



Australian Government

**Fisheries Research and
Development Corporation**

**Submission Regarding
an Industry Promotion Levy for the Australian
Prawn Farmers Association**

September 2006



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Submission

This submission requests the Minister's urgent support to establish legislation for a compulsory promotional levy for the farmed prawn industry. The aim is to have this levy administered by FRDC on behalf of the Australian Prawn Farmers Association (APFA)

The submission also recognises that such legislation may also confer similar opportunities and benefits to other aquaculture industries and the seafood industry. Seafood Experience Australia, National Aquaculture Council and a number of seafood sectors seeking to establish promotional levies, would benefit from the precedence of the establishment of this levy collection method for APFA. At present the seafood industry is unique among the food sectors in that it has no Commonwealth legislation to support promotion activities. This submission aims to address this opportunity.

Key Actions

The APFA seeks the support of the Minister to develop appropriate legislation. APFA wishes to partner with the Minister and the Department of Agriculture Fisheries and Forestry (DAFF) to achieve this objective.

It is suggested that legislation be drafted as soon as possible in consultation with DAFF, to extend the existing legislative framework to:

- enable the imposition of a promotional levy on prawn farmers, as resolved by APFA members at their AGM (July 2006)
- enable the payment of collected promotional funds to be allocated to FRDC (Fisheries R&D Corporation) out of consolidated revenue
- facilitate collection agreements with States, Territories and collecting organisations, and related consultations
- explicitly give FRDC power to undertake generic prawn and seafood promotion activities.

Benefits and Implications

The development of a promotional levy mechanism will provide immediate market benefits to the \$50 million farmed prawn industry. The APFA will be able to promptly reposition the industry's image and enable producers to pitch an enhanced offer to Australian consumers. Recent enterprise departures suggest the industry is unlikely to survive if a market solution is not found quickly to enable producers to invest their own funds in better generic marketing. The development of fresh cooked prawns (i.e. unfrozen) is a key competitive position available to Australia farmers.

On a broader scale, generic promotion legislation will enable other sectors and groupings in aquaculture (GVP \$600million) and the seafood industry (GVP \$2.1 billion) to initiate generic promotion levies as and when they see fit. A number of other aquaculture sectors (including Southern Rocklobster) have indicated an intention to follow this APFA lead. The creation of an industry funded and owned promotion vehicle, Seafood Experience Australia is now building the private investment capacity to carry forward generic promotion to Australian consumers and exports seafood markets.

The development of generic promotion legislation will put seafood on a similar commercial footing to other primary industries.

Considerable resources will be required from DAFF to develop this legislation and deliver the necessary powers to DAFF and FRDC. This investment will be well rewarded by returns to and increased efficiencies in industry.

The Australian fish and fish products industry wishes to be the supplier of choice to Australian and overseas consumers of high quality seafood. The proposed legislation would be a cornerstone investment to achieve that objective.

Background

Prawn Farmers Peak Body

The APFA was established in 1993 to represent industry and lead development and R&D investment initiatives. The 33 currently active farmer members (Qld 62 licences, NSW 15 licences, NT 9 licences) represent the bulk of prawn production by tonnage (98%) and industry participants by number (95%).

Industry Context

Seafood is a major component of regional and national economies (GVP \$2.1 billion).

Seafood, including the fast growing aquaculture sector (GVP \$611 million) is increasingly cited by health professionals for its contribution to the health and wellbeing of Australians.

Prawn farming is one of Australia's most advanced aquaculture sectors. The APFA was the first seafood sector to establish a compulsory national R&D levy (2002).

Levy collection is administered by the Levies Revenue Service (LRS) in DAFF. LRS forwards the levies collected to the FRDC. In consultation with the APFA, the FRDC invests the levies collected in R&D for the benefit of the APFA members (under the auspices of the *PIERD Act 1989*).

The Australian prawn farming sector was the first in the world (2001) to develop an Environmental Code of Practice. They are now at the forefront of world research into the domestication of the global species *Penaeus monodon*. The industry provides more than 1000 direct jobs and 1800 indirect jobs, mostly in regional coastal communities.

