

Biosecurity Sustainable Funding Impact Analysis

Executive Summary

Governments, industry and the community all invest in and benefit from Australia's biosecurity system, to protect our collective interest in reducing the considerable and ongoing costs associated with an incursion and management of pests and diseases. Australia remains free from many destructive pests, weeds and diseases found elsewhere in the world. It's this pest and disease status that underpins access for Australia's producers to export markets around the world.

However, we face growing and more complex biosecurity risks driven by factors including climate change, shifting and unpredictable global trade patterns, and changes in our land use. The Centre of Excellence for Biosecurity Risk Analysis (University of Melbourne) has estimated the value of Australia's biosecurity system at \$314 billion over 50 years in present value terms (2020), with a net return on investment of 30:1.

The Commonwealth, through the Department of Agriculture Fisheries and Forestry (DAFF), undertakes regulatory and non-regulatory activities to support our national biosecurity arrangements; overseas, at our border and within Australia. This is set out in the *National Biosecurity Strategy* and *Commonwealth Biosecurity 2030* strategic roadmap.

Commonwealth Government biosecurity activity is funded through a combination of federal budget appropriations (ongoing and terminating) and industry fees and charges, predominantly applied to the cargo and conveyance import pathways.

These funding arrangements have not kept pace with associated biosecurity system costs, as biosecurity risks grow and change.

An open public consultation process sought feedback on what sustainable funding and resourcing for Australia's biosecurity system might look like. This enabled stakeholders to provide their views and for these to be incorporated into implementation considerations. Consideration was also given to the findings and recommendations of previous reports into the biosecurity system.

Both stakeholder comments and biosecurity reports have highlighted the need for more funding avenues for biosecurity. In response to this, DAFF has developed two revenue proposals. Together, these two new revenue streams, improve the alignment of funding mechanisms to beneficiaries and risk creators while supporting the delivery of a stronger and more sustainably funded biosecurity system. They are:

- the expansion of industry cost recovery arrangements to the biosecurity clearance of low value imported goods (those valued at or less than \$1,000), consistent with the Australian Government Charging Framework and international trade law, and
- the application of a biosecurity protection levy to all domestic agricultural, fisheries and forestry producers.

These measures will have financial impacts on individuals (as importers or consumers) and industry (primary producers and their intermediaries, international express cargo carriers and Australian import businesses) which are set out below. Individuals will not bear any significant regulatory cost burden from the introduction of the proposals. There is expected to be a relatively small regulatory cost on impacted businesses (or their agents).

These proposals are intended to commence from 1 July 2024. This will give DAFF time to consult with affected parties on implementation arrangements and provide time for necessary administrative changes to be made by all parties. Efforts will be undertaken to ensure regulatory burden is minimised.

Biosecurity Benefits

Although the new charges will impact individuals and industry, DAFF considers the benefits gained through sustaining an appropriately resourced system that delivers (as efficiently as possible) strong biosecurity outcomes, will outweigh these costs.

A significant biosecurity incursion would likely have far-reaching and national impacts, including on the cost of living – food production could be reduced, food prices increased, supply chains disrupted and income lost. Agricultural producers are key beneficiaries of a strong biosecurity system. An incursion would likely have significantly more impact on industry through production and/or market losses, clean-up and recovery costs, as well as potential ongoing changes in operations if new pests and diseases establish in Australia. Just the anxiety of foot and mouth disease (FMD) in our neighbouring countries had a significant economic impact. Following detection of FMD in Bali, there was a 20 per cent decline in the national trade lamb indicator over a two-week period, a decline in the Eastern Young Cattle Indicator, and calls to cut direct flights and trade links.

While it is not possible to guarantee there will be no future outbreaks, ensuring the biosecurity system is adequately funded to address the rapidly growing biosecurity risks and complexity will reduce the risk of individuals and industry bearing the significant costs of a biosecurity incursion. They also benefit from keeping import pathways open and efficient (for example, in relation to the 70 plus million of low value items coming into Australia each year heading to businesses and consumers). Delays at the border result in additional costs and supply chain disruptions. It also further builds the confidence required to operate an open economy.

