



**Australian Government**

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**Department of Agriculture  
and Water Resources**

# Australian Export Fodder Research and Development Levy

## Regulation Impact Statement

*February 2016*

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## Background – Australian export fodder<sup>1</sup>

Fodder includes a wide range of crop and pasture species that are grown, harvested and partially processed for on-farm use as well as for domestic and export trade. Different processing methods result in a range of different products, including hay, silage (fermented, high-moisture fodder), straw, chaff (coarsely-chopped dried whole plants) and pelletised products. Typically lucerne (or alfalfa) is the most widely exported fodder commodity internationally, thus providing Australia with a key differentiation in the market. Australia exports fodder products such as wheaten hay, barley hay, cereal straw, lucerne, vetch and Rhodes grass; however, Australian exports usually represent less than 20 per cent of total international exports. Australia produces between six million and eight million tonnes of fodder per annum with a gross value of production of approximately \$2 billion. Of total fodder production, approximately 70 per cent is consumed on the farm where it was produced, 20 per cent is sold domestically, and 10 per cent is exported.

In recent years, between 600 000 and 800 000 tonnes of hay and straw have been exported annually. Key export markets include Japan, Korea, China and Taiwan. Demand for Australian fodder is increasing, notably in countries with growing livestock industries. It is estimated that China's demand for fodder will continue to grow at about 5-8 per cent per annum over the next five years. This growth in Chinese demand for fodder represents the first significant opportunity for an expansion of Australian fodder exports in over a decade.

The majority of Australia's export fodder is produced in Western Australia and South Australia, with Victoria being the third largest exporting state. Export markets also have specific requirements, which generally means that growers will produce fodder with the intention of exporting it to specific markets. In the past decade, total Australian export tonnages had settled at over 700 000 tonnes of hay and straw; however, in both 2013 and 2014, total exports surpassed 800 000 tonnes, and ABARES estimates that total fodder export in 2014-15 was 890 000 tonnes. The export price received per tonne of hay was approximately \$376 per tonne in 2014-15. In 2016-17, total export tonnage is expected to rise to 950 000 with an estimated value of \$410 per tonne<sup>2</sup>.

The fodder industry currently relies on voluntary contributions and funding from the Rural Industries Research and Development Corporation (RIRDC) to support research, development and extension (RD&E), in the absence of a statutory levy. RIRDC is a statutory authority established by the *Primary Industries Research and Development Act 1989*. RIRDC is specifically charged with managing investment in RD&E for primary industries that are too small to set up their own RD&E entity, and to address multi-industry and national interest RD&E needs. The current research priorities for fodder RD&E are tied in with the overarching New and Emerging Plant Industries RD&E plan<sup>3</sup>, which includes:

- Support research into production systems that have the potential to dramatically lower cost and increase productivity and supply consistency
- Develop systems that support value chain integrity including quality standards and protocols for post-harvest care

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<sup>1</sup> Figures in this section are sourced from *The Australian Export Hay Levy – levy proposal submission* from the Australian Fodder Industry Association.

<sup>2</sup> Analysis provided by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES)

<sup>3</sup> Available at [www.rirdc.infoservices.com.au/items/15-014](http://www.rirdc.infoservices.com.au/items/15-014)

- Demonstrate the safety and effectiveness of emerging plant products and new uses for products from these plants
- Support industry stages across the RIRDC industry life cycle.

The fodder industry's RD&E needs include improved crop and pasture varieties; disease, weed and pest control; harvesting and processing technologies; storage and handling methods; and developing new markets. Without an industry RD&E programme, the industry will not be able to maximise its resource utilisation or respond effectively to challenges that will inevitably arise. Increased funding for fodder RD&E would allow RIRDC to pursue research in the following areas:

- Oaten Hay Breeding Program
- Researching New and Developing Markets
- Hay Agronomy
- Animal Nutrition Research
- Fodder Safe
- Fodder Analysis.

### Impact group identification

There are approximately 29 fodder exporting businesses that are likely to be affected by a levy on export fodder. Of these 29 businesses, 19 are members of the Australian Fodder Industry Association (AFIA) Hay Exporters Committee. These 19 businesses represent 95 per cent of all fodder exported from Australia and are publicly identified on AFIA's website. The committee comprises businesses primarily from Western Australia, South Australia and Victoria, and a small number from New South Wales and Queensland.

