

Department of Agriculture and Water Resources

**REGULATION TO ESTABLISH LEVY AND
CHARGES ON MELONS**

REGULATION IMPACT STATEMENT

OFFICE OF BEST PRACTICE REGULATION ID NO. 20458

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Section 1: Background

The Australian Melon Association (AMA) is the peak body representing melon growers in Australia. The AMA made a submission to the Australian Government proposing to establish a statutory levy and charge on melons¹ for:

- Research and development (R&D), at a rate of 0.3 of a cent per kilogram
- Plant Health Australia (PHA) annual subscription, at a rate of 0.1 of a cent per kilogram, and
- Emergency Plant Pest Response (EPPR), introduced at a nil rate.

The Australian Government has a long history of co-investing with agricultural industries in rural R&D, recognising that they mostly consist of a large number of small producers who, individually, may not have the capacity to invest adequately in R&D.

Horticulture Innovation Australia Limited (HIA Ltd) is the declared industry services body for horticulture prescribed for under the *Horticulture Marketing and Research Development Services Act 2000*. HIA Ltd has a statutory funding agreement with the Commonwealth under which it receives revenue collected from statutory R&D levies and charges and voluntary contributions from approximately 44 horticultural industries. Horticultural levies and charges are provided for under the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs) Charges Act 1999*.

HIA Ltd receives matching Commonwealth funding for eligible R&D expenditure up to 0.5 per cent of horticulture's gross value of production (GVP), excluding wine grapes. The annual horticulture GVP is determined by ABARES using a rolling three-year average, which over the three years from 2012-13 to 2014-15 was \$8.644 billion. Commonwealth matching funds paid to HIA Ltd in 2014-15 totalled \$40.622 million.

PHA is a non-profit public company limited by guarantee. PHA works in partnership with industry and government to address priority plant health issues and its activities are funded under the *Plant Health Australia (Plant Industries) Funding Act 2002*.

1.1 Industry association background

The AMA was established in 1995 as an incorporated association to represent all melon growers in Australia. The AMA services approximately 180 grower members who pay voluntary annual memberships. All financial grower members are eligible for nomination to the executive committee, comprised of eight growers from across Australia. The AMA is supported by an industry development officer, a position that was awarded project funding through HIA Ltd.

The AMA has gained national support from across the industry's supply chain through its active engagement with non-member stakeholders and the consistent distribution of industry information and support.

¹ **Melons** are from the Cucurbitaceae family, the same botanic family as pumpkins, cucumbers, zucchini and squash. Watermelon, rockmelon, honeydew, gaila melon, horned melon, charentais melon, Korean melon, hami melon and piel de sappo melon are the varieties to be covered by the levy and charge.

The Australian melon industry became a member of PHA on 1 September 2015 and on 9 December 2015, signed the Emergency Plant Pest Response Deed (EPPRD). The EPPRD is a legally binding agreement between the Australian Government, state and territory governments and industry bodies. The EPPRD sets out the arrangements for nationally cost-shared emergency responses to exotic plant pest and disease incursions.

As a member of PHA and signatory to the EPPRD the melon industry is able to establish a melon biosecurity development fund and access resources to implement national melon biosecurity programmes. The industry will also engage a dedicated melon biosecurity development officer and contribute to the development of future emergency biosecurity response plans.

1.2 Levy history

The Australian melon industry has contributed to melon R&D for around 20 years. The AMA's submission notes that over this time R&D activities were funded through voluntary contributions, predominantly sourced from the industry's supply chain partners, including seed and nursery companies; or through research providers, such as state and territory governments and universities and only a negligible number of committed melon growers.

This funding model provided little public good and was limited in its capacity and reach by the self-interests and perceived competitive advantage of withholding R&D outputs from the wider melon growing community. The funding pool was also inconsistent and often too low to allow the industry to cooperatively conduct national R&D to address gaps in plant health, production efficiencies and food safety.

On two previous occasions, February to September 2005 and October 2010 to October 2011, the AMA sought to establish melon biosecurity levies, however, both attempts were unsuccessful in the ballot and majority support was not received from the industry.

The driving force behind the AMA once again exploring the statutory levy and charge option with growers is the benefit that would be available to all melon growers. The melon industry's reluctance to consistently contribute funding for national biosecurity activities further highlights the high level of risk that the industry would face to manage future incursions of plant pests and diseases. The AMA's submission argues that these risks can be minimised by collectively investing in nationally coordinated R&D and biosecurity preparedness activities.

1.3 Melon production and trade

The Australian melon industry consists of approximately 370 growers². This figure is likely to include around 175 vegetable growers who grow melon varieties that are considered Asian vegetables, including bitter melon. Melon production in Australia can fluctuate year-on-year as some melon growers regard the commodity as an opportunistic crop and their melon plantings are reactive to the anticipated price at the point of sale.