The department will continue to work collaboratively with industry on ways to enhance the biosecurity system, co-designing initiatives where possible, especially when considering any new or expanded fees or charges. Working with biosecurity industry participants will support greater efficiencies and deliver better results for managing biosecurity risk. This approach will also empower partners, and encourage partnership and co-investment in the biosecurity system.

These issues were a clear focus of submissions to the sustainable biosecurity funding public consultation process in early 2023.

Proposal to expand cost recovery arrangements to declared low value imported goods

The proposal seeks to introduce arrangements to recover regulatory costs associated with biosecurity risk assessment, management and clearance of items with a value at, or less than, \$1,000. These are also known as self-assessed clearance items or SACs. This proposal will see the introduction of a flat charge per declared consignment from 1 July 2024.

The charging arrangement will be consistent with the Australian Government Charging Framework together with domestic and international trade law obligations. Based on current regulatory costs for this activity and average annual consignment numbers, it would result in a per item charge of around \$0.40. Specific biosecurity fees (i.e. for the inspection or treatment of an item referred as part of the general clearance process) already apply and will continue in addition to this new cost recovery arrangement

This charge would be collected and remitted to DAFF by the international freight carriers (such as FedEx, DHL, UPS and StarTrack) that facilitate the importation of nearly all of these goods into Australia. This is the same process as applies to the existing biosecurity fees.

For clarity, this proposal does not extend to items entering through the international mail pathway managed by Australia Post, which are subject to separate biosecurity charging arrangements. Further, cost recovery fees and charges are already in place for consignments valued over \$1,000.

Who would be affected?

The low value import pathway reflects commercial and non-commercial imports. While consignments are largely initiated from within Australia, there would also be a proportion of items sent to domestic recipients on an unsolicited basis i.e. by family and friends or as part of global marketing campaigns.

Consumers and businesses would be expected to benefit from the faster and more effective biosecurity clearance that this funding arrangement would support.

Impact to Individuals

The proposed new charge is likely to be borne by domestic consumers of these goods, either directly as the owner/importer, indirectly through the passing on of third party import costs (logistics and handling fees), or in the price of the good where the overseas sender is a business. The proposed charge amount will be a very small proportion of current shipping fees applying to the express mail and parcels coming through this pathway.

International Express Carriers and Businesses

International express carriers will incur additional administrative costs (associated with collecting the fee from their clients, remitting amounts to DAFF on a self-assessed basis and meeting record keeping and audit requirements) in addition to the liability to remit the required charge amounts to DAFF.

It is estimated around 60 per cent of this market is being handled by 5 companies; with around 99 per cent handled by around 30 companies. These companies already have established business and regulatory reporting requirements in relation to these items.

The new charge and any associated administrative costs are likely to be passed on by these businesses through relevant charges at point of sale for their services, including to Australian business importers. As noted above, this charge is negligible relative to existing shipping costs.

Regulatory Cost Burden

Individuals

It is not anticipated individuals will bear any regulatory cost burden associated with introduction of this charge, with impact limited to costs that are passed on to consumers as part of existing charging arrangements or product cost. Consideration will be given to the cost-effectiveness, in the short term, of seeking to recover costs from the one per cent of items being handled without the use of carrier services.

Industry

International cargo carriers are estimated to incur average annual regulatory costs of around \$1,650 per annum through introduction of the proposed charge. Based on the estimate of 30 operators handling 99 per cent of business this suggests minimum total annual regulatory costs of \$40,000.

Their current business relationship (including waybill documentation) means carriers have the needed information to recover the charge and remit the required amounts to DAFF.

Implementation effort is expected to be greater in the first year, as carriers communicate with their client base to advise of changes and make one-off changes to existing systems and processes. Ongoing effort is expected to be limited to regular aggregate payments of the charge to DAFF, audit activity and engagement with cost recovery reviews (if carriers choose to do this).

Smaller express cargo provider carriers are likely to experience a greater relative impact through introduction of the proposed charge.

Deferred aggregate remittance arrangements potentially offer cash flow benefits to carriers to offset regulatory costs.