Fodder export generally involves an additional processing step above domestic fodder sales that requires additional equipment and is therefore a specialised business. This means that exporters either produce their own fodder crops or are supplied by growers with whom they have an ongoing business relationship. Fodder production is often integrated into farming systems, and farmers may not identify themselves as 'fodder producers' even though it may be a significant part of their enterprise. A levy on fodder – whether voluntary or mandatory, focused on export or domestic markets – will impact the wider fodder industry through the delivery of fodder RD&E and its associated benefits.

### What is the problem you are trying to solve?

AFIA has highlighted that a market failure exists in the funding of fodder RD&E due to the current inequitable contributions to RD&E between the export and non-export sectors as well as between participants in the export hay and straw sector.

An expected decline in funding is likely to lead to a reduction in, and ultimately cessation of, the existing fodder industry RD&E programme. In recent years, only the fodder export sector has continued to make voluntary contributions to the RD&E programme. Australian exporters currently make a voluntary contribution for RD&E of \$0.50 per tonne for export hay and \$0.25 per tonne for export straw, which is paid to RIRDC. However, despite this agreement, not all exporters pay their voluntary contribution to the full amount (the free-rider effect). Contributions over the last five

years have on average been \$110 240 less than the agreed contributions, leaving 34 per cent of the levy unpaid.

AFIA is concerned about the current potential for free-riding by exporters. It estimated an average shortfall in voluntary contribution from the export sector over the last five years. Without this leakage, the industry could expect around \$330 000 per annum collected from exporters. Fodder exporters voluntarily make direct annual contributions of approximately \$150 000 per annum and a further \$75 000 per annum is received in royalties collected on exports of hay of varieties developed by the National Oat Breeding Program from participating exporters. RIRDC's core funding contributions currently total between \$140 000 and \$200 000 per annum. This funding supports the ongoing viability of the National Oat Breeding Program and enables some RD&E in other areas. Additional industry funding is required to replace RIRDC's core contribution, which is not guaranteed past 2017, to ensure the viability of the National Oat Breeding Program and extend the scope of fodder RD&E.

Historically, the Fodder Crops RD&E programme conducted successful projects on a number of industry issues (i.e. plant breeding and transport). However, the programme has contracted to a small number of core projects over the past few years due to lack of funding security. RIRDC manages the fodder programme and provides funding from its government appropriation. RIRDC's New and Emerging Plant Industries Three-Year RD&E Plan (2015-17) re-focuses RIRDC's investment on new and emerging industries and, as a result, it is reducing its funding of the fodder programme. This reduction, along with the reduced amount of voluntary contributions and lack of certainty about the expected quantum of future contributions, impedes the ability of the sector to plan for RD&E and deliver on RD&E outcomes. In addition, the non-payment of voluntary contributions by some producers is likely to discourage current payers in the future. If no action is taken, total contributions by exporters are highly likely to decrease and may eventually stop as RD&E declines and the cost of the voluntary levy outweighs measurable benefits to those businesses that do contribute funding.

## Why is government action needed?

Government action is required to address the inherent market failures of the voluntary contribution system. The overall objective of the government action is to help maintain and strengthen the viability of the Australian export fodder industry so that it can increase its contribution to the Australian economy. This objective is in line with current government policy to support agricultural industry RD&E by collecting and distributing mandatory levy funding and matching eligible expenditure on RD&E.

There are two main objectives sought: equity among fodder exporters and predictability in RD&E funding. Uncertainty in funding is the major constraint to the current arrangements for fodder RD&E, and securing consistent funding will ensure the long-term sustainability of the export fodder sector by enabling further development of the RIRDC fodder programme, for the benefit of fodder exporters. Without a guaranteed source of funding, it is likely that the voluntary contributions will continue but decline in volume until it becomes no longer viable to conduct RD&E.

In 2014, RIRDC published an economic evaluation of investments in the Fodder Crops RD&E Programme for investments between June 2009 and June 2014<sup>4</sup>. A sample of five projects demonstrated that benefits were valued at a total of \$4.78 million (present value terms) and produced aggregate total expected benefits of \$70.01 million (present value terms). This gave a net present value of \$65.23 million, a benefit cost ratio of 14.64 to 1 and an internal rate of return of 37.5 per cent. This is consistent with analysis ABARES has carried out across all rural Research and Development Corporations.

