ANNEX A

REGULATION IMPACT STATEMENT

REGULATIONS FOR A TURF INDUSTRY MARKETING AND PROMOTION
AND RESEARCH AND DEVELOPMENT LEVY AND CHARGE

Background

The Australian turf industry encompasses the production and maintenance of specialized grasses and other ground covers required in the development and management of facilities for activities which include sport, landscaping, home gardens and recreational purposes. The industry involves turf grass production, turf grass maintenance and sales of turf grass, products and services in the domestic marketplace. Turf grass facility development, maintenance and utilization contribute substantially to the economic and aesthetic values of personal property and to Australian communities.

Turf Producers Australia Limited (TPAL) was formed in March 2002 to be the peak industry body representing the Australian turf industry nationally.

Detailed industry statistics are not readily available. However Queensland, Western Australia and New South Wales have carried out turf and amenity horticultural industry surveys over the past few years. From these surveys it is estimated there are more than 10,000 prepared turf surfaces in Australia and around 80,000 people are employed to maintain these grounds or to provide related goods and services such as turf, seed, machinery, irrigation, pesticides and fertilizers.

The most recent figures (1998) from the Australian Bureau of Statistics (ABS) estimate the area of Australian turf (also known as sod) production to be 6,400 hectares. More recent TPAL production estimates put this figure at nearer 6,500 hectares. Production in New South Wales represents 40% of the total, Queensland and Victoria 18.5% each, Western Australia 10.5%, South Australia 8%, Tasmania 3.5% and in the Northern Territory and ACT combined 1%.

TPAL estimate the number of turf producers in Australia to be around 350 viable commercial businesses, however the 1998 ABS data indicates a total of 420 turf production businesses. TPAL estimate annual turf sales at around $380 million. Adding sales of turf, maintenance, related products and services in Australia reveals an estimated value of nearly $1 billion per annum. Also, the turf machinery market represents sales of around $70 million per annum.

For some years the turf industry has funded a research and development (R&D) program through Horticulture Australia Limited (HAL) with voluntary contributions paid by producers, sports turf associations, the turf maintenance and landscape sector and allied suppliers. There has been no marketing and promotion (M&P) program funded by the turf industry.

The main focus of the R&D program to date has been on turf variety and seed evaluation as well as pest, disease, nutrient, chemical and weed concerns. More recent research has targeted water use efficiency, using recycled water, sustainable turf production and environmental issues including fertilizer usage and leaching. HAL has funded 65 turf R&D projects to the value of $6.6 million up until 30 June 2004.
The turf industry in Australia has developed rapidly over the past few years with growers seeking and embracing new technologies to make their businesses more efficient and viable. The industry has also faced challenges emanating from the drought and subsequent water shortages.

Potential exists for the export of Australian turf and industry services. There is also the potential for joint venture development of superior overseas turf varieties in Australia (for example, salt tolerant varieties from the USA) and the breeding of new native varieties of Australian turf.

Problems being faced by turf producers are:
- declining industry profitability;
- increasing production costs and water supply concerns;
- product variability and consumer sustainability concerns;
- increasing environmental concerns;
- urban encroachment;
- a trend to smaller housing plots, gardens and lawn; and
- a public perception that turf is a high water and fertilizer use product.

The Mission Statement for TPAL is to:
- develop and foster the advancement of the turf grass industry through sustainable and environmentally friendly farming practices;
- develop and promote grasses which add to the improvement of our environment and the health, welfare and social benefits of the communities where they are used; and
- educate our communities, government, the landscape and associated industry sectors on the positive benefits of using quality turf grasses for functional, recreational and aesthetic lifestyle benefits.

Problem to be addressed

The lack of an M&P program together with the ‘free rider’ problem currently existing for the R&D program means there is under-investment in both M&P and R&D on behalf of the Australian turf industry. In turn, the under-investment impacts on TPAL being able to fulfil its mission statement and achieve the objectives of its Strategic Plan 2005-2008.

TPAL believes that the under-investment in both M&P and R&D causes market failure in the Australian turf industry. Such market failure is resulting in:
- a divided, diverse and inequitable national turf R&D program which in turn causes an ineffective national approach to addressing issues, including: ongoing profitability and sustainability; water supply assurance; the need for developing water efficient varieties; and the evaluation of a range of native Australian grasses to determine their suitability as new turf varieties;
- an inability to educate the Australian public on the benefits that the Australian turf industry provides to the Australian economy and to the environment;
- the lack of a coordinated national Environmental Management Systems program for Australian turf producers which is needed to: improve water use efficiency and the use of recycled water; less chemical usage; and decrease the level of on-farm nutrients; and
- a high reliance on the domestic market and the lack of a national turf export development plan.
Objective of the Regulations

The objective of the regulations is to increase M&P and R&D activities in the turf industry for the benefit of growers, consumers and the general community. Monies collected will be forwarded to HAL which administers funds collected on 23 other statutory horticultural levies as well as funds provided on a voluntary basis.