Australian melon growing regions are shown below:

² ABS 7121.0 – Agricultural Commodities, Australia 2014-15



Queensland continues to dominate melon production in Australia. The main growing regions include Ayr, Bowen, Bundaberg and Chinchilla. In 2014–15 there were approximately 2328 hectares of melon plantings in Queensland.

New South Wales is the second largest state to produce melons with approximately 1574 hectares under melon plantings. The main growing regions in New South Wales include Griffith, Hay, Cowra and the Sunraysia district.

Other Australia states that produce melons include the Northern Territory, growing approximately 1343 hectares of melons across Darwin, Mataranka, central Australia and Katherine; South Australia, growing approximately 576 hectares of melons in Waikerie; and Western Australia, growing approximately 441 hectares of melons across Kununurra, Carnarvon, Broome, Geraldton and Perth. Victoria also produces a negligible amount of melons across approximately 11 hectares.

The structure of the Australian melon industry is predominately made up of small properties with an area of melon plantings between one and 49 hectares, representing 65 per cent of the total number of properties under melons. Properties with melon plantings from 50 to 99 hectares represent approximately 11 per cent and large-scale melon growers with melon plantings above 100 hectares represent approximately 24 per cent of properties under melons.

Melon plantings in Australia are dominated by watermelons and rockmelons, accounting for approximately 93 per cent of all melons grown in Australia. Watermelons, rockmelons and honeydew melons are produced year-round in Australia. The majority of melons are sold on the domestic market at the major wholesale markets in Adelaide, Brisbane, Melbourne, Perth and Sydney, as fresh fruit or valued added fresh-cut preparations. Some growers also sell small quantities via local roadside stalls.

Over the five year period from 2010–11 to 2014–15 melon production in Australia has remained relatively stable, producing on average 237 000 tonnes, across an area of approximately 6000-8000 hectares, valued at approximately \$198 million.

In 2010–11, Australia produced around 211 898 tonnes of melons, valued at approximately \$188 million. This production rate decreased in 2011–12 to 183 033 tonnes, with a value of approximately \$165 million. However, in 2012–13, the melon industry experienced a significant increase in production to 249 597 tonnes, valued at approximately \$234 million.

The industry further increased its production in 2013–14 to 277 097 tonnes, valued at approximately \$187 million. In 2014–15 production decreased slightly to 263 234 tonnes,

however, the industry experienced a rise in the value of the crop, valued at approximately \$216 million.

Australian melon exports are dominated year-on-year by rockmelons, however, Australia also exports watermelons, honeydew melons and a small amount of bitter melon. The major export destinations for Australian melons are the United Arab Emirates, Singapore, New Zealand, Hong Kong and Qatar. In 2015–16, Australia exported 13 949 tonnes of melons. Rockmelons accounted for approximately 57 per cent of all melon exports, reaching 8016 tonnes compared with around 3550 tonnes of watermelon and 2380 tonnes of honeydew melon.

Section 2: Assessing the problem

2.1 Under-investment in melon research and development

The Australian melon industry has largely benefited from investment in R&D through its supply chain partners, including seed and nursery companies; or through research providers, such as state and territory governments and universities. These investments are voluntary and often fund self-interest projects that previously received Commonwealth matched payments, through HIA Ltd. The AMA considers this funding model does not adequately deliver the necessary volume of R&D outputs to sustain or increase the industry's profitability and competitiveness. Similarly, cross-industry R&D funded by multi-industry funding has proven to be unfeasible.

The AMA's submission highlights a failure in these models, due to the 'free-rider' effect and the non-excludable nature of the outputs achieved from completing R&D. The melon industry's capacity to plan forward-year R&D programs was diminished by the free-rider effect as it created a disincentive for supply chain partners and melon growers to invest on behalf of the industry. The underinvestment in R&D has affected high priority research areas that were often unfunded, delayed or prematurely terminated. Research areas that were affected include the development of new applications for minor use chemical registration to support new crop protection products, evaluating soil and growing production systems, post-harvest management and food handling techniques, and on-farm biosecurity preparedness to manage pest and disease.

2.2 Pest and Disease Pressure

Recent biosecurity incidents, such as the incursion of Cucumber Green Mottle Mosaic Virus (CGMMV) in the Northern Territory, Queensland and Western Australia, and the Melon Necrotic Spot Virus (MNSV) in New South Wales and Victoria, demonstrate the threat posed by exotic plant pests and diseases to the Australian melon industry. CGMMV affects cucurbit crops with the potential to infect melons, cucumber, zucchini, squash and gourds. The seed-borne virus causes severe symptoms on the host plant including fruit abortion, malformation, rotting and discolouring of the internal fruit. It is also highly contagious, often resulting in substantial crop losses across a region.