Australia is a very small player in world prawn farming, but domestic prawn demand has been rising for a decade to around 44,000 tonnes in 2005-06 (APFA data). Imported prawns mostly from Asia have risen from negligible levels to now comprise more than 22,000 tonnes (50% - ABARE data) of prawn consumption. The balance is comprised of domestic wildcatch of 18,000 tonnes (41% - net of exports) and domestic farmed prawns of 4000 tonnes (9%). Since 2000-01 prawn imports have increased by about 85%, with the weighted average price of imports decreasing by about 43% over this period. The quality of imported *P. vannamei* prawns (all frozen) is comparable to Australia frozen product. In 2004-05, 17% (\$412 million) of the total value of Australian imports of fisheries products were edible prawns.

While increased imports of farmed prawns compete with domestic product, they have also increased consumption of prawns. In-home consumption of prawns has increased, and a new generation of consumers has been introduced to the taste wonders of prawns, and its

versatility as a prepared food. This shift in consumer perceptions and buying habits creates opportunity for the APFA to brand Australian prawns as the premium prawn for aspirational seafood consumers.

Price Gap

ABARE records and advice from importers suggest the average landed price of imported prawns has fallen from above \$13/kg in 1999 to currently as low as \$7/kg. These prawns retail for around \$14/kg in mainstream domestic supermarkets. Australian farmed prawns with a product cost of \$14-16/kg, retail for an average price of \$23/kg. This \$9/kg price gap is the major challenge to the survival of the domestic farmed prawn sector.

Consultation

The APFA strategy is to differentiate and promote its product as a fresh Australian product, and relieve the price tension created by this price gap in the supermarket.

Since 2003 the APFA has undertaken a series of workshops to consult with industry and its members regarding the falling market competitiveness of their product, and strategic response options. As a result the industry has resolved (AGM July 2006) to voluntarily contribute funds of 10 cents per kilo of production totalling around \$400,000 per year, to establish and fund a generic promotion campaign to differentiate Australian farmed prawns in the domestic market.

Seafood Experience Australia

A significant development in late 2005 was the announcement by ASIC, NAC and the Seafood Enterprise Alliance that a seafood marketing and promotion entity would be established to bring together several initiatives currently underway. Seafood Experience Australia has been established as an industry owned entity to support the marketing efforts of individual companies by providing an overall marketing and promotion umbrella for Australian seafood. The farmed prawn sector's promotional program will articulate to the broader category awareness of promotion that is being implemented by SEA. They both evidence the rising motivation for the seafood industry to invest in itself through generic promotion.

Other Sectors

The farmed salmon industry (GVP \$112 million) under the leadership of the Tasmanian Salmon Growers Association (TSGA) established a joint voluntary levy for R&D and

promotion in the early 1990s. The farmed oyster industry in Tasmania (GVP \$17 million) lead by Tasmanian Oyster Research Council (TORC) and the South Australian farmed oyster industry (GVP \$20 million) lead by the SA Oyster Research Council (SAORC) have each established their own independent funding mechanisms to support R&D. The NSW farmed oyster industry (GVP \$36 million) has arrangements with NSW Fisheries for compulsory collection of R&D contributions and some voluntary promotional funding. These funding options are discussed in more detail below.

The wild catch southern rocklobster industry under the new national body formed in 2003 (Southern Rocklobster - SRL) have recently expressed interest in developing a promotion funding mechanism to underpin their export development activities in the USA. The Australian farmed barramundi industry represented by the Australian Barramundi Farmers Association (ABFA) failed narrowly to secure adequate industry support for a compulsory R&D / promotion levy in 2003, and the farmed abalone industry lead by the Australian Abalone Growers Association (AAGA) formed in 2004 has also expressed interest in a compulsory levy initially for R&D purposes.

Promotional Funding Options

In the consultation process with its members and industry, the APFA considered three funding options to support their proposed investment in a promotional program.

1. Compulsory Levy under Legislation:

There are three elements to this compulsory levy:

- a. Imposition – The *Primary Industry (Excise) Levies Act 1999* provides the necessary functions. No legislative changes are needed. However, seafood promotion, and in this case prawn promotion, need to be listed as prescribed activities and to confirm agreement on the 11 principles for levy imposition managed by DAFF.
- b. Collection – The *Primary Industry Levies and Charges Collection Act 1991* enables the collection of levies and charges according to set rates and prescribed methods of collection. No legislative changes are required. However, prawn promotion needs to be prescribed as an agreed activity.
- c. Disbursement – The *PIERD Act* provides the head of powers for R&D activities, but it can not be used for promotional activities. The *Prawn Export Promotion Act 1995* (since terminated) allowed disbursement of levies and established FRDC as the body

to manage the process. In the absence of new legislation the seafood industry is the only primary industry without the necessary legislative framework to undertake generic promotion.