The current fodder crops RD&E programme directly contributes to the Australian Strategic Research Priorities of managing our food and water assets and lifting productivity and economic growth. Fodder RD&E directly contributes to the Australian Government's Rural Research Priorities of producing and adding value, supply chain and markets, natural resource management, climate variability and climate change and biosecurity. Ultimately, increased fodder RD&E will allow Australian fodder producers to maintain and improve fodder availability, protect against seasonal variability, continue to provide fodder during emergencies (e.g. fire, flood and drought), and increase sustainability by limiting over-grazing of pastures and improving pesticide and water use. The benefits of fodder industry RD&E extend from providing agronomic advances for farmers who grow fodder for their own use or for trade, to farmers who purchase fodder for use on farms, either all-year round or at peak periods. These outcomes and benefits will be measured by the success of the specific programmes proposed to be carried out by RIRDC.

Better fodder production will also provide public benefits to agricultural communities that rely on fodder purchases or donations to feed their stock during natural disasters, as evidenced by the 2009 Black Saturday fires in Victoria, where a large proportion of those receiving fodder donations were small landowners with a few livestock. These landholders benefited from the existence of fodder reserves in the export supply chain. Broader benefits will accrue to the export fodder sector and society in general via increased export revenue, better management of natural resources and industry sustainability. For example, greater volumes of export fodder will increase revenue across the supply chain, including in labour, transport and storage. Regarding transport, investment in the Fodder Safe programme will improve the safety of transportation of hay and straw on public roads. By ensuring regulated loads and compliance to restraint measures, a public good is delivered to all road users.

The demand for Australian fodder, in both domestic and export markets, continues to grow. To ensure this demand can be met, the fodder industry needs to invest in RD&E to ensure that Australian production systems have the information and technology to produce fodder efficiently, sustainably and safely. If income from the voluntary levy continued to decline to the point where fodder RD&E could not feasibly be carried out by RIRDC, it is unlikely to be picked up by any other research and development corporation, despite its importance to the wider agricultural sector. Improved fodder – including better animal nutrition – is important for domestic animal production, as most fodder is used on the same farm where it is produced. As animal-based systems continue to develop through dedicated RD&E, research into fodder is needed to keep up with changes in nutrition requirements, otherwise animal producers may switch to other sources of feed, including fodder imports. Additionally, RD&E involving road safety is required to demonstrate the fodder

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<sup>4</sup> Available at [www.rirdc.infoservices.com.au/items/14-085](http://www.rirdc.infoservices.com.au/items/14-085)

industry's commitment to best practice in transportation. A lack of focus in this area could result in unsafe road transport practices and damage the public perception of the fodder industry.

Cessation of fodder RD&E would affect the continued operation of the National Oat Breeding Program, impacting both exporters and domestic producers by restricting access to hay variety trials that underpin productivity, disease resistance, and hay quality. The oat breeding programme has been important to increasing the adaptability of the fodder industry; much of Australia's oaten hay exports are made up of varieties developed through the programme. Lack of funding for fodder RD&E will also prevent RIRDC from carrying out research into new and emerging markets, as well as hay agronomy, which underpins the development of new varieties through the National Oat Breeding Program. This would impede the ability of fodder producers to understand and adapt to export market preferences, and may ultimately impact Australia's market position by turning international customers away from Australian fodder.

## What policy options are you considering?

### No regulation

This option would continue current arrangements for funding fodder RD&E through voluntary industry contributions. RIRDC currently manages the fodder crops RD&E programme and has advised it wishes to maintain this relationship with the fodder industry. However, funding for the fodder crops RD&E programme remains uncertain into the future. RIRDC is committed to providing funds to the fodder crops RD&E programme and managing the sub-programme until 30 June 2017. From this time, RIRDC support for the industry will be reviewed annually, on a competitive basis across the New and Emerging Plant Industries Program. In line with the funding criteria established under this programme, the fodder industry will be expected to contribute 50 per cent of the costs of the fodder programme, including RIRDC's management costs.

### Levy on export fodder only

The levy would be calculated based on the weight of hay and straw exported over a prescribed time period multiplied by \$0.50 per tonne. This would ensure equity between exporters, as they would pay an amount proportional to the amount of hay or straw exported. Stability of funding would also be ensured as the levy would be mandatory, and the Department of Agriculture and Water Resources has established compliance and debt recovery processes that would ensure payment.

A short-form RIS was undertaken for the provision of levy matching funding for a potential export fodder levy as part of the Agricultural Competitiveness White Paper process (OBPR Ref: 19064). That RIS addressed the red tape implications of seeking a mandatory levy and providing matching funding, but did not explore the detail of the potential regulatory burden on businesses. The mandatory levy would add a small additional amount of red tape as it would require approximately 29 fodder exporters to submit quarterly returns to the Department of Agriculture and Water Resources.

