Australian Government
Department of Agriculture and Water Resources

Regulation to establish a thoroughbred horse research and development levy

Regulation impact statement

Office of Best Practice Regulation, ID no. 21808

April 2017

Cataloguing data
This publication (and any material sourced from it) should be attributed as: Department of Agriculture and Water Resources 2017, *Regulation to establish a thoroughbred horse research and development levy: regulation impact statement*, Office of Best Practice and Regulation, Canberra, April. CC BY 4.0.

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Background

The Australian thoroughbred breeding industry supplies weanlings, yearlings, two year olds, and broodmares to thoroughbred sales and supports a vibrant Australian racing industry. The future of the thoroughbred industry is uncertain as the small scale of the industry is unable to facilitate effective research and development (R&D).

Thoroughbred Breeders Australia (TBA) is seeking to introduce a thoroughbred R&D levy to help address this uncertainty and to support the industry's research efforts. TBA is the peak body representing Australian thoroughbred breeders. TBA made a submission to the Australian Government proposing to establish a statutory levy for R&D on thoroughbred horses at the rate of:

- $10 per mare covered per season, paid by the stallion owner, and
- $10 per mare returned per season, paid by the broodmare owner.

Mare covered refers to mares joined for the purpose of reproduction. Stallion Proprietors must submit a Stallion Return each year for all stallions that serve mares. This form notifies the ASB of:

- The number of mares the stallion will cover during the season.
- The advertised service fee for the season.
- The details of the stud and its location.

These details are then displayed on the ASB website.

Mare return refers to an annual mare return lodged by the breeder each year advising:

- The result of the colour, state, sex and date of birth of a foal
- Whether the mare has no live foal and the reason for no foal
- Whether the breeder's details have changed or advising of a new breeder.

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.

The Rural Industries Research and Development Corporation (RIRDC) was established under the Primary Industries Research and Development Act 1989 to invest in R&D for primary industries that do not have a dedicated R&D body and to address multi-industry and national interest R&D needs. RIRDC has managed a Horse R&D program on behalf of the thoroughbred industry for over 20 years.

RIRDC's income comes from industry levies (covering buffalo, chicken meat, deer, ginger, goat fibre, honey bee/pollination, macropod, pasture seeds, ratite and rice), matching funding for eligible R&D expenditure from the Commonwealth (generally up to 0.5 per cent of the Gross Value Production (GVP)), voluntary industry contributions and other sources such as interest and royalties.

The Australian Bureau of Agricultural Resource Economics and Sciences has estimated the thoroughbred horse industry's GVP in 2015-16 to be $260 million.

Levies are provided for under the *Primary Industries (Excise) Levies Act* 1999 and the *Primary Industries Levies and Charges Collection Act 1991*.

Industry association background

TBA is the national representative body of Australian thoroughbred breeders. It is the parent company of the six state breeder associations and has an associate membership base of 3,877 breeders and industry participants.

TBA takes a leadership role on issues of national and international importance such as quarantine, animal welfare, taxation, immigration and other government and regulatory issues. It represents the interests of breeders in dealing with the Australian Stud Book, the Australian Racing Board and race clubs in addition to other stakeholder organisations.

Levy history

For many years the Australian thoroughbred industry has been reliant upon an ad-hoc arrangement of government funding, 'in-kind' research support, and voluntary contributions from some industry bodies and individuals, in order to undertake essential R&D on behalf of the whole industry.

RIRDC has been the major contributor to the Horse R&D program since its inception in 1995. Of the horse industry voluntary contributions, over 80 per cent has come from the thoroughbred breeding and racing sectors. Prior attempts to get an equitable statutory levy, whereby breeders of all horses regardless of breed contribute, have failed. RIRDC announced in March 2011 that it could no longer fund R&D for the thoroughbred horse industry on the basis the industry is mature and no longer emerging. RIRDC ceased allocating core funding to the Horse Program on 30 June 2013. RIRDC's management of investment in equine research, development and extension activities ceased on 30 June 2015.