TPAL wishes to introduce a statutory levy and export charge to enable the turf industry to meet the objectives of its draft Strategic Plan 2005-2008, including the following priorities:

- identification of versatile, quality turf varieties that use water and other inputs efficiently and perform under a range of Australian climatic conditions (for example, salt tolerant, new or improved varieties of turf);
- promotion of the benefits of turf grass to consumers and industry sectors to increase annual sales and industry profitability; and
- promotion of turf grass as an environmentally friendly, lifestyle product that produces widespread benefit to communities.

Identification of options to achieve the objective

Voluntary Levies

Continuing with voluntary contributions has not been recommended by TPAL because of the potential for some growers to act as ‘free-riders’, failing to contribute while gaining the benefit of the marketing and R&D activities.

Existing voluntary contributions are lower than is required to implement the objectives of the turf industry’s 2005-2008 Strategic Plan. Many growers benefit from the R&D activities being undertaken but are not contributing to the money pool.

There are national environmental benefits in funding R&D and M&P programs targeting the use of more water efficient turf production systems. A compulsory levy is more likely to achieve those desired national environmental benefits than would a voluntary levy system tailored to capturing only private R&D benefits.

Industry Cooperatives/Marketing Groups

Turf production in Australian is highly fragmented with growers in different regions and climates, who produce a number of turf varieties, for differing uses, with differing quality and standards. Individually, Australian turf producers are not able to organize the required funding for the required industry development.

Therefore this option is not considered appropriate.

Private research providers

Some larger turf production companies have funded their own R&D to date. Most of the R&D has targeted the evaluation of new overseas or superior turf varieties that can be developed for the private company’s intellectual property and produced and sold through royalty arrangements.
In the past turf production research has been mainly limited to voluntary contributions from Queensland for sub tropical and saline grass R&D and from Western Australia for variety evaluation and water use efficiency on sandy soils. Whilst this turf production research has benefitted a number of growers in those two states many other Australian turf producers have not used this research due to their own regional production conditions.

Not only does this option result in insufficient funding to achieve the objectives of the 2005-2008 Strategic Plan but it is not the best option to achieving desired national environmental benefits emanating from the necessity to conserve valuable water resources.

**Proposed Compulsory National Levy**

A new national statutory levy and export charge is proposed for the Australian turf industry. The new levy will be compulsory Australia-wide and will enable the industry to fund essential programs outlined in the Strategic Plan 2005-2008.

The turf industry proposal is for the introduction of an M&P and R&D levy and export charge of 1.5 cents per square metre on all varieties of turf produced in and exported from Australia collected at first point of sale. The turf production levy will be apportioned 80% to R&D and 20% to M&P. The levy and charge will be only be payable by Australian turf producers who sell more than 20,000 square metres of turf per annum. Therefore smaller turf producers will be exempt from the levy and charge.

A compulsory national levy and export charge will address the market failure in M&P and R&D applicable to the turf industry and fund necessary production, environmental and educational projects needed in an era of concern over water use issues.

In addition, The R&D component of the levy/charge will attract worthwhile Australian Government matching of R&D expenditure.

**Impact analysis**

**Likely Costs**

The average annual cost for turf producers will be around $1.4 million. This amount is based on TPAL estimates of a production area of 6,500 hectares which produces 63 million square metres of turf. On average, the sown turf is cut three times every two years, yielding 190 million square metres of turf in that two year period. On average, around $1.1 million will be raised for R&D and $300,000 for M&P annually.

There will be an annual cost to the Australian Government of about $1.0 million dollars annually through providing matching funds for R&D. The Government does not match expenditure on M&P programs. However, the Australian Government is already providing around $450,000 annually by matching the voluntary contributions paid to HAL to undertake R&D projects on behalf of the turf industry. Therefore the extra funding cost to the Government will be around $550,000 annually.

There will be no administrative costs for the Australian Government in collecting and remitting the levy and export charge as the Levies Revenue Service of the Australian Government Department of Agriculture, Fisheries and Forestry operates under full cost recovery.
As the levy and charge is borne by the producers of turf there is not expected to be any extra costs to consumers. The growers accept this arrangement because they are the ones who approach the Government to be taxed – they willingly bear short term loss for expected longer term gain. However, some producers may choose to pass the cost of the levy on to their consumers, resulting in those consumers having to pay a higher price for turf purchased. Development of salt tolerant turf varieties and new varieties of grass that use less water may result in producers charging premium prices for those varieties. However, concerns over future water availability are likely to keep a check on the demand for turf in general thus also keeping a check on price rises.

Likely Benefits

After deducting collection costs and the HAL administrative fee, it is expected there would be around $250,000 available for the M&P program and $2 million available for the R&D program (including government matching funds) annually. The financial commitment for government matching funds will be accounted for in the Australian Government Department of Agriculture, Fisheries and Forestry’s forward estimates of Commonwealth expenditure.