CGMMV was first detected on commercial farms in the Northern Territory (NT) in September 2014. By October 2014 nine premises were confirmed and three suspected of infection. The National Management Group for CGMMV determined that it was not technically feasible to eradicate the virus and recommended the best management and control was to establish

quarantine areas. The NT Government declared a number of quarantine zones restricting the movement of cucurbits in an attempt to mitigate the threat to the NT's \$60 million melon industry. Despite a coordinated biosecurity response by the Commonwealth, Northern Territory and Queensland governments, a subsequent outbreak of the plant virus was detected in Queensland in July 2015 threatening the State's \$90 million melon industry. Most recently, the virus was detected on a number of infected commercial cucumber properties in Geraldton and Carnarvon, Western Australia in August 2016. The Department of Agriculture and Water Resources is currently developing a surveillance plan to observe melon crops in the area.

The AMA categorises the adverse effects of CGMMV for melon growers as both economic and social. The disease poses a real threat to the livelihoods of growers in affected areas as well as uncertainty for growers in other areas. However, because the Australian melon industry is not a member of the PHA nor a signatory to the EPPRD, growers have not been involved in decision making regarding the incursion of the CGMMV or in the operational phases of emergency responses.

Like CGMMV, MNSV is a virus with the potential to result in severe yield losses in cucurbit crops such as melons. The seed, soil and water-borne virus affects plant stems and leaves as well as causing deterioration in fruit quality persisting for the life of the plant. Symptoms detected during 2012 in NSW and in 2015 and 2016 in Victoria were consistent with that of MNSV and diagnostic work is continuing to determine its status in Australia.

The presence of CGMMV, and the risks posed by MNSV and other plant pests and diseases, including cucurbit bacterial wilt, gummy stem blight, powdery mildew, exotic fruit flies, silverleaf whitefly and exotic leaf miners, are evidence of the continuing presence of real threats to which the Australian melon industry must respond. The AMA believes that the lack of R&D funding received through the voluntary contribution model prevents the industry from investing in actions that reduce the incidence of plant pests and disease, including renewal of chemical registration to better manage plant crops and improving post-harvest management techniques.

2.3 Inequitable payment arrangements for the melon industry's membership to Plant Health Australia

On 1 September 2015 the melon industry became a member of PHA. The AMA has stated in its submission that the current arrangements for the industry to meet its PHA membership fee have aggravated the free-rider problem.

The AMA has recognised that all melon growers are beneficiaries of PHA membership, however, only those growers who are financial members of the AMA contribute to meeting the cost of the industry's membership fee. The current arrangements are, therefore, inequitable and the AMA argue that the fees associated with PHA membership should be cost-recovered from all melon growers through a statutory levy and charge.

2.4 Absence of a repayment mechanism for industry debts incurred under the EPPRD

On 9 December 2015 the AMA signed the EPPRD as a means to safeguard melon growers from working in isolation when responding to future incursions of exotic plant pests and

diseases. By signing the EPPRD, the industry has also ensured its involvement in developing future incursion response plans and endorsing financial support arrangements for eligible affected growers.

However, signatories to the EPPRD must demonstrate that there are mechanisms in place to recover the costs incurred by the government from an emergency plant pest or disease response. This requirement would be achieved by establishing the melon EPPR levy and charge. In the event of an emergency incident and following direct consultation with all affected industries and government, the EPPR levy and charge would be activated to a rate that would allow the government to reasonably recover the costs associated with responding to the biosecurity incident.

Section 3: Objective of Government action

There are two objectives of government action. The first is to help maintain and strengthen the viability of the Australian melon industry by addressing the inherent market failures of the voluntary contribution system. The second objective is to provide equity among melon growers and predictability in funding for R&D and biosecurity activities.

3.1 – Options that may achieve the objective

3.1.1 – Option 1 – Status Quo

No levy and charge which leaves the melon industry to continue its attempts to find funding through voluntary contributions from growers and industry or research partners.

3.1.2 – Option 2 – Implement AMA’s proposal

The AMA proposes that for the melon industry to benefit from any investment in R&D, a reliable and equitable source of funding through a statutory levy and charge mechanism is necessary. The AMA has, therefore, proposed that an R&D levy and charge at a rate of 0.3 of a cent per kilogram; a PHA annual subscription levy and charge at a rate of 0.1 of a cent per kilogram; and an EPPR levy and charge introduced at a nil rate, representing a total levy and charge of 0.4 of a cent per kilogram be payable at the first point of sale for growers who sell more than 20 tonnes of melon per annum. The levy and charge would be applicable to melons intended for both domestic and export markets. No export charge would be payable if the domestic levy has already been paid on the produce to be exported.

3.1.3 – Option 3 – Implement AMA’s levy proposal, in-part

Melon growers would be required to pay a PHA levy and charge at a rate of 0.1 of a cent per kilogram; and an EPPR levy and charge introduced at a nil rate, only.