In the 2011 RIRDC report: Evaluation of the options for a horse research, development and extension levy, a range of issues and options for the Australian horse industry to collectively fund research, development and extension are explored. The report canvasses levy options including levies on various inputs and outputs, and scoped several coverage options from narrow industry sector participation to whole of industry, taking into account the requirements of relevant Commonwealth legislation and departments.

In November 2011, approximately 25 representatives of national horse organisations met in Sydney to discuss the future of horse research in Australia. The workshop was sponsored by RIRDC and the Australian Horse Industry Council. The workshop explored potential common ground to achieve a viable horse R&D program investment. The eventual outcome of the discussion was that only the thoroughbred breeding industry was prepared to consider statutory levy options.

In 2013, the TBA submitted a thoroughbred R&D levy proposal to the Australian Government. The government did not choose to accept the R&D levy proposal at that time.

In October 2016, the Coalition made a 2016 federal election commitment to support a new levy and in December 2016, the TBA submitted a thoroughbred R&D levy proposal to the Australian Government. The current levy proposal is materially identical to the 2013 levy which was supported by TBA members.

Assessing the problem

Under-investment in thoroughbred research and development

Without a statutory levy, the Australian thoroughbred industry is unable to meet its funding target to conduct a comprehensive, long-term R&D program. An R&D program is essential to secure the ongoing profitability, productivity and competiveness of the Australian thoroughbred industry.

The Australian thoroughbred industry has largely benefited from R&D through voluntary investment by its larger breeders, industry organisations, private individuals and core funding provided by RIRDC. With the exception of RIRDC funding, these investments are voluntary and often fund projects that are of benefit to the whole industry. Examples of R&D include disease prevention and management; improved breeding techniques; and reducing the injury or breakdown of horses at work or training. TBA considers this funding model does not adequately deliver a long term, guaranteed source of funding which is needed to invest in R&D projects, many of which run for multiple years. In addition, the overall volume of R&D outputs would not be large enough to sustain or increase the industry's profitability and competitiveness. Cross-industry R&D funded by multi-industry funding has also proven to be unfeasible.

TBA'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 thoroughbred industry's capacity to plan forward-year R&D programs is diminished by the free-rider effect because it creates a disincentive for breeders to invest on behalf of the industry. The underinvestment in R&D has affected high priority research areas – such as genetics, disease prevention and management and training methods to reduce injury. This has affected the profitability, competitiveness and productivity and biosecurity preparedness of the thoroughbred breeding industry.

TBA has recognised that all horse owners are beneficiaries of R&D and that a large proportion of the industry is benefiting from the R&D that is paid for by their peers. Given the ease by which information spreads through the industry, it is simply not possible for voluntary contributors or researchers to capture the value of R&D undertaken. This discourages individual enterprises from investing adequately in R&D and contributing to the public good of the industry. The current arrangements are therefore inequitable and TBA asserts that R&D should be cost-recovered from breeders through a statutory levy.

Fragmented industry affecting research and development

The Australian thoroughbred horse breeding industry is fragmented and this limits effective R&D activities without collective action and resource sharing. Interest groups have not been able to gain sufficient benefit themselves or secure voluntary payment from other beneficiaries in primary production at a level required for optimal R&D. In addition, smaller breeders in the industry lack the scale to invest in R&D other than that associated with very late stage adoption of existing technology. As a consequence, thoroughbred R&D is limited, sporadic, regional, and undertaken or funded by the dedicated few.

Objective of Government action

The objective of government action is to help maintain and strengthen the viability of the Australian thoroughbred industry by addressing the inherent market failures of the voluntary contribution system for R&D. Government action is required to establish a base of funding that would remain relatively consistent regardless of production levels.

Options that may achieve the objective

Option 2 is the best option considered. Other than the current situation, no other options were considered as Option 2 was a 2016 election commitment.

Option 1 – No levy with unmatched voluntary contributions (Status Quo)

With no levy in place, the thoroughbred industry would need to continue its attempts to find funding through voluntary contributions from breeders, industry or other research partners.

Voluntary R&D contributions would continue to be sent directly to RIRDC by the contributor. R&D activities would be completely reliant on voluntary industry contributions which have historically been around $300,000 per year.