Based on the above, legislative amendment is only required in the area of levy disbursement. Additional functions and provisions are required in a new Act to be developed in one of three ways:

- a new Act that will address the specific generic promotional needs of the farmed prawn industry, or
- a new Act that will address the generic promotion needs of the seafood industry, or
- a new Act to address the broader generic promotional needs of the food industry.

DAFF legal advice suggests that a new Act specifically for prawn promotion will be easiest to achieve and be available in the shortest timeframe (est. 18 months). A new seafood promotion Act will require more legislative resources and likely take longer than 2 years to establish. Generic legislation for food industry promotion will require considerable resource and take the longest time to establish.

- The prawn industry, with the support of the FRDC, suggests the new Act (possibly cited as the *Prawn Promotion Act*) be established specifically for generic prawn promotion to:
 - enable the payment of collected funds to be allocated to FRDC out of consolidated revenue for use in promotional activities, and
 - enable FRDC to implement specific collection agreements with states and territories and other collecting organisations for collection of the proposed promotional levy. Such agreements, worked out in advance, would enable FRDC to reimburse levy collection costs.
 - explicitly give FRDC power to undertake generic seafood promotion activities.

The FRDC is the only national seafood body answerable to the Australian Government.

The APFA applied for and was granted an R&D Levy effective from July 2001. The levy is managed by and matched under *PIERD Act* powers. The levy is currently set at 3.64 cents per kilo, and raises an industry contribution of around \$160,000 each year. The levy is

managed by the DAFF Levies Revenue Service (LRS) with disbursement of funds administered by the FRDC.

Independent consultation with all farmed prawn industry participants in July 2006 confirms the R&D levy is well supported and regarded by industry members. The success of the R&D levy has improved the whole investment and collaborative culture of farmers and driven a strong level of support for joint generic promotion.

Under this levy promotion option the aggregate amount of the agreed quarterly payment by farmers, would be increased from 3.64 cents per kilo to 13.64 cents per kilo to include the amount of the promotional levy. The two components of the levy (3.6 cents R&D, and 10 cents promotion) would be accounted for and managed separately according to powers held by FRDC. The R&D levy will continue to be matched by tax payer funds, but the promotion levy would not be matched.

This option offers the farmed prawn industry considerable advantages, including:

- national legislative framework enabling common compliance for farms in all states and territories
- based on an existing levy mechanism which is trusted and valued by industry
- increases the unit cost effectiveness and management efficiency of all APFA levy activity as it is handled by a single agency, FRDC
- national industry accounting and management of process.

2. Compulsory Levy under an MOU or Head of Agreement

A number of other aquaculture sectors have established alternate legislative routes or Memoranda to enable collection of funds for R&D and or promotion. The APFA considered these funding mechanisms in reaching its preferred option.

The Tasmanian Salmon Growers Association (TSGA) established an MOU with the FRDC in the early 1990's. Under the arrangement the 6 Association members (representing >99% of production) voluntarily agree and periodically review a combined levy rate comprising an R&D contribution and a promotion contribution. The R&D levy component is set to achieve levy funds up to 0.25% of the Average GVP of the farmed salmon industry, with a further 0.5% of Average GVP invested by FRDC for public good. The promotional levy rate is set each year by industry. Levy collection is achieved through 3 feed supply companies that record feed tonnage sales per farm, invoice the appropriate levy amounts for each salmon farm and remit these funds to the TSGA. The R&D component is paid into the relevant

Tasmanian Government DPIWE trust account quarterly, and remitted to FRDC. The promotional component is retained by the TSGA and applied to activities agreed by TSGA members.

As the membership of the TSGA and the industry is small and geographically concentrated there is a high level of member trust and communication which overcomes the need for levy compliance monitoring.

The oyster aquaculture industries in South Australia and Tasmania (based on Pacific Oysters) have established a two part levy raising and matching process. Both state sectors have established Heads of Agreement (Tas 1990; SA 1999) between their state associations and their respective oyster hatcheries to collect R&D funds from oyster farmers at the rate of \$1 per 1000 oyster spat purchased by farms, and reinvest these funds in R&D under the control of the respective associations. As these activities are considered to encompass anticompetitive behaviour resulting in lessening of competition, they have required exemption from *Trade Practices Act 1974*. Section 90 of the Act prescribes tests to be considered by the Australian Competition and Consumer Commission. In determinations reached by the ACCC the TORC and SAORC are granted authorisations to compulsorily levy oyster farmers and invest levy moneys in R&D via their respective associations.