3.1.4 – Option 4 – Implement an ad valorem levy

Melon growers would be required to pay a statutory R&D, PHA and EPPR levy and charge based on a set percentage of the price of melons at the first point of sale, rather than production based per kilogram. The ad valorem rate could be imposed on all melon growers

who sell more than 20 tonne per annum, similar to the production based levy and charge. However, a rate comparable with the AMA's levy proposal would need to be determined to ensure adequate levels of investment for the R&D and biosecurity priorities outlined in the AMA's submission.

Section 4: Impact Analysis – Benefit, Cost and Assessment

4.1 Impact Group Identification

All Australian melon growers who sell more than 20 tonnes of melons in a levy year would be liable to pay the proposed levy and charge if it was introduced. This cut off was chosen as the levy or charge collected on 20 tonnes of melons will approximately equal or exceed the costs of levy collection.

4.2 Option 1 – Status Quo

4.2.1 – Benefit

Melon growers could choose to invest in R&D and biosecurity activities and would not be liable to pay the costs of establishing and administering a statutory levy and charge.

4.2.2 – Cost

This option prevents the Australian melon industry from realising the benefits of collectively funding R&D and biosecurity activities. The AMA's submission notes the significant challenges the melon industry would need to resolve if it was to continue with the voluntary contribution model through HIA Ltd by establishing a collective industry fund (CIF). Under this model, supply chain partners would be excluded from funding melon R&D and a high proportion of melon growers would need to demonstrate their commitment to provide on-going financial support. As detailed above, the majority of voluntary contributions were historically collected from supply chain partners and it is likely melon growers would have considerable difficulty meeting their financial responsibilities under a CIF. Also, under this option, the industry would not have a mechanism in place to equitably fund the industry's membership fee to PHA, or to equitably cost recover the industry's share of expenses in the event of an emergency plant pest or disease incursion.

This option does not create any regulatory burden. However the melon industry would likely experience a decline in the value of production due to the limited national R&D and biosecurity activities to mitigate pest and disease impacts on farm, advance growing techniques to improve production efficiencies or improve post-harvest management systems.

4.2.3 – Assessment

It is unlikely that there is a net benefit from this option. The melon industry would not have a formal mechanism to contribute to R&D or biosecurity activities. Continuing the status quo would not address the free-rider problem and it is unlikely that the industry would

cooperatively fund the national R&D and biosecurity activities that were identified in the AMA's submission. As discussed in Section 2.1 the melon industry could not demonstrate industry-wide support for the voluntary levy. This option would also prevent the industry from establishing an equitable collection mechanism to meet its PHA membership fee and would place the industry at risk of failing to meet their financial obligations under the EPPRD.

4.3 Option 2 – Implement AMA's levy proposal

4.3.1 – Benefit

Establishing a statutory levy and charge on melons would overcome the free-rider problem. All melon growers would benefit from the R&D and biosecurity outputs and the levy and charge would be collected equitably from across the industry. It is estimated that over the three years from 2017–18 to 2019–20 the proposed levy and charge would collect approximately \$2.8 million in revenue. Of this, \$2.1 million would be directed to melon R&D. Commonwealth matched payments for eligible R&D may further assist the melon industry to achieve its potential.

Under this option the R&D levy and charge would fund priority R&D projects aiming to increase the industry's profitability and competitiveness. Some of the planned R&D projects include:

- Assessing the impact of seed borne pests, including CGMMV
- Evaluating rootstock suitability in different production regions
- Improving chemical registration and management options for growers
- Developing export markets
- Advancing post-harvest management techniques to improve food safety and
- Building cohesive relationships with industry and supply chain partners.

A strategic R&D investment plan for the melon industry would also be developed by HIA Ltd, in consultation with levy payers and the AMA, after the levy and charge commences.

As a member of PHA, the melon industry can access national plant health resources and expert technical knowledge to minimise its exposure to risk. The industry will work with plant health specialists to develop risk mitigation and incursion response capabilities, particularly on-farm. It is also likely that by establishing the melon biosecurity fund, the industry would work with plant health experts to develop, implement and review industry biosecurity plans, pest and disease fact sheets, extension activities, and develop promotional material to support on-farm biosecurity.

Under this option the industry would also have a reliable source of funding to deliver essential biosecurity preparedness activities identified in the *Industry Biosecurity Plan for the Melon Industry 2014* (the Plan). The Plan provides a framework for industry, government and other stakeholders to assess current biosecurity practices and to prioritise activities that will increase the industry's biosecurity preparedness. The Plan features a list of more than 65 exotic plant pests and the potential biosecurity threats they represent to the industry. It also provides procedural information about conducting surveillance activities and establishing on-farm biosecurity management tools to prepare growers and the industry in the event of a plant pest incursion.