Option 2 – Implement a statutory levy (preferred)

The TBA proposes that for the thoroughbred industry to benefit from any investment in R&D, a reliable and equitable source of funding through a statutory levy mechanism is necessary. The R&D levy proposed is:

- A charge of $10 per mare covered per season and paid by the stallion owner, and
- A charge of $10 per mare returned per season and paid by the broodmare owner.

This option would generate approximately $800,000 (including Australian Government matched funding) each year. Levies would be collected quarterly.

Impact Analysis – Benefit, Cost and Assessment

Impact Group Identification

The proposed R&D levy would be payable by all thoroughbred broodmare and stallion owners and collected through the Australian Stud Book on a quarterly basis.

Option 1 – Status Quo

Benefit

Maintaining the status quo would not impose additional regulatory burden on the Australian Stud Book or thoroughbred broodmare and stallion owners.

Cost

This option does not allow the Australian thoroughbred industry to realise the benefits of collectively funded R&D activities. Voluntary contributions are made by larger breeders and industry associations and not collected equitably across the industry. In addition, the amount of voluntary contributions collected can vary widely between years. A continuation of this method of collection would not result in the sufficient accumulation of funds to fulfil a planned and comprehensive R&D program that can increase the long-term profitability of the thoroughbred industry.

This option does not create any regulatory burden. However the thoroughbred industry may experience a decline in the value of production due to the limited national R&D that can improve genetics, mitigate pest and disease impacts, and advance production efficiencies.

Assessment

It is unlikely that there is a net benefit from this option. The thoroughbred industry would still not have a formal, equitable mechanism to contribute to R&D. Continuing the status quo would not address the free-rider problem and under-investment in R&D by the thoroughbred industry would continue, as it is unlikely that the industry would cooperatively fund the national R&D priorities that were identified in the TBA's submission.

Option 2 – Implement a statutory levy

Benefit

Establishing a statutory levy on thoroughbred breeders would overcome the free-rider problem. All thoroughbred horse owners would contribute to and benefit from the R&D activities funded by the levy. The levy would be collected equitably across industry, with the aim of increasing the long-term profitability of the thoroughbred industry.

It is estimated that the levy would raise approximately $400,000 per annum, with a matched dollar-for-dollar Australian Government contribution of $400,000. The Commonwealth matches expenditure on eligible R&D by each of the 15 R&D corporations to expand Australia's rural R&D efforts.

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

- reducing the incidence and impact of diseases and parasites in horses
- reducing injury and breakdown of horses in work and training
- improving breeding productivity
- improving the safety of industry participants and the welfare of horses
- enhancing the environmental sustainability of the industry.

Costs

Levy

The proposed R&D levy would be payable by all thoroughbred broodmare and stallion owners. The R&D levy proposed is:

- A charge of $10 per mare covered per season and paid by the stallion owner
- A charge of $10 per mare returned per season and paid by the broodmare owner.

The TBA considers this approach to have the broadest collection base and therefore be the most equitable. In contrast to current voluntary funding arrangements, all thoroughbred breeders would contribute equitably under the proposed statutory levy based on their level of participation. While voluntary contributions may decline over the longer term, as a base level of R&D funding is collected through the statutory levy instead, overall investment in R&D by the thoroughbred industry is likely to be higher than current levels.

The proposed levy is a modest impost on existing fees, particularly when compared to the value of the animals in the thoroughbred horse industry. Broodmare owners currently pay an annual fee of between $55 and $500 when lodging their 'mare return' to the ASB. This is payable regardless of the breeding status of the mare; whether or not they are covered by a stallion in that particular season. Stallion owners are liable for a 'stallion return' fee to the ASB, which varies between $0 and $8,500, depending on the number of mares covered by the stallion in that season. Registered broodmares covered (mated) that do not produce a live foal (approximately 30 per cent) would still be required to pay the $10 per mare levy.