The levy will impose a tax of approximately \$400 000 on a sector which, based on ABARES forecasts prepared for the department, is expected to have an export value of around \$390 million in 2016-17. This means the levy would represent just over 0.1 per cent of the gross export value. As the industry already makes funding contributions of over \$200 000 (including the voluntary levy and oat breeding programme royalties), the marginal contribution from industry is closer to 0.05 per cent. It is proposed that the levy, paid by the exporter, be applied at the point of issuance of the export

permit. The levy applied would be calculated from the tonnage on the export permit. The exporter, via a self-assessment process audited by the Department of Agriculture and Water Resources, would pay the levy quarterly. As with other levies, the Department of Agriculture and Water Resources recovers its costs for collecting the levy from the levy payers.

### Levy on all fodder industry participants

This option would impose a levy on all fodder producers. It would require a much greater contribution from the Australian Government for matching funding, due to the policy of matching eligible rural RD&E on a dollar for dollar basis. Finding a successful model for equitable collection of a mandatory whole-of-industry levy has proven particularly difficult to date, with a number of industry proposals either not able to be approved by the Australian Government or failing to reach industry consensus. The failure of these levy proposals was largely due to difficulty in identifying a workable levy collection point.

In 1996, fodder producers proposed the development of a levy on baling twine to fund an RD&E programme, subject to the development of a Fodder RD&E Strategy. An industry-supported levy proposal was submitted in June 1998, but was not supported by the Australian Government. In 2010 the industry attempted to develop a whole-of-fodder-industry proposal, which was unsuccessful due to a number of concerns. These concerns included that individual farmers, who were already paying multiple levies (e.g. a fodder crop levy would also be paid by those paying dairy, red meat and grains levies), would not support the additional levy. The difficulty of defining a method of collection, when the majority of production does not enter the market, was also of concern.

For the purpose of costing this option, an estimate was made of the total number of Australian fodder-producing businesses. Because most fodder is produced and used on the same property, the levy would only apply to fodder that enters a supply chain. This is estimated at 30 per cent of all fodder produced. Producers would be required to pay the levy based on the first point of entry into the supply chain – this could be through a broker or through private sales.

## What is the likely net benefit of each option?

### No regulation

A no regulation option would mean that a mandatory regulatory burden is not imposed on fodder exporters. Fodder RD&E would continue until June 2017, funded by revenue from voluntary levies paid by the sector. As some producers would likely choose to continue to pay the voluntary levy, they would still encounter administration costs in relation to those levy payments as long as the fodder RD&E program continues at RIRDC. Without a stable and foreseeable stream of revenue, RIRDC would not be able to guarantee the continuation of the fodder RD&E programme past 2017. Should RIRDC cease funding for fodder RD&E, it is unlikely that this research would be carried out by another agency.

The export fodder sector comprises approximately 26 individual businesses, ranging from large private companies to small family businesses. The incentive and capacity for individual small businesses to privately invest in RD&E is low, in part due to the inability of individual businesses to capture the full benefit of that research. This market failure would result in under-investment in RD&E for the fodder sector. This can be addressed in part by a voluntary levy that facilitates collective investment. However, unless all producers pay their full contribution, under-investment will continue due to the inequitable payments. The absence of a mandatory levy is likely to result in



continuing inequality in funding fodder RD&E and reduced levels of voluntary contributions, which in turn would result in reduced performance of the export fodder sector.

Exporters are unlikely to have confidence that the free-rider issue could be dealt with outside of government regulation, and may not see the value in continuing to contribute levy funding where the diminishing benefits accrue to all producers, regardless of whether they have been paying the voluntary levy. This would result in the end of the current fodder crop RD&E programme. Without RD&E, the sector will not be able to effectively respond to the ongoing challenges of maintaining and building its ongoing profitability. The cost of diminishing RD&E will be borne by the fodder sector, the wider agriculture industry and the general community through lost revenue and production and sub-optimal resource utilisation.

This option is considered 'business as usual' and is based on the number of producers currently paying the voluntary levy. Fodder exporters currently pay the voluntary levy directly to RIRDC, and do not use the department's levy collection system. The cost includes assumptions about time required to calculate the voluntary levy and process the payment to RIRDC.

### *Assessment*

It is unlikely that there is a net benefit from continuing the voluntary levy. While it may continue to fund the RIRDC fodder programme in the short term, it will not support a long-term RD&E programme. There is no regulatory cost associated with this non-regulatory option (business as usual).