If established, the PHA levy and charge would also fund a melon biosecurity development officer to support on-farm biosecurity awareness. The biosecurity officer would work with growers to meet the *Best Management Practice Guidelines for food safety in the Australian melon industry* and coordinate a range of national biosecurity activities that could not be funded or pursued otherwise.

As a signatory to the EPPRD, and in the event of a future emergency plant pest or disease incursion, the AMA would have an active role in planning a national response and would be responsible for disseminating industry communications. The EPPRD allows the industry to minimise its costs and affected growers may be eligible for financial support if their crops or property were directly damaged as a result of implementing an approved response plan.

4.3.2 – Cost

Melon growers who sell more than 20 tonnes of melons per annum would be liable to pay the R&D, PHA and EPPR levy and charge. Growers may be able to recover the costs through increased prices but this is not guaranteed and, therefore, growers may have a reduced net income.

Melon growers would be required to pay an R&D levy and charge at a rate of 0.3 of a cent per kilogram; a PHA annual subscription levy and charge at a rate of 0.1 of a cent per kilogram; and an EPPR levy and charge introduced at a nil rate, representing a total levy and charge of 0.4 of a cent per kilogram. Subject to the 20 tonne limit, the levy will apply to all melons produced in Australia and sold into the domestic market and the charge will apply to all melons produced in Australia and sold for export. No export charge will be payable if the domestic levy has already been paid on produce that is exported.

Over the three years from 2012–13 to 2014–15, melon growers nationally have produced an average of 38 tonnes of melon per hectare. It is estimated that:

- Melon growers with a small commercial planting of up to 49 hectares could produce an average of up to 1862 tonnes of melons and would be liable to pay up to \$7500 per annum in levy and charge.
- Medium size commercial plantings of up to 99 hectares could produce an average of up to approximately 3762 tonnes of melons and would be liable to pay up to \$15 000 per annum in levy and charge.
- Large commercial plantings likely to be in the range of 250 hectares could produce an average of 9 500 tonnes of melons and would be liable to pay up to \$38 000 per annum in levy and charge.

The risk of a volume based levy and charge is that production volumes may vary year-on-year and the industry could be at risk of not collecting the funding needed to meet planned R&D and biosecurity activities. The melon industry could also experience drought or flood in a key production region; or as seen by the 2014 and 2015 incursion of CGMMV in the Northern Territory and Queensland, an unexpected decrease in yield. These risks, however, can be partially addressed through the geographic spread of the industry across most states and territories. Consumers could also be affected by an increase in melon prices at the point of retail sale as the levy and charge costs on melons could be passed on by the grower or wholesaler. However, it is likely that consumers would only pay more because they are satisfied with the product and they recognise value for dollar.

In costing this option, assumptions were based on historical horticulture levy return information held by the Department of Agriculture and Water Resources. The department is responsible for the effective collection, disbursement and administration of levies and charges and operates under cost recovery. On this basis, the melon industry would be liable to pay the initial one-off administrative cost expected to be in the order of \$45 000; and on-going administrative costs of approximately \$17 500 per annum. These costs would be recovered from the total revenue collected from the levy and charge.

The administrative burden on growers and intermediaries requires quarterly or annual levy returns to be completed and paid. The forms can be completed and paid manually, or through the department’s online levy return service. The levy return forms require a grower or intermediary to input the tonnage amount and the levy rate. The appropriate amount of levy and charge to be paid must then be calculated, while the online form would populate the amount. While there are some additional steps required in moving from a voluntary to mandatory levy system, including levy payer registration and education, the AMA’s levy proposal outlines that most melon growers produce other types of fruit and vegetables to ensure a consistent source of income, many of which impose a levy. Therefore, it is likely that only a small number of businesses would incur a demonstrable increase in administration.

The total regulatory cost for this option per business was calculated using the Commonwealth’s Regulatory Burden Measure and is estimated to be approximately \$1480 in annual average costs over a period of ten years. This cost was based on an assumption that it would take one administrative person per business less than 10 minutes to print or download and complete a levy return on melons.

4.3.3 – Assessment

There is a net benefit from establishing statutory R&D, PHA and EPPR levies and charges on melons as it would overcome the free-rider problem experienced from the voluntary contribution model outlined under Option 1. This option would also provide the melon industry with greater certainty about the amount of revenue that could be collected and it would enable forward-year planning to deliver priority R&D and biosecurity outputs for the benefit of all melon growers. This option provides the possibility of levy and charge funds being leveraged with Commonwealth matching payments administered through HIA Ltd. This option was supported by melon growers in the levy and charge ballot.