Costs to administer levy

The TBA propose that the levy is collected on registrations to the Australian Stud Book. No additional compliance burden would be placed on thoroughbred horse owners because the ASB's established fee collection system would be used to collect the proposed R&D levy. The ASB, as the levy payer intermediary, would be required to complete quarterly levy returns and pay the corresponding levies. The term Australian Stud Book refers both to the officially published records of thoroughbred bloodlines in Australia and to the Division of Racing Australia Pty Ltd which is responsible for the maintenance, accuracy, quality and integrity of those records. Registrations to the Australian Stud Book are made on a fee for service basis.

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. The department's levy administration costs are cost-recovered from industry. The following table outlines the department's cost to administer the proposed levy.

Table 1 Department's cost to administer the proposed levy

	Initial set-up and first year cost estimate	Second year and on-going cost estimate	Ongoing cost as a percentage of levy
Annual cost based on quarterly collection	$37,046	$296	0.07%

The above costs would be recovered from the total revenue collected from levy payers. TBA's submission states that the collection of an R&D levy would occur on a quarterly basis. The cost recovery fees for quarterly collection are very similar to those for annual, six-monthly and monthly levy collection. Quarterly levy collection would allow RIRDC's investment in R&D to commence earlier in the first year than waiting for the first annual levy collection. TBA consider a statutory (compulsory) production-based levy to be the most cost-effective method to collect R&D funds.

Regulatory Costs

The Australian Stud Book would need to institute a one off change to their receipting processes to identify and record levy payments collected to accommodate the remittance of the funds to the department. The Australian Stud Book estimate the change to their IT systems will cost $18,090.

The Australian Stud Book will also be subject to random compliance audits by the department.

Assessment

There is a net benefit from establishing a statutory thoroughbred R&D levy under Option 2 because it would overcome the free-rider problem experienced from the voluntary contribution model outlined under Option 1. A statutory levy would also provide the thoroughbred industry with greater certainty about the amount of revenue that would be collected and it would enable forward-year planning to deliver priority R&D for the benefit of the whole industry. The overall increase in investment in R&D made possible under this option allows industry to receive the benefits of additional Commonwealth matching payments for R&D expenditure by RIRDC. This option is well-supported by the thoroughbred breeding industry as evidenced by the ballot held in 2013 and consultation with breeders since that time. 67.9 per cent of voters were in favour of the levy.

The Australian thoroughbred industry has greatly benefited from the R&D commissioned through RIRDC over the previous 20 years. There are substantial spill-over effects of this R&D to others not directly associated with the industry, including:

- Other horse breeds, racing, equestrian and recreation sectors
- Other business, including trainers, jockeys, veterinarians, as well as other horse industry service and supply companies
- The broader Australian community, through improved natural resource management, enhanced environmental sustainability, worker training and safety, improved race horse safety and reduced race horse 'wastage', increased export performance and improved balance of trade.

The implementation of a statutory levy is also the Australian Government's preferred option. It was a 2016 election commitment.

While a new levy is an additional financial cost that may be felt more acutely by less profitable thoroughbred breeders over the short term, the long term benefits of the investment in R&D are likely to outweigh these short term costs. Levies will be collected in proportion to the likely benefit gain received from the R&D investment. Where smaller breeding businesses have fewer horses participate in coverings, they will be required to pay a lower total levy amount. TBA also assert that maintaining the status quo would leave the industry further behind competing nations.

Competition policy

The thoroughbred levy outlined under Option 2 would be applied equitably to all Australian thoroughbred owners.

The levy would be directed solely to industry agreed R&D projects that benefit the industry as a whole. Therefore, establishing the statutory levy would be competition-neutral by not favouring or disadvantaging one individual owner over another.

Consultation

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

In 2013, TBA consulted extensively with its members through industry forums and has provided evidence of strong industry support for introducing the levy package in its current form.

Levy Payers

TBA engaged the Australian Electoral Commission to conduct a vote of 8,400 registered thoroughbred breeders. 67.9 percent of voters were in favour of the levy. The only changes in the updated proposal are to do with levy collection times and potential financial year based accounting. None of the changes would effect, or likely be perceived to effect the costs or benefits accruing to levy payers. 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. The thoroughbred industry therefore achieved majority support for the levy proposal.