### *Levy on export fodder only*

An export fodder levy would improve the fodder RD&E system by ensuring that all fodder exporters contribute proportionately to the proposed statutory levy scheme based on their level of participation within the industry. This option is well-supported by the export fodder industry; 19 fodder exporters wrote to AFIA to express their support for a mandatory export fodder levy. No objections were received following the submission of the export fodder levy proposal during the six-week objection period that was promoted by AFIA at the request of the Minister for Agriculture and Water Resources.

As the levy would be based on the number of tonnes exported, it represents a fairer and more equitable system for exporters than current arrangements. Using the tonnage exported provides an objective measure of the capacity of the exporting business, and therefore is an appropriate tool to calculate the levy contribution. A levy per tonne of exported hay and straw would ensure that it is equitable to all participants, as exporters would contribute based on their level of participation within the industry (i.e. tonnes exported). Exporters are likely to see their levy payment as proportionate to the RD&E benefit they will accrue, and therefore view the levy as a future investment rather than the current arrangement of supporting a programme where continuation is uncertain in the long-term.

Research and development levies are commonly imposed by the government on agricultural industries, following industry requests for a levy, and the proposed mandatory export fodder levy is similar to levies currently in place for other agricultural industries. The Australian Government has an established role, through the Department of Agriculture and Water Resources, of liaising with industries that want a levy system and implementing an effective collection system at minimum cost. The Department of Agriculture and Water Resources' collection process would replace the

current voluntary payment arrangement and would therefore not be expected to result in a significant net increase in burden on fodder businesses. Following consultation with AFIA, the department understands that exporters recognise that the mandatory levy will not affect pricing structures or create an unreasonable compliance burden.

After undertaking extensive consultation with its members, AFIA has submitted an export fodder levy proposal to the Australian Government that aligns with the Commonwealth Levies Principles and Guidelines and which is preferred by exporters. Fodder exporters have already committed to industry development through voluntary contributions to RD&E. According to AFIA, exporters accept that RD&E outputs and outcomes will, to an extent, also benefit non-levy payers, but support this on the basis of their commitment to broader industry development. The benefits of this option include export industry support and established links with exporters, which will allow for a smooth transition from the current voluntary system to the proposed mandatory levy. The department has a record of businesses that export fodder through the Plant Export Management System, and contacting these exporters to register them in the levy system will be relatively simple.

Administrative costs under this option will be significantly lower than under an industry-wide levy system. Fodder exporters are required to have accountable and transparent operations as their shipments undergo phytosanitary inspections prior to export. Also, those that pay the voluntary levy will also have a levy payment system in place that records the volume exported. Therefore, exporters will have a much lower compliance burden than domestic sector participants who sell via diffuse supply chains (e.g. selling fodder to neighbouring properties) and thus would be required to develop auditable inventory and payment systems to adhere to levy collection requirements. Applying the levy to the export sector will result in a higher volume of levy being collected from each levy payer, compared to an industry-wide levy as each producer will need to pay the levy as there are no other common points in the supply chain to impose a levy on the industry output. In addition, no single equitable input has been identified on which to impose a levy. Departmental data show that as the number of levy collection points increases, the collection costs per dollar of levy collected increase. Therefore, it is inefficient to impose a levy unless a suitable point in the supply chain exists.

The security provided by a mandatory levy will allow for the expansion of RD&E coverage to include wider industry-good research that will be more applicable across the fodder sector and provide greater return on investment. The Fodder Crops RD&E programme is currently estimated to have an internal rate of return of 37.5 per cent. Matching funding provided by the Australian Government for this option will complement the initial industry investment; the matching funding has been announced and budgeted for by the government, and will be available to industry from 1 July 2016, subject to approval of this proposal. It is estimated that for every dollar that the Australian Government invests in rural RD&E, farmers generate a \$12 return over 10 years<sup>5</sup>. The rate of return on investment for this option is significantly greater than both the expected levy collection and regulatory costs.

The fact that all exporters can and do participate in AFIA's exporter committee means that the majority of levy payers would have an opportunity to advise on which RD&E outcomes would most

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<sup>5</sup> Sheng, Y, Gray, EM, Mullen, JD and Davidson, A 2011a, Public investment in agricultural R&D and extension: an analysis of the static and dynamic effects on Australian broadacre productivity, ABARES research report 11.7 for the Grains Research and Research and Development Corporation, Canberra, September.

benefit them. The initial investment plan for the mandatory levy would be ratified by levy payers and an Export Hay Advisory Panel (EHAP) will be established to advise RIRDC on how to direct RD&E efforts. Funds from the levy will be allocated towards research identified by levy payers and included in an investment plan that will be developed with the input of all levy payers. The process for establishing investment plans will be guided by AFIA and will ensure that all levy payers have the opportunity to contribute towards their preparation. It would not be possible to achieve direct representation of a similar proportion from the domestic sector, given the vast number of domestic fodder producers. Under a mandatory levy, AFIA proposes that all levy payers would be invited to participate in a regular review to determine the continuing value of an RD&E levy to industry.