Both organisations then gear these funds to invest specifically in R&D. Under MOUs with FRDC up to 0.25% of industry Average GVP will be matched. TORC levy collections are paid into a DPIWE trust account and passed to FRDC. SAORC levy collections are passed to FRDC. However, both organisations often choose to retain part of their funds for local R&D investment and State management. While this may not attract optimal matching for all funds it enables greater control of R&D projects locally.

In both cases funds raised under the current Heads of Agreements, must be used for R&D. There is no provision for investment in generic promotion should industry so desire.

The NSW oyster aquaculture industry (based on Sydney Rock Oysters) collects R&D contributions from its 300 odd members as part of its compulsory seafood license arrangements. Funds are then remitted on a voluntary basis. Funds must be used for designated R&D activity. NSW Fisheries monitors the levy contributions and very little levy leakage occurs.

The NSW oyster industry does make voluntary contributions to oyster promotion on an infrequent and ad hoc basis, but industry advice suggests a large number of farmers make no contribution to this promotional levy at all.

The APFA considers this option offers the farmed prawn industry both advantages and disadvantages:

- Avoids the need to seek legislative change (and related delays) to the *PIERD Act* to incorporate promotional activities;
- Previous advice to the APFA from the LRS suggests that prawn feed may not be an acceptable basis for a levy;
- Hatcheries and feed suppliers across the prawn industry are not as cohesive as in the salmon or oyster industries. Therefore the development of Heads of Agreement across hatcheries, feed supply or some other collection point will be difficult and slow.
- APFA is a national Association. This method suits sectors that are limited to one or at most two states with clearly defined gatekeepers where funds can be collected.

3. Voluntary Contributions under Articles of Association

The APFA is an incorporated Association under national legislation, administered in their case through the Qld Office of Fair Trading. Clause 17 of the Association's Articles provide the power to *"take such steps ...as may from time to time be deemed expedient for the purpose of procuring contributions to the funds of the Association, in the shape of donations, annual subscriptions or otherwise"*.

Opportunity exists for the APFA to establish a voluntary levy from members to fund a generic promotion program. Such an arrangement would not be supported by legislation and therefore not compulsory for members or non members of APFA. Funds raised would be held and invested by the Association according to resolutions of its members, possibly using a separate entity or trust accounts that would enhance commercial transparency and corporate governance. The current quarterly returns compulsorily submitted by each farm for the R&D levy would enable a clear audit pathway to track the compliance of all farms to any voluntary arrangement. However, farms can not be forced to make copies of these forms available to the APFA.

This option has a major disadvantage for the APFA, being primarily the lack of enforceability and therefore leakage of levy funds as a result of market failure / free riders. New farms developed across remote sites in northern and western Australia will achieve better prices due to seasonality and are unlikely to see the merits of a promotional levy and therefore

make voluntary contributions. The advantages identified include the relative ease of setting the arrangement up, and the greater level of local control afforded to the APFA over promotional funds.

As a result of considerations of these 3 options, the APFA has resolved to pursue Option 1 - a compulsory levy for generic promotion based on legislative changes. This is the best investment option for prawn farmers. Implementation of this option will be under a staged approach, as follows:

- Stage One: - Voluntary collection arrangements established by the APFA (0-18 months)
- Stage Two: - Finalise submissions to DAFF regarding the 11 principles for new levy development (0-9 months)
- Stage Three: - Implement new generic promotion legislation (18 Months)

All three stages would be developed in parallel.

Legislative Changes Required

The legislative framework to implement a seafood promotion levy and charge, including a promotion levy for the APFA is partially established by existing legislation. Some additional legislation is also required.