4.3.4 – Option 2 Regulatory Burden and Cost Offset Table

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$1000	\$0	\$0	\$1000
Regulatory burden cost offset: 19355 increasing the threshold for payment of honey levies				

4.4 Option 3 – Implement AMA’s levy proposal, in-part

4.4.1 – Benefit

Melon growers would only be required to pay a statutory PHA levy and charge at a rate of 0.1 of a cent per kilogram; and the EPPR levy and charge at a nil rate. The levy and charge would be payable at the first point of sale for melon growers who sell more than 20 tonnes per annum. The benefits that the melon industry would receive from establishing a PHA and EPPR levy and charge identified under Option 2, would also apply to this option.

4.4.2 – Cost

Melon growers who are liable to pay the PHA and EPPR levy and charge would have a reduced net income. Similar to the costs detailed in Option 2, melon growers and intermediaries would submit their PHA and EPPR levy returns manually or via the online levies payment service. Under this option, however, the amount of levy and charge that melon growers would be liable to pay would be considerably less than the costs outlined in Option 2. It is estimated that over the three years from 2017–18 to 2019–20, the proposed PHA levy and charge would collect approximately \$705 000.

The total regulatory cost for this option was calculated using the Commonwealth’s Regulatory Burden Measure, estimated to be approximately \$1480 in annual average costs over a period of ten years. This cost was based on an assumption that it would take one administrative person per business less than 10 minutes to complete a levy return on melons.

As detailed under Option 2, the melon industry would be liable to pay administrative costs that would be recovered from the total revenue collected from the levy and charges.

4.4.3 – Assessment

There is, in-part, a net benefit from establishing a statutory PHA and EPPR levy and charge on melons as it would enable the industry to equitably fund its membership fee to PHA and complete biosecurity activities. However, it is likely that the melon industry would not experience the productivity and profitability benefits of R&D outputs identified in Option 2.

In the event of an emergency biosecurity incident affecting the melon industry, and following direct consultation with all affected industries and government, the EPPR levy and charge introduced at a nil rate, would be activated to a rate that would enable the government to reasonably recover the costs associated with responding to the biosecurity incident.

4.4.4 – Option 3 Regulatory Burden and Cost Offset Table

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$1000	\$0	\$.00	\$0
Regulatory burden cost offset: 19355 increasing the threshold for payment of honey levies				

4.5 Option 4 – Implement an ad valorem levy

4.5.1 Benefit

It is possible that the benefits the melon industry would receive from establishing the levy and charge identified under Option 2 would also apply to this option.

4.5.2 Cost

This option was considered as part of the AMA's initial consultation with melon growers at levy grower meetings and industry field days. However, while being discussed at length, growers maintained that a volumetric rate was more equitable because of the price variation across Australia for melons at the first point of sale

Further, to establish an ad valorem levy the industry would need to secure new and consistent sources of funding to recommence a wholesale market price data collection project that would enable the industry to obtain market price information. The information collected through this project would be used to assist the industry in the determination of an appropriate ad valorem levy and charge rate that could be put to growers in a ballot. Currently, the AMA does not have access to sufficient levels of funding to undertake this research.

If implemented, this option would require growers and intermediaries to accurately record the prices they received at the first point of sale, input various data sets into a levy return form and calculate the appropriate levy rate and charge to be paid. It is, therefore, likely that this option would significantly increase administrative expenses and compliance costs because of the additional amount of time a grower or intermediary would spend on record keeping and managing the input of multiple data sets into a levy return form.

The total regulatory cost for this option was calculated using the Commonwealth's Regulatory Burden Measure, estimated to be approximately \$3700 in annual average costs over a period of ten years. This cost was based on an assumption that it would take one administrative person per business up to 30 minutes to download or print and complete a levy return on melons.

As detailed under Option 2 and 3, the melon industry would be liable to pay administrative costs. Under this option, however, these costs are likely to significantly increase because of the complexity of monitoring and assessing compliance for an ad valorem levy collection system. The cost of compliance would again be recovered from the total levy and charge revenue collected.

4.5.2 Assessment

This option could provide a net benefit and act as a reliable source of funding to support melon R&D and biosecurity activities, similar to the benefits outlined under Option 2. However, the melon industry would be affected by an increase in administrative expenses and compliance costs because of the complexity of the ad valorem levy system.

Further, before an ad valorem levy and charge rate could be adopted, the AMA would need to garner industry-wide support to commence a new consultation process, including to conduct a ballot and make a new levy submission to the Australian Government, at the cost of the

melon industry. As stated in the AMA’s submission, this option was not favoured by melon growers because of the fluctuating prices of melons across Australia at the first point of sale and it is unlikely that it would be pursued.

4.5.4 – Option 4 Regulatory Burden and Cost Offset Table

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$4000	\$0	\$0	\$4000
Regulatory burden cost offset: 19355 increasing the threshold for payment of honey levies				

Section 5: Competition policy

The melon levies and charges outlined under Option 2 would be applied equitably to all Australian melon growers on a price per kilogram basis. The levy and charge will be payable at the first point of sale for melon growers who sell more than 20 tonnes of melons per annum.