In costing this option, the department’s levies section provided estimates of how long it takes for a producer to calculate and pay a levy. Exporters are able to calculate their export tonnage through the Plant Export Management System, and this figure is used to determine the appropriate amount of levy to be paid. The total cost recovery to be undertaken by the department is not included in this option’s costing, as it is collected from the total levy amount paid by industry participants and would not affect individual payments. The amount of levy paid by an exporter that is used for cost recovery would be proportionate to their export tonnage.

There are some additional steps required in moving from a voluntary to mandatory levy system, including levy payer registration and education. It is likely that most fodder exporters are already paying some volume of voluntary levy (though this may be significantly smaller than the volume they would pay through a mandatory system), so only a small number of businesses would incur a demonstrable increase in administration. Even so, those businesses that do not currently pay a levy are those that only export a small amount of fodder. Large exporters would be required to submit returns quarterly, while small businesses would only have to submit a return annually. Regarding education, the department proposes to run a levy introduction session at an AFIA exporters meeting to inform levy payers of their obligations. Those that do not attend this meeting would be encouraged to contact departmental compliance officers, who would provide education on the levy system.

*Assessment*

There is a net benefit in pursuing a levy on exported fodder, which will prevent a ‘free-rider’ issue in fodder RD&E for the export sector. Some costs will inevitably be incurred under this option – including administrative costs for business and government – and it will not address the wider industry ‘free-rider’ issue in fodder RD&E. However, it is a more equitable system that is supported by fodder exporters, and establishment would be relatively simple, with low ongoing costs. The total regulatory cost for this option is calculated as \$2,000 in annual average costs over a period of ten years.

*Option 2: Regulatory Burden and Cost Offset Table<sup>6</sup>*

**Average annual regulatory costs (from business as usual)**

Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
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<sup>6</sup> Note there is no Regulatory Burden and Cost Offset Table for Option 1

Total, by sector	\$2,000	\$0	\$0	\$2,000
Cost offset (\$ million)	Business	Community organisations	Individuals	Total, by source
Agency	\$0	\$0	\$0	\$0
Are all new costs offset?				
No, costs are not offset				
Total (Change in costs – Cost offset) (\$ million) = \$2,000				

### Levy on all fodder industry participants

An industry-wide levy on fodder production would provide a more significant level of RD&E funding for the industry, and would enable greater coverage of research issues. However, this option would impact a greater number of businesses and apply a higher level of administrative burden, both in absolute terms and relative terms. The lack of a defined collection point for a levy on either inputs or outputs would mean the collection costs per dollar of levy funding could be unreasonably high. It would also require a commitment to greater matching contributions than previously agreed by the Australian Government, as the RIRDC program would need to also address issues of relevance to the domestic industry in order to garner support from that sector for the levy. A move to an industry-wide levy would not necessarily have the support of the Australian Government in the form of matching contributions. Without government agreement to matching contributions, a levy could not be approved under the existing legislation and policy settings.

Under this option, AFIA would be required to develop a new levy submission that would garner demonstrable support from the wider fodder industry. This would impose greater administrative costs with regard to both preparing the submission and conducting broader consultation, and would push back the start of the levy past 2016. It would be unlikely that a submission acceptable to the fodder industry could be submitted before the fodder crops RD&E programme concludes in June 2017. The multifaceted nature of the industry means achieving a consensus on collection methods or research objectives has not been possible.

While this option may eliminate the industry-wide free-rider issue by capturing all fodder producers, it is not favoured by industry due to the complexity and cost of collecting a levy. The diffuse nature of the fodder industry means that, despite the likely benefits of sector-wide funding of RD&E, it is unlikely the Australian Government could successfully intervene at this sector-wide level due to the effort required to collect a levy from all producers and the associated high collection costs. Unlike the export fodder sector, the department is not directly involved with the domestic fodder sector, and it would therefore be difficult to contact potential levy payers for registration and education about levy collection arrangements and obligations.