- The *PIERD Act* provides a head of powers for the establishment of the FRDC (Regulation 4). The FRDC is limited to engaging in functions and exercising the powers described in the Act. Section 11 of the Act sets out the functions of an R&D Corporation as;
 - a) To investigate and evaluate the requirements for research and development in relation to the primary industry or class of primary industries in respect of which it was established and, on the basis of such investigation and evaluation;
 - To prepare an R&D plan under section 19; and
 - To review and revise the plan; and
 - b) To prepare an annual operational plan under section 25 for each financial year; and
 - c) To coordinate or fund the carrying out of R&D activities that are consistent with the annual operational plan by the Corporation and in force at the time; and

- d) To monitor, and evaluate and report to the Parliament, the Minister and its representative organisations on R&D activities that are coordinated or funded, wholly or partly, by the Corporation; and
- e) To facilitate the dissemination, adoption and commercialisation of the results of research and development in relation to the primary industry or class of primary industries in respect of which the corporation was established; and
- f) Such other functions as are conferred on the Corporation by this Act or any other act.

Apart from clause (f) these functions relate to R&D specifically and according to DAFF legal advice would not enable the FRDC to manage any generic promotional activities. The definition of R&D does not include matters related to promotion and DAFF legal advice suggests this will be unlikely.

Legal advice suggests that even if the functions of the *PIERD Act* include promotional activities, the FRDC does not have the powers under that Act or any other Act to manage the proposed promotional levy. Provisions need to be made in a new Act that explicitly gives FRDC power to undertake generic prawn promotion activities.

- The *Primary Industries Levies and Charges Collection Act 1991* enables the collection of primary industry levies and charges. The *Primary Industries (Customs) Charges Act 1999* (Charges Act) in Schedule 14 allows for customs changes to be imposed for regulations made for the purposes, including “products that result from....fishing”. Similarly, the *Primary Industries (Excise) Levies Act 1999* (Levies Act) in Schedule 27 allows for levies to be imposed, by regulations made for purposes “including primary production”.

DAFF legal advice considers the terms in all three acts are broad enough to encompass a prawn promotional levy. Their advice is that the proposed prawn promotion levy and charge could therefore be implemented by regulations under the latter two existing Acts.

- Additional functions are required in new legislative provisions to be drafted in a new Act. These provisions are to:
 - enable the payment of collected funds to be allocated to FRDC out of consolidated revenue for use in promotional activities, and

- enable FRDC to implement specific collection agreements with states and territories and other collecting organisations for collection of the proposed promotional levy. Such agreements, worked out in advance, would enable FRDC to reimburse levy collection costs.
- explicitly give FRDC power to undertake generic prawn promotion activities.

DAFF legal advice proposes these new provisions be contained in a new Act, possibly called the *Prawn Promotions Act*. They also advise that while the development of a new Act will likely be a higher profile process and attract greater interest, it will not necessarily result in longer delays that would otherwise occur if only amendments were made to existing Acts.

Appendix 1. Levy Development Process

Market Failure

The establishment of the prawn farming R&D levy in 2001 has encouraged the industry members to review the way they invest in collaborative projects for shared gains. While there were a few farmers who did not fully support the development of the R&D levy in 2000, there is now strong industry support for the levy as it is directly driving project outcomes that are of commercial value to farmers (eg domestication).

The stable long term funding commitment has enabled industry to collectively support long term strategic projects that offer attractive payoffs. More stable funding has also encouraged experienced research providers (Uni. of Qld, CSIRO, AIMS and James Cook University, state agencies, Aquaculture CRC) to commit staff and resources to the strategic agenda developed by the farmed prawn sector. The FRDC has also been able to plan its support for industry on a more stable basis.

Importantly the R&D levy provided a mechanism for industry to collect cash contributions from industry to invest for mutual benefit. The industry could thereby overcome the barriers of its geographically disparate and fragmented nature across various state/ territory jurisdictions.

The matter of "free riders" who are not willing to contribute to joint industry investment effort has been overcome in the case of the compulsory R&D levy. However, this market failure remains a barrier to greater generic market and promotion investment by industry.

Leakage of the returns from private investment in promotion means that individual investors are not able to fully capture their returns and are far less motivated to promote the industry in a competitive market place. Underinvestment in farmed prawn promotion occurs as a result. In turn this minimizes the stream of benefits that flow to industry and the public.

The collection of industry funds (not matched by governments) through a compulsory levy and investment according to an agreed R&D Plan is the only viable method for funding the industry's promotion needs, both in the long term and equitably amongst users. This approach captures full benefits for existing levy payers.

Potential collaboration with the new national seafood promotion body, SEA will provide the scale and scope for Australian fishers and aquaculturists to differentiate and brand their product in Australia and selected export markets.

