseas companies with financial resources, as well as farm based initiatives, such as the machinery ownership rings as suggested in the literature. A preliminary investigation has revealed that the resistance by Australian exporters to forming these seems to have little to do with government regulations and a great deal to do with their attitudes.

However, while finance availability is not directly a regulatory issue, the emphasis on it as a barrier to exporters may warrant further government attention. Trade facilitation programs may need to be reviewed to assess whether resources are reaching the right sectors and if more resources should be made available.

SKILLED LABOUR

The lack of skilled labour was an impediment raised by those in the horticultural and meat processing industries, where skilled handling and packing is required.

The issues raised by the case studies can be summarised as:

- no provisions for training of staff such as pickers, packers, graders in boning rooms and packing establishments;
- producers have to train workers at their own expense ie. they have to employ them at full wages to learn the skills required; and,
- venison producers were concerned that the required labour was not available at the present abattoir facilities. Venison is quite different to bone and process compared to other meats such as beef and lamb.

It appears that while exporters regard this as an impediment they do not see a role for themselves in setting up labour training programs. It is viewed as something that should be done 'outside' their businesses.

Regulatory Issues

As opposed to the cost of labour, the training of process workers doesn't seem to be impeded by government regulation. Government assistance toward education and training is in fact quite substantial. Courses are run to meet industry by TAFE colleges and the cost burden of on the job training has been reduced by the recent introduction of a training wage as an incentive for this to take place. As noted in the previous section, it seems likely that the greatest impediment to better staff training is an attitudinal impediment as the growers/processors feel they aren't responsible for it.

FURTHER RESEARCH

There are four main areas of further work to meet the objectives of the study; (i) conduct further economic analyses of the exporter perceived impediments as outlined in this paper, (ii) conduct an implicit review of the burden of Government costs on the case study exporters, (iii) on the basis of these findings and the findings of recent major industry reviews, formulate relevant regulatory and policy recommendations, and, (iv) disseminate the findings and recommendations.

Further research within this study then will concentrate on a review of the direct and compliance government cost burden on private agricultural exporters. This research is in progress in cooperation with a number of the case study cooperators and NSW Agriculture staff. Anecdotal evidence suggests that this burden is significant; export agents reported inspection charges alone as being between 1.5-2 per cent of gross annual turnover (and a much greater percentage of costs) and a study completed by the Victorian Horticultural Export Council (1992), suggests that AQIS costs can represent more than 11 per cent of the FOB price of a container of mixed vegetables airfreighted to Japan.

As well as inspection costs, other government-based costs are imposed on exporters, export licensing (where appropriate), establishment registration charges, and port charges to name a few. In addition to direct cost issues, the results of the study so far have uncovered considerable costs associated with complying to current Government regulations. Further research will attempt to capture these costs as well as direct costs.

CONCLUSION

This paper provided an overview of a large number issues that case study exporters had raised as significant impediments to the further development of private agricultural export operations. The emphasis of the study was to try and identify impediments occurring as a result of Government direct costs burdens, as well as inefficiency and compliance costs flowing from excessive or outdated regulation.

Few direct cost issues were raised, but of those, inspection charges from AQIS were regarded as a very significant burden. Quality control and inspection were also found to impose considerable compliance and inefficiency costs on export operations. Other regulatory issues raised were road transport weight regulations.

A surprising result was that a number of factors identified as the greatest impediment were not directly related to any Government regulation. The main issues were the interrelated issues of education, training, extension, market intelligence availability, access to assistance programs and the effect they have on factors that have been identified as necessary for continued export development, such as brand name development, developing an export ethic and fostering export commitment, reducing the use of export agents, the development of vertically integrated business structures and the adoption of quality assurance systems.

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