Consultation

The department undertook an open public consultation process on options to deliver a sustainably funded biosecurity system. This involved a Have Your Say consultation platform and release of an accompanying discussion paper. Responses were sought from industry parties. The discussion paper explicitly included the option of expanding industry cost recovery into low value imported items. Consideration was also given to formal and informal views provided by industry and other entities on this matter through other channels, and past inquiries and reviews into options to recover the costs of this pathway and/or address GST equivalency issues.

Working with impacted stakeholders

It is proposed the charge commence from 1 July 2024, allowing time for the department to consult with impacted stakeholders (including small and large carriers) and allow industry time to adjust their systems (and pricing agreements).

Implementation Pathway

The new charge will require amendment to the existing biosecurity charging legislation regulations.

Earliest possible advice will be provided to interested and affected parties, including through our existing industry consultative committees, together with targeted engagement with key impacted stakeholders on design elements, with a view to minimising administrative costs. This will include consideration of any exemptions to the application of this charge, noting the anticipated costs associated with imposing the charge where carrier services aren't used.

Consultation will be supported by a draft biosecurity cost recovery implementation statement and associated discussion material, similar to the process undertaken in relation to the existing biosecurity industry cost recovery arrangements.

This charge will be administered by DAFF. DAFF has the necessary information on low value consignments to support assurance arrangements in relation to this proposal and established relationships, payments processes and systems. Consultation with stakeholders will support stronger alignment with business systems.

This approach recognises and avoids costs advised by the Department of Home Affairs should a similar charging arrangement be required to those in place for full import declaration consignments (over \$1,000). The current GST arrangements for certain foreign businesses supplying low value items into the Australian market, administered by the Australian Taxation Office, was recognised as only likely to partially address this issue and, in any event, likely to involve considerable implementation and administrative costs if expanded.

This approach does not prevent consideration of future changes in border reporting or fee and charge collection arrangements.

Evaluation

There will be internal and external reporting requirements in relation to the implementation of measures agreed as part of the biosecurity package, which includes this measure.

There is an existing biosecurity cost recovery team within the department, which offers an experienced and transparent pathway for considering implementation issues.

The regulatory costs associated with this charge (together with underlying cost drivers) and actual revenue collected through this arrangement will be reviewed annually. There will also be public reporting of the arrangement.

The department, along with industry will be commencing a structural review into cost recovery arrangements to ensure all such arrangements are fit for purpose into the future.

Proposal to apply a biosecurity protection levy to primary producers

Summary

The proposal seeks to apply a new Biosecurity Protection Levy on all Australian producers of agricultural, forestry and fishery products, whether their products are sold domestically or exported. This revenue is intended to contribute to ongoing biosecurity system funding.

The levy is to commence from 1 July 2024 and levy rates would be set equivalent to 10 per cent of the current statutory agricultural levies applied to specific commodity groups or another comparable metric where such levies are not in place.

The proposed levy will raise around \$50 million per annum, compared to average annual industry-led statutory agricultural levy collections of \$522 million over the past five years. There are currently more than 110 levies and charges that are collected on more than 70 commodities across the agriculture, fisheries, and forestry sectors.

The new levy would not be formally tied to current or emerging arrangements or rates for the current industry-driven agricultural levy arrangements, but consideration would be given to be aligning, to the extent practicable, to these arrangements to minimise regulatory costs.

Design details will be finalised following industry consultation. This will include consideration of issues raised in the context of current consultation on proposed changes to modernise and streamline the current levy legislation process.

This levy differs to current industry-led biosecurity levies that fund industry membership of Plant Health Australia (PHA) and Animal Health Australia (AHA) or to reimburse the Commonwealth Government for emergency incursion response costs it has paid on their behalf (where requested by industry).

While the levy represents an additional cost to Australia's primary producers, DAFF considers this will be outweighed by the benefits such producers gain from stronger biosecurity prevention arrangements. As accepted in the National Biosecurity Strategy, endorsed by industry, and the National Farmers Federation submission to this process, effort directed at keeping pests and diseases from entering Australia is seen as offering the highest relative return.

Who would be affected?

Individuals

Some of the Biosecurity Protection Levy cost applied to producers would be passed through the domestic supply chain to consumers. However, this cost is estimated to be negligible relative to the retail prices of associated produce and similar to the outcomes associated with the current levies. Actual outcomes would be determined by specific domestic supply chain relationships.