Industry Consultation

The APFA with support from the FRDC commissioned an independent consultant Ridge Partners to consult with industry, present results of the consultation to the AGM and develop a promotional funding submission based on industry's decision.

A list of industry members and agents was provide to the consultants. This number varies as farms are sold and licences are issued but not activated.

AUSTRALIAN PRAWN FARMERS ASSOC.
 We are the peak national body representing the prawn farming industry. The APFA is undertaking consultation with stake holders regarding a national promotions and marketing levy. The funds created will be used to promote Australian farmed prawns in Australian retail markets. Interested parties should promptly contact:
Ewan Colquhoun
Ridge Partners on
(07) 3369 4222 or email
ewan@ridgepartners.com.au

Ridge Partners sought further direct responses from industry via the media. Advertisements were placed in the public notices section of the national and relevant regional press (The Australian, Courier Mail, Northern Territory Post, Cairns Post, Northern NSW Star) on Thursday and Friday 20th - 21st July 2006. The primary independent consultation undertaken with industry was either via face to face meetings and/or telephone conversations with industry participants. No written submissions were received from any party regarding the levy proposal.

The responses were provided directly to the consultants by farm owners and/or managers. Each respondent was asked a response to the proposal, their preference for the levy amount, the levy collection mechanism, the management of levy funds collected and to indicate their approximate

tonnage for the coming season. Respondents were also asked to indicate any concerns or related issues. Responses were recorded from 27 farms.

Enterprise Responses	Farms	Tonnes
Farms consulted	27	3,837
Farms not available for consultation	3	-
Farms that advised they had recently left the industry	3	-
Total	33	3,837

Analysis of the consultation responses from individual farms confirmed that 70% of industry (members and non members) support the promotion levy proposal, and 92% of industry tonnage supports the proposal.

Enterprise Responses	Member	Non-member	Total	%
Positive response regarding promotion levy proposal	18	1	19	70
Positive response, but requests more information and discussion at the AGM	5	0	5	19
Negative response regarding levy proposal	2	1	3	11
Total	25	2	27	100

Enterprise Tonnage Responses	Member	Non-member	Total	%
Positive response regarding levy proposal	2,081	20	2,101	55%
Positive response, but requests more information and discussion at the AGM	1,419	0	1,419	37%
Negative response regarding levy proposal	316	1	317	8%
Total	3,816	21	3,837	100%

Advantages and Disadvantages

Respondents identified the main advantages of the levy as:

- most cost effective way to differentiate Australian farmed prawns to consumers
- long term commitment by industry to fix the major problem
- levy will generate substantial funds and enable a targeted impact in market
- enable industry to fully benefit at the point of sale from its *P. monodon* breeding program
- equitable across all industry participants

- readily achieved by piggybacking onto the R&D levy
- will increase the scope of the ways that APFA can assist industry – increase value in membership
- FRDC/ DAFF mechanism allows levy to be easily amended with industry approval

Respondents identified the main disadvantages of the levy as:

- not all farms need a levy to maintain viability – eg, some small seasonal players close to market
- uncertainty regarding the legislation to support the levy
- industry agreement required to allocate the funds contributed
- perceived partial loss of control of marketing by some farmers
- hard to find the funds for the levy in hard times
- a promotion levy will not stop the price undercutting that occurs in the industry – this needs to be addressed also
- will be a waste of money if it is not tightly managed by the APFA.

Industry AGM

The promotion levy proposal and the independent consultation process were presented to the members at the APFA AGM on 28th July 2006 in Cairns. The consultant facilitated considerable discussion regarding the merits of the levy, the analysis of consultation responses, and the preferred option to implement the levy. The Meeting passed the following resolution

The Australian Prawn Farmers Association members agree to support the establishment of a compulsory levy at the rate of 10c/kg for promotion.

The APFA Executive will seek members' endorsement for a Marketing Plan and Budget to allocate funds raised. In doing so the Executive will consider options related to both Australian seafood and prawns. Moved by: Ross Baillie Secinded by: Noel Herbst

The Promotional Plan

The APFA intends to lead its members to undertake sustainable and commercially viable activities. In 2003 the Association established an effective R&D Plan and R&D Committee as a major platform for industry development. The Association proposes to develop a 5 year Promotion Plan supported by a Promotion Committee to allocate and manage funds from the new levy. The R&D Levy has already established a cost effective levy collection mechanism. The industry Executive and Management Committee have established linkages and capacity to collaborate with other sectors of the seafood industry, and to obtain external private funds. Accountability will be measured against the objectives established in the five year Promotion Plan, through Annual Operational Plans implemented by the APFA Executive and reported to all levy contributors, relevant government bodies and FRDC in an Annual Report.