While it is assumed that many producers will be familiar with paying levies (either as fodder exporters or due to other businesses operations that collect levies, e.g. grazing cattle), there would be a higher risk of non-compliance from the domestic sector, as most producers would not be responsible for determining their own levy liability and would therefore not understand the levy collection process. In addition, given the diffuse supply chains and likely volume of cash sales,

identifying all potential levy payers would be difficult if not impossible. This would require greater investment in compliance activities – such as more frequent auditing – which are cost-recovered by the department. Effectively, greater focus on compliance would result in both a greater administrative burden on businesses, which would lead to a greater portion of the levy funding being directed away from RD&E.

This option has been discussed by industry for at least twenty years without resolution. The high proportion of fodder retained on farm and the multiplicity of supply chains in the domestic sector means that there is no single, identifiable collection point for a levy based on industry output. It would be difficult to introduce a levy on a certain fodder-specific input, as there are various methods of producing fodder (e.g. using twine or wraps to make bales of hay that may be either small or large and either rectangles or cylinders) and fodder consists of various types (i.e. hay, chaff and silage). This means that a levy per unit of input would result in different levy amounts paid per unit of output, e.g. small bales use several times the twine of a large bale per kilogram. Given that 70 per cent of Australian-grown fodder is consumed on the farm where it is produced, it would be particularly difficult to track domestic production volumes.

The assumptions for cost of levy submission and education are the same as those in Option 2, including less frequent levy payments for small businesses. However, there is a small added cost for determining the levy for each business, as producers may not have access to a system that automatically calculates the tonnage of fodder sold. This highlights further complexities in imposing an industry-wide levy, as the industry does not have a consolidated supply chain, and producers may not keep detailed records of private sales. The overall figure includes an estimation of the costs associated with the preparation of an additional levy proposal submission – including industry consultation – based on costs incurred by AFIA (through RIRDC) in the drafting of the export fodder levy proposal.

### *Assessment*

Assuming government agreement to additional matching funds, this option would allow for a greater investment in fodder RD&E than options 1 and 2, for the benefit of the whole industry. It would also be more effective at eliminating the free-rider issue, with more fodder producers contributing fund the RD&E outcomes that improve their fodder production. However, the inherent complexity in designing a levy system to capture all fodder industry participants means there is a high cost associated with this option. The stated benefits are outweighed by high collection costs and time delays, particularly in designing a workable levy system, securing agreement from industry participants, and ensuring payment of the levy. The total regulatory cost for this option is calculated as \$830 000 in average annual costs over a period of ten years. This means that if an additional \$400 000 of levy was required (to fund a domestic fodder research programme at the same scale as the proposed export programme) the marginal regulatory cost would be 207.5 per cent. This overhead would be reduced with a larger scale programme, however, it is highly unlikely that this would result in an acceptable proposal.

### *Option 3: Regulatory Burden and Cost Offset Table*

## Who will you consult about these options and how will you consult them?

In preparation of its submission to government on a proposed levy, AFIA consulted extensively with its members through industry forums and has provided evidence of strong industry support for introducing an export fodder RD&E levy of \$0.50 per tonne for all hay and straw exported, as soon as practically possible. AFIA provided the Minister for Agriculture and Water Resources with letters from 19 fodder exporters (representing 95 per cent of Australian fodder exports) demonstrating support for the proposed mandatory levy. The issue of a mandatory levy has been under consideration for many years within the fodder industry and has widespread support amongst exporters.

In August 2014, the AFIA Executive Officer provided an update on progress towards an Australian Export Fodder R&D Levy at the 2014 Fodder Conference in Adelaide, which attracted 270 delegates. The conference minutes confirm that all attendees supported AFIA's work to establish a mandated export levy as soon as practically possible and agreed that the levy should be collected at a rate of \$0.50 per tonne for all export hay and straw. At a meeting of the AFIA Exporters Committee on 26 February 2015 in Perth, all members present recommitted their support for the mandated export fodder levy. In June 2015, an article appeared in AFIA's *Fodder in Focus* magazine and in August 2015, the AFIA Executive Officer provided an update on progress towards an Australian Export Fodder RD&E Levy at the 2015 Fodder Conference in Ballarat. The conference attracted 230 delegates, and also hosted a meeting of the AFIA Exporters Committee where the meeting discussed and showed continued support for the levy proposal.

In April 2015, the Department of Agriculture and Water Resources (Plant Export Operations) emailed all known fodder exporters who were not members of the AFIA Exporters Committee offering them the opportunity to make contact with AFIA to learn more about the proposed export fodder levy. No

### Average annual regulatory costs (from business as usual)

Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$830,000	\$0	\$0	\$830,000
Cost offset (\$ million)	Business	Community organisations	Individuals	Total, by source
Agency	\$0	\$0	\$0	\$0
Are all new costs offset?				
No, costs are not offset				
Total (Change in costs – Cost offset) (\$ million) = \$830,000				

objections to the proposal were received. A dedicated Australian Export Fodder R&D Levy page has been developed on the AFIA website that outlines the proposal and invites feedback. The

department regularly communicates with AFIA about the establishment of the mandatory levy and other industry issues.