The levy and charge revenue would be directed solely to industry agreed R&D projects, PHA membership and biosecurity preparedness activities that benefit the industry as a whole. Therefore, establishing the statutory levy and charge should be competition-neutral by not favouring or disadvantaging one individual grower over another.

Section 6: Consultation

The Australian Government’s *Levy Principles and Guidelines* provide that before a vote is taken, the levy initiator, in this case the AMA, is responsible for undertaking industry wide consultation and that the consultation period should last between three and six months.

Over a three month period from August 2015, the 180 known melon growers to the AMA were provided with information about the proposed levy’s purpose and intended industry benefits. The AMA provided this information to enable growers to make an informed decision about the levy rates that they would be asked to vote on in the ballot that was open from 6 October 2015 to 6 November 2015.

Melon growers were presented with information on the levy proposal at three grower meetings held in August and September 2015 across New South Wales, Queensland and Victoria. Information about the levy proposal was also made available at the Annual General Meeting that was held in Brisbane in August 2015. Approximately 172 growers also received a personal telephone call from a representative of the AMA, accounting for approximately 95 per cent of melon growers known to the AMA. Text messages were also sent on four separate occasions reminding growers of consultation meeting dates and to encourage them to vote. The AMA also distributed levy proposal information through advertising in horticultural journals, magazines and media articles, its industry monthly e-newsletter and quarterly industry publication, and through updates to the AMA website.

The AMA initially proposed a levy and charge rate of 0.3 of a cent per kilogram for R&D; and 0.2 of a cent per kilogram for PHA membership, representing a total levy and charge of 0.5 of a cent per kilogram. During the consultation period some growers raised concerns with the AMA about the amount of revenue the PHA levy and charge could collect. To address grower concerns, the proposed PHA levy and charge rate was revised down to 0.1 of a cent per kilogram, representing a total levy and charge of 0.4 of a cent per kilogram.

The Australian Government's *Levy Principles and Guidelines* require the levy proposal to achieve majority support from prospective levy payers. Majority support is achieved by 50 per cent plus one of those who returned a valid ballot paper, in favour of the levy proposal.

Only businesses with an Australian Business Number (ABN) were eligible to vote and only one vote was allocated to each business. On occasion, multiple growers align with to the one business and thus are only eligible for one vote. Ballot packs were sent by post to individual businesses registered with the AMA and additional voting packs were sent out on request. A total of 166 ballot packs were issued.

Prospective melon levy payers were asked to vote yes or no on the following questions:

1. Do you support establishing a 0.3 of a cent per kilogram R&D levy to invest in research and development to improve the productivity and profitability of the melon industry?
2. Do you support the establishment of the following biosecurity levy package for the melon industry:
 - a. 0.1 of a cent per kilogram PHA levy to provide funds for important biosecurity initiatives, such as biosecurity education and extension services for growers, support responses to emergency plant pests and to pay for membership to Plant Health Australia Limited?
 - b. 0.0 of a cent per kilogram EPPR levy which may become positive in an agreed response of an emergency plant pest?

Every commercial melon grower producing over 20 tonnes per annum was entitled to one vote. Additional votes were allocated proportionately based on declared hectares under melon production from 30 to 79 hectares, or 80 hectares and above. Only one returned voting paper per ABN was accepted.

An independent Levy Returning Officer employed by the AMA scrutineered and tallied the votes and provided the following analysis:

- A total of 89 votes were received, representing approximately 55 per cent of registered growers with the AMA. Of the 89 votes, eight votes were deemed invalid with 4 ballot papers postmarked after 6 November 2015, 2 statutory declarations returned unsigned and 2 ballot papers were identified under one ABN.
- 57 voted in favour to establishing the PHA and EPPR levy and charge, representing 70 per cent of valid votes cast; and 24 voted against establishing the PHA and EPPR levies, representing 30 per cent of valid votes cast.
- 55 voted in favour of the R&D levy and charge, representing 68 per cent of valid votes cast; and 26 voted against, representing 32 per cent of valid votes cast.

Consistent with the Australian Government's *Levy Principles and Guidelines*, the melon industry therefore achieved majority support for the levy proposal.

The Australian Government's *Levy Principles and Guidelines* also provide for a six-week objection period. Following the levy proposal's formal submission to government in December 2015, the department commenced the objection period on 19 February 2016. Five objections were received representing approximately three per cent of those who voted.

The five objections raised similar concerns about the perceived benefits the levy will provide to growers and the industry; the role of the AMA and its contribution to melon growing regions other than Queensland; levy collection methods and the risk that costs will be passed onto growers from wholesalers; the AMA underestimating the amount of melon production each year and the expected revenue that will be collected, and that the voting system was not fairly structured because large melon producers would be impacted by the large amount of levy they will be required to pay. One objector suggested introducing a cap on the amount of levy that could be collected from larger growers to minimise the impacts on their businesses.