In line with industry agreement, the industry promotion priorities are to be determined and reviewed on an annual basis and included as a schedule to this Promotion Plan. Priorities result

from industry consultation, where farmers are asked to allocate resources, in their order of priority, to various market and promotion activities. The averaged results are used to set the priorities, ensuring that the priorities reflect the overall requirements of the entire industry.

Levy Funding Generation

Farmers are paid on a per weight basis, and it is therefore reasonable and readily acceptable to impose the promotional levy on a cents per kilogram basis of prawns produced. As the levy mechanism is already well established and supported by industry this method is the easiest to audit (for the process of verifying levy payments), is based at the end of the farm supply chain, and avoids any complications that could occur through freight and price variability.

This levy will not be matched by taxpayers funds. The only funds contributed to the promotional program under this levy will be from industry members. As this levy is unmatched there are no relevant statutory upper limits to the collection of the levy.

Figure 22 presents industry GVP data across rolling 3 year averages. Note that product estimates from 2005 (4,500 tonnes) have been reduced to give the current industry estimate of 4,200 tonnes. These figures are in contrast to the lower production figures provided by ABARE. Industry believes the ABARE figures underestimate industry production.

	2002-03	2003-04	2004-05	Est.2005-06
Total Estimated Farmed Prawn Production tonnes	3,365	3,723	3,234	4,200
Marine Prawn Prices at farm gate \$/kg	16.66	15.51	15.42	16.66
Total Estimated GVP at farm gate	\$56,068,000	\$57,762,000	\$49,864,000	\$70,000,000
Average GVP - last 3 yrs			\$54,564,000	\$57,210,000

Source: 2002-2005 ABARE. 2005-06 estimates based on industry advice.

Due to the structure of the industry, it is preferable for the simplicity of applying a flat rate as opposed to on an ad valorem basis. The levy collection multiplier is estimated as follows.

	2006-07
Levy collection at selected rate	4,200 tonnes @ \$0.10
Gross Levy Collections	\$420,000
Less approx. LRS collection fee advised	\$4,000
Net Levy after fees	\$416,000
Plus Commonwealth Matching Funds	\$0
NET PROMOTION FUNDS AVAILABLE	\$416,000

The industry Promotion Plan will set the direction for the promotion investments. On an annual basis the industry and FRDC will internally review the promotion levy rate and the levy mechanism relative to development objectives and the commercial operating environment.

The levy revenue options based on forecast production levels are estimates as follows:

Year	Production Volume (tonnes)	GVP (\$'000)	Net Promotion Levy Collections
2002-03	3,365	56	Nil
2003-04	3,723	58	Nil
2004-05	3,234	50	Nil
2005-06	4,200	70	Nil
2006-07	4,200	70	\$420,000
2007-08	4,400	75	\$440,000
2008-09	4,600	80	\$460,000

Note: Data for 2006-07, 2007-08 and 2008-09 have been forecast based on industry trends and advice. Net levies do not allow for collection costs.

The FRDC, with the approval of the APFA Promotions Committee will fund priority projects based on the industry Promotion Plan.

As a result of these proposed figures agreed with FRDC, the farmed prawn industry will have a Promotional budget of around \$400,000 per year to invest in dedicated generic prawn promotions.

In addition there will be other generic promotional activities that APFA may choose to support with Seafood Experience Australia or other bodies.

Levy Collection Mechanisms and Costs

Levy payments and the collection mechanisms have been developed in consultation with Mr Scott Walter APFA, and the Levy Revenue Services (LRS). These proposed mechanisms are supported by APFA, by State and Federal Governments, and the LRS.

The most effective and equitable collection will be to mirror the arrangements for the existing prawn farmers R&D levy. This collection point is at the farm gate. Farmers will be responsible for calculating / verifying and collecting their compulsory contributions and forwarding them to LRS. A levy collected at this point of the prawn supply chain will effectively capture the bulk of the stock, and ensure that all farmers are contributing equitably. Levy contributions by industry will be paid quarterly in areas, with the first contribution payable as soon as possible.