On 25 September 2015, AFIA submitted a levy proposal to the Minister for Agriculture and Water Resources. The submission triggered a six-week objection period in which fodder industry participants were invited to register any objections to the levy. This was promoted on the AFIA website and by the Department of Agriculture and Water Resources' Plant Export Operations. No objections were received by the Minister, the Department of Agriculture and Water Resources, AFIA, or RIRDC. The department is satisfied that AFIA has undertaken an appropriate level of consultation and that exporters have been provided with opportunities to register any objections to the levy.

## What is the best option from those you have considered?

The department's preferred option is to accept AFIA's request to impose a mandatory levy on export fodder producers (option 2). This is the consensus of AFIA and its exporting members, and has also been announced publically as an Australian Government commitment. There is no demonstrable evidence as to why either of the other two options should be preferred; no regulation is likely to lead to a reduction in, and ultimately cessation of, fodder RD&E, and a mandatory levy on the whole fodder industry would result in an administrative burden for a much larger quantum of businesses and may significantly delay the levy introduction process.

Implementing option 2 would secure funding almost immediately, whereas moving to an industry-wide levy would require significantly more consultation and require a new levy proposal. Effectively, this means that RD&E benefits would be realised much sooner under a mandatory export charge rather than the industry-wide charge. Implementing option 3, obtaining industry agreement is considered a high risk due to the high regulatory cost. While industry participants outside of the export sector would benefit from RD&E funded by option 2, exporters are comfortable with this as a foreseen but unintended consequence. The mandatory export levy has the support of the export fodder and industry and its implementation would be a relatively simple and inexpensive process.

## How will you implement and evaluate your chosen option?

Implementation for this measure would be fairly straightforward. The department has substantial experience in introducing and administering levies, such as the export fodder levy, for agricultural industries.

Following the completion of the RIS, the department would advise the Minister for Agriculture and Water Resources on the merit of AFIA's levy proposal submission. If the Minister agrees to the department's assessment, regulations would be drafted to legislate the introduction of the new levy. The draft regulations would be considered by the Federal Executive Council in 2016 and advice to levy payers would be provided shortly after passage of the regulation. The regulations would then be subject to parliamentary scrutiny and possible disallowance. The Minister for Agriculture and Water Resources has the authority to make the necessary regulations to implement the levy and the industry has provided strong support. Therefore, the only foreseeable barrier is if the regulation were disallowed by the parliament under the provisions of the *Legislative Instruments Act 2003*. There is no precedent for an agricultural levy regulation being disallowed.

The department's levies section has advised that this proposed levy collection system would be low cost and simple to establish, particularly with the relatively small number of industry participants. The Department of Agriculture and Water Resources would recover its collection costs from RIRDC. In 2014-15, average cost recovery charges were 1.02 per cent of levy disbursed, which would equate to \$4080 for the fodder levy. The department would implement an appropriate audit process to ensure that exporters are paying the correct amount of levy contributions. The levy contributions can be audited by the department through a review of the export permits issued to exporters over a given period referencing the leviable export product codes (i.e. those that cover hay and straw). This allows for a fully-auditable system that fulfils all government accountability requirements, and provides a level of transparency that will give comfort to industry. There is also an opportunity to make the process further automated in the future via changes to the department's Plant Export



Management System. The department would work with AFIA to determine if the cost of such changes (which would need to be recovered from industry) would be cost-effective.

RIRDC has agreed to support an Export Hay Advisory Panel (EHAP) consisting of exporters and independent members to oversee the expenditure of the funds, implementation, and monitoring of the research investment plan. Members of EHAP would be contracted to, and supported by, RIRDC and operate in accordance with its *Industry Advisory Panel Terms of Reference*.

AFIA proposes that the Australian Export Fodder RD&E Levy be reviewed every three years. It is proposed that all levy payers would be invited to participate in a review to determine the continuing value of an RD&E levy to industry. This review would be underpinned by the results of AFIA's annual reporting against the RD&E investment plan and EHAP's recommendations on industry research needs, consistent with its role as a RIRDC Advisory Panel. The Australian Government would also be engaged in this process, to ensure the levy continues to meet public accountability and transparency requirements.