As the levy would also be applied to produce being exported for overseas consumption, the full cost of the proposal would not expect to be passed through the domestic supply chain.

Primary Producers

Producers will face additional upfront financial costs associated with paying the required levy amount and administrative costs, directly or indirectly where a collection agent or other intermediary is used. As noted above, some of this cost could be expected to be passed through in commodity prices along the relevant domestic supply chain.

It is proposed the levy rate be set equivalent to 10 per cent of current agricultural levies being paid by each industry sector, with collection arrangements to be harmonised to the extent possible. Where commodities do not already have statutory agricultural levies in place, comparable outcomes will be determined.

This levy amount and associated administrative cost is considered to be minimal relative to other charges and levies paid by this sector. It is also small relative to the value of the sector (and respective commodity groups).

Regulatory Cost Burden

Individuals

It is not anticipated individuals will bear any regulatory cost burden associated with the introduction of a biosecurity levy, with impact limited to costs passed on to consumers.

Industry

The regulatory cost burden for primary producers (or intermediaries) in relation to the proposed levy is estimated to be negligible, where they are already within the levy arrangements. The intention is to harmonise arrangements to the extent, where possible, with other Commonwealth statutory agricultural levy processes, including changes currently subject to public consultation. The information requirements to determine the levy liability will involve already collected and reported information – through government and industry-led requirements.

Impacts are expected to be higher for those commodity sectors not currently within the existing statutory arrangements, noting some have entered into voluntary arrangements with relevant rural research and development corporations or, as noted above, are subject to similar reporting or charging arrangements.

There are existing collection agent arrangements that can be leveraged. DAFF notes advice the service relationship between producers and collection agents is not directly charged for.

Consultation

The department undertook an open public consultation process on options to deliver a sustainably funded biosecurity system. This involved a *Have Your Say* consultation platform and release of an accompanying discussion paper. Responses were sought from industry parties. The discussion paper included the option of a domestic levy as one of the funding options.

Other Risks and Sensitivities

There will be some variability in collection amounts due to the proposed volume and value based revenue bases. This will affect estimated revenue collection but may also see changes in relative impact across industry payees. The consultation process will enable engagement with industry groups on the levy base being proposed and general exemption thresholds, where warranted. There will also be a formal review requirement.

Working with impacted stakeholders

The Biosecurity Protection Levy will commence on 1 July 2024.

Implementation Pathway

The levy will be implemented through new legislation, subject to outcomes of the next stage on industry consultation, to take effect from 1 July 2024. It is intended to harmonise, to the extent practicable, with other Commonwealth agricultural levy arrangements and will be administered by DAFF.

DAFF will undertake early industry consultation with industry groups (and collection agents) on final levy design details (including administrative arrangements). This will support a formal decision by government on these matters.

This consultation will have regard to current industry engagement on the proposed amendments to modernise and streamline the existing Commonwealth agricultural levy legislation, which supports industry-led levies in relation to rural research and development, marketing and biosecurity emergency response costs and PHA/AHA membership, together with the national residue survey.

As the proposed levy will apply more broadly than current statutory agricultural levy arrangements, the Department will provide additional resources to support engagement and awareness building with those industries that it does not already have an established levy paying relationship.

This element of the consultation process would be concluded with sufficient time to ensure ongoing efforts with industry (including intermediaries) on implementation and longer term administrative arrangements. This includes finalising DAFF reporting, payment and compliance requirements.

It will also enable industry groups to seek adjustments to industry-driven levies should they wish to manage the overall impost on payees once this levy is in place.

Evaluation

There will be internal and external reporting requirements in relation to the implementation of measures agreed as part of the biosecurity package, which includes this measure.

There is an existing levies team within the department, which offers an experienced and transparent pathway for considering implementation issues.

The revenue being collected will be reviewed regularly, noting this will be reported as part of general reporting processes undertaken by the Department of the Treasury.

There will be increased transparency of biosecurity system costs and expenditure from 2023-24. This will establish a clear benchmark for contributions being made by industry through this levy.

There will be a formal levy review established by the enabling legislation.