The cost of collection and administration by APFA under the proposed levy collection system is estimated by LRS to be approximately \$4,000 per year. This does not include the small administrative costs incurred by farmers in documenting and submitting production data.

Levy Implementation

APFA has been advised that the levy can be implemented within six months of Ministerial approval, during the 2006-07 financial year. Levy moneys are to be managed via FRDC, in consultation with industry. Some delays are anticipated as this is the first promotion levy initiated in the aquaculture industry. The APFA will draft a formal Promotion Plan endorsed by industry as a basis for allocation of funds to promotional activities. The Plan will collaborate with SEA activities where appropriate.

DAFF LEVY PRINCIPLE	APFA PROMOTIONAL LEVY STATUS
1. Must relate to a function for which there is a significant market failure .	Objectives of a few held up by interests of a minority. As per R&D levy.
2. Must be supported by industry bodies representing wherever possible, all levy payers, or by levy payers directly.	APFA resolution recorded at AGM
3. Proposal requires assessment of the extent, the nature and source of any opposition to the levy, analysis of the opposing argument and reasons why the levy should be imposed despite the argument raised against the levy. Proposal must demonstrate that all reasonable attempts have been made to inform levy payers of the proposal and that they have had the opportunity to comment on the proposed levy.	Public notices placed in media Personal consultation of all in APFA data base Submission invited.
4. Proposal must estimate the amount of levy to be raised to fulfil the function to be paid for by the levy, and present a clear plan of how the levy will be utilised, including an assessment of how the plan will benefit the levy payers in an equitable manner. Proposal must demonstrate acceptance of the plan by levy payers in a manner consistent with Principle 2.	\$400,000/ year collected – not matched Market Plan for promotion to be developed by APFA APFA resolution recorded at AGM
5. Proposal must demonstrate that there is agreement by a significant majority on the levy imposition/collection mechanism, or that, despite objections, the proposed mechanism is equitable in the circumstance.	APFA resolution recorded at AGM
6. Levy imposition must be equitable between levy payers.	Same collection mechanisms and expenditure approach as per existing R&D levy of 3.6c/kg Same as existing R&D levy
7. Levy must be related to the inputs, outputs or units of value of production of the industry or some other equitable arrangements linked to the function causing the market failure.	Same as existing R&D levy
8. Levy collection system must be efficient and practical, and must impose the lowest possible "red tape" impact on business, subject to transparency and accountability requirements.	Same as existing R&D levy
9. The organisation or organisations which will manage expenditure of levy monies must be consulted prior to introduction of the levy.	APFA and FRDC - Minister
10. Body managing expenditure of levy monies must be accountable to levy payers and to the Commonwealth.	FRDC / APFA same as R&D levy
11. Levy must be reviewed against these principles following a specified period and in a manner determined by the Government in consultation with industry at the time of the imposition of the levy.	Annual review process by FRDC

Appendix 2 – Levy Related Legislation

Levies Revenue Service Business Plan 2004-05

IMPOSITION LEGISLATION

Primary Industries (Customs) Charges Act 1999

Primary Industries (Excise) Levies Act 1999

Dairy Adjustment Levy (Customs) Act 2000

Dairy Adjustment Levy (Excise) Act 2000

Dairy Adjustment Levy (General) Act 2000

National Residue Survey (Customs) Levy Act 1998

National Residue Survey (Excise) Levy Act 1998



COLLECTION LEGISLATION

Primary Industries Levies and Charges Collection Act 1991

Dairy Produce Act 1986

DISBURSEMENT LEGISLATION

Agricultural and Veterinary Chemicals (Administration) Act 1992

Australian Animal Health Council (Livestock Industries) Funding Act 1996

Australian Meat and Livestock Industry Act 1997

Australian Wine and Brandy Corporation Act 1980

Dairy Produce Act 1986

Egg Industry Service Provision Act 2002

Fisheries Admin Act 1991

Horticultural Marketing and Research and Development Services Act 2000

National Cattle Disease Eradication Account Act 1991

National Residue Survey Administration Act 1992

Pig Industry Act 2001

Plant Health Australia (Plant Industries) Funding Act 2002

Primary Industries and Energy Research and Development Act 1989

Wheat Marketing Act 1989

Wool Services Privatisation Act 2000