The AMA responded adequately to the objections in a submission to the department, identifying:

- Four of the five objectors acknowledged that they are financial members of the AMA, and as such, the AMA believe the objectors recognise the organisation as leading the Australian melon industry.
- The entire melon industry will benefit from establishing the levy and charges because for the industry to remain competitive and profitable, R&D and biosecurity preparedness activities need to be completed to achieve these outcomes.
- The method to estimate annual melon production and expected revenue were based on statistics published by the Australian Bureau of Statistics.
- The voting system weighted individual grower votes according to production volumes and were, therefore, considered to be fair to larger growers.
- The proposal was supported by a majority of growers who voted in all three (small, medium and large) categories.
- The costs that would be incurred on growers from establishing the levy and charges were considered in the consultation process and the AMA acted upon grower feedback, reducing the PHA levy rate by 0.1 of a cent per kilogram to address their concerns.

Section 7: Recommendation

Option 2 – implement AMA's levy proposal is recommended.

Under this option, melon growers would be required to pay an R&D levy and charge at a rate of 0.3 of a cent per kilogram; a PHA annual subscription levy and charge at a rate of 0.1 of a cent per kilogram; and an EPPR levy and charge introduced at a nil rate, representing a total levy and charge of 0.4 of a cent per kilogram.

The proposed levy and charges would be applied equitably to all melon growers who sell more than 20 tonnes of melons per annum. Establishing the statutory levy and charge is regarded as the most effective means of correcting a market failure that currently exists in the industry to enable R&D and biosecurity preparedness activities to be completed. The

proposed collection is also regarded as the most equitable means of raising the funds that are required to undertake the industry’s R&D and biosecurity priorities.

Section 8: Implementation and review

Implementing the AMA’s levy proposal will require amendments to the Primary Industries (Excise) Levies Regulations 1999, the Primary Industries (Customs) Charges Regulations 2000 and the Primary Industries Levies and Charges Collection Regulations 1991. The Regulations are made under the *Primary Industries (Excise) Levies Act 1999*, the *Primary Industries (Customs) Charges Act 1999* and the *Primary Industries Levies and Charges Collection Act 1991*.

The Regulations would be implemented as soon as practicable, conditional to legislative processes. The government would be not liable for administrative costs to collect and remit the levy and charges as the department administers the collection process and operates under cost recovery. The melon industry would be liable to pay administrative set-up costs, expected to be in the order of \$45 000 and on-going administrative costs of approximately \$17 500 per annum.

Once established, the levy and charges can be reviewed at the AMA’s annual general meetings, grower meetings or through direct consultation between growers and the AMA. The government does not intend to review the operation of the levy.

8.1 Compliance costs

Individual growers or businesses will be required to calculate their levy and charge contributions based on melon production per kilogram, at the first point of sale. Growers who produce melons often produce multiple types of crops to maintain consistent sources of income throughout the year. It is, therefore, likely that the proposed levy collections will use an established levy collection mechanism and an established list of intermediaries, reducing the regulatory burden for individual melon growers or businesses.

The Commonwealth Regulatory Burden Measure estimates that, should the proposal be implemented, the likely costs that would be imposed on an individual or a business, compared to business as usual, would be in the order of \$1 480 per annum. This cost was based on an assumption that it would take one administrative person per business less than 10 minutes to complete a levy return on melons. Regulatory costs would be primarily of an administrative nature and are based on 78 collection points identified through existing vegetable intermediaries who are buying and selling agents, all of whom are likely to have existing levy payment processes in place for other commodities.

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$1000	\$0.00	\$0.00	\$1000

The Department of Agriculture and Water Resources Regulatory Reform Unit provided a regulatory burden offset #19355 increasing the threshold for payment of honey levies.

Section 9: References

Australian Bureau of Statistics 7121.0 Agricultural Commodities, Australia, 2010-15

Australian Bureau of Statistics 7503.0 Value of Agricultural Commodities Produced, Australia, 2010-15

Australian Melon Association - <http://www.melonsaustralia.org.au/>

Horticulture Australia Limited *Melon Annual Investment Plan 2011- 12 / 2012-13*

Northern Territory Department of Primary Industries and Fisheries – Cucumber Green Mottle Mosaic Virus in the Northern Territory – <http://www.nt.gov.au/d/cgmmv/>

Plant Health Australia – Melons - <http://www.planthealthaustralia.com.au/industries/melons/>

Plant Health Australia *Industry Biosecurity Plan for the Melon Industry 2014*

Queensland Government *Plant Protection Amendment Regulation (No.1) 2015* - https://www.legislation.qld.gov.au/LEGISLTN/SLS/RIS_EN/2015/15SL005E.pdf