The Australian Stud Book

The Australian Stud Book has confirmed its support for the levy proposal.

Australian Racing Board

ARB (Racing Australia): On 5 June 2013, the ARB board approved an annual voluntary contribution of $150,000 towards investment in R&D for the thoroughbred horse industry for a period of 5 years from the statutory levy's commencement. The ARB has confirmed its support for the levy proposal.

State Breeding Associations

Members of State Breeding Associations are expected to be a major beneficiary of the research funding and would be expected to play a key role in extension services to their members. They have been made aware of this proposal and have confirmed their support.

RIRDC

The RIRDC is the R&D Corporation that is nominated to manage the levy funds and engage necessary research resources. RIRDC has confirmed its support.

In December 2016, the department sent letters to TBA and RIRDC advising them of the commencement of the formal period for any objections held over seven weeks—between 9am AEDT on 3 January and expiring at 5pm AEDT on 13 February 2017. As part of the process, RIRDC and TBA have attempted to make all known potential levy payers aware of the thoroughbred levy submission and the objection period.

Communication channels include media releases, displaying a notice on their respective websites, and notices in appropriate regional weekly publications.

Recommendation

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

The proposed R&D levy would be payable by all thoroughbred broodmare and stallion owners. The R&D levy proposed is:

- A charge of $10 per mare covered per season and paid by the stallion owner
- A charge of $10 per mare returned per season and paid by the broodmare owner

Implementation and review

Implementing the TBA's levy proposal would require amendments to the *Primary Industries (Excise) Levies Regulations 1999*, the *Rural Industries Research and Development Corporation 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 Research and Development Act 1989* and the *Primary Industries Levies and Charges Collection Act 1991*.

The regulations would be implemented as soon as practicable, dependent on legislative processes. The government would be not liable for administrative costs to collect and remit the levy as the department administers the collection process and operates under a cost recovery model. The thoroughbred industry would be liable to pay administrative set-up costs, expected to be in the order of $37,046 and on-going administrative costs of approximately $296 per annum from the levy.

RIRDC has confirmed that they would take responsibility for administering the R&D programme. Research applications would assessed against the following criteria:

- Alignment of the project with the R&D Plan, developed in consultation with stakeholders
- Likely economic, societal and environmental impacts
- Value for money and program budget
- Pathway to adoption, uptake and commercialisation opportunities, where relevant
- Risks associated with the project, including capability of R&D provider to deliver the project

RIRDC's management model utilises industry-based advisory committees to make recommendations on the investment of available funds, and is proven to be successful with the industries it manages.

After the thoroughbred R&D levy has been implemented, RIRDC would call for nominations to the new advisory committee, in accordance with its R&D Advisory Committee Policy. TBA would be invited to submit its recommendations for the advisory committee to RIRDC aimed at achieving an appropriate balance of skills, experience and location.

As part of its accountability to government, RIRDC provides an annual report to Parliament, and would provide other industry publications for levy payers detailing how the levy has been used and the forward expenditure plans for future years.

The following review mechanisms would be applied for continuation of a levy:

- Review the levy within 5 years of its introduction. This should allow enough time for R&D results to become evident and measured.
- Industry carries out a modified industry consultation process providing all levy payers with a detailed report on the thoroughbred levy performance over the first 5 years, and inviting feedback on any levy performance issues.

- Objections (to continuation of the levy) to be considered by the TBA Board and communicated in the RIRDC annual report to levy payers.
- Continuation of the thoroughbred levy (for a further 5 years) voted on at an Annual Levy Payers meeting.

Compliance costs

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 $2,725 per annum.

Table 2 Average annual regulatory costs (from business as usual)

Change in costs ($ million)	**Business**	**Community organisations**	**Individuals**	**Total change in costs**
Total, by sector	$2,725	$0.00	$0.00	$2,725

A regulatory offset has not been identified. However, the Agriculture and Water Resources portfolio is seeking to pursue net reductions in compliance costs and will work with affected stakeholders and across Government to identify regulatory burden reductions where appropriate.

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