TPAL believes the levy and export charge will benefit the turf industry as a whole given the Strategic Plan 2005-2008 is designed to provide a positive return on investment. Positive investment returns have occurred for other horticultural industries which have statutory levies and charges. Studies undertaken for HAL reveal that the economic returns on R&D and marketing investment for horticultural industries have provided a benefit cost ratio of 3.8. This implies that for every dollar invested in HAL projects, a benefit of $3.80 is generated.

Benefits will flow to producers, consumers and the general public. The Strategic Plan sets out a national coordinated approach to develop the Australian turf production and maintenance industry, to maintain and increase its profitability and to deliver public and environmental benefit through turf R&D and M&P programs. Those turf producers who adopt R&D findings should receive a positive investment return on their levy outlay. Of course, there will be some turf producers who through disinterest or lack of resources fail to obtain any benefits from paying the levy.

R&D investment will benefit consumers through the development of new Australian salt tolerant turf varieties, a wider range of turf that will be more suitable for a number of climatic conditions (rather than warm or cool season grasses at present), new varieties of grass that use less water and new Australian turf grass varieties for the landscape industry.

The broader Australian population would also benefit through the expansion of the industry generating employment and investment. Other potential benefits would be maintaining desirable amenity within cities and country regions through parks, landscapes and sport playing surfaces developed by utilising turf products which are more water use efficient.

A national turf production levy will also strengthen international linkages and cooperation. TPAL has developed strong linkages with the USA organisation Turf Producers International (TPI) and developed a closer working relationship with the New Zealand Sports Turf Institute. The main benefits flowing from these international linkages are access to international R&D programs and new industry developments and trends to increase Australian turf production profitability. In addition, TPAL has been requested to co-organise the 2007 TPI International Conference to be held in Queensland, the first time it has been held in the Southern Hemisphere. It is expected to attract 200 turf producers from North America as well as many other international delegates.
The R&D programs to be funded from the national compulsory turf R&D levy and charge proposed by TPAL will be compatible with the Australian Government's rural research priorities.

**Competition Policy**

The levy and export charge will be applied equitably to all turf growers who produce more than 20,000 square metres of turf per annum and the M&P and R&D activities are designed to assist the industry as a whole. Continued funding for M&P and R&D is expected to enhance the industry’s efficiency.

There is likely to be impacts on competition within the industry. For example, those turf producers who have invested in their own M&P and/or R&D may lose some competitive edge in relation to other producers. In addition, M&P and R&D programs may be of more assistance to some industry participants thereby increasing their competitiveness compared with other turf producers.

**Consultation**

TPAL conducted a thorough consultation campaign with all known potential levy payers in line with the Australian Government’s levy principles and guidelines.

The TPAL Board ensured the industry consultation process was undertaken in all Australian states informing growers of the proposal and its benefits prior to the national ballot. As well as holding state industry consultation meetings, TPAL directors ensured levy proposal letters were sent to all known turf producers as well as ensuring the levy proposal was well detailed in three issues of the national Turf Craft International magazine.

The TPAL Conference held in Queensland in April 2004 included a discussion session with members on the benefits and requirements to introduce a turf production levy. About 70% of members, on a show of hands, supported a statutory levy and the TPAL Board at its meeting the next day confirmed its intention to proceed with a proposal.

Following the TPAL Board meeting in May 2004 and the Annual General Meeting in August 2004, TPAL completed their industry-wide consultation road show with Australian turf producers. A ballot of turf growers was conducted in October 2004 by an independent returning officer (an Accountant and Tax Agent based in Melbourne). Ballot papers were sent to 450 turf growers throughout Australia, with 136 ballots returned. 89 producers supported the levy proposal, 40 producers voted against the proposal and 7 ballots were deemed invalid.

The Australian Government decided that a new ballot of turf producers should be conducted through the Australian Electoral Commission. All turf enterprises were entitled to one vote regardless of their size of turf production. The voting roll consisted of a list provided by TPAL, as well as any other turf producers who contacted the Levies Revenue Service to register. Although there was no further round of consultation, in order to widely advertise the ballot the Department of Agriculture, Fisheries and Forestry wrote to all subscribers of the industry magazine *Turfcraft* and also placed advertisements in *The Australian*, major rural and selected suburban/regional newspapers.

The ballot was conducted in May 2006. Ballot papers were sent to the 526 entries on the roll of voters, with 230 ballots returned. 107 producers supported the levy proposal, 99 producers voted against the proposal and 24 ballots were deemed invalid.
The Government’s principles and guidelines indicate that it is a requirement for a majority of those that vote to be achieved if a new levy/charge is to be implemented.

Thus with 69% of valid votes in the first ballot in favour of the statutory levy and charge proposal and 52% of valid votes in the second ballot in favour, TPAL has a solid mandate for the proposed levy and export charge.

**Conclusion and recommended option**

The proposed compulsory national turf levy and charge is regarded as the only effective means of correcting the market failure in funding M&P and R&D that currently exists in the industry.

The proposal for a national statutory levy and export charge for M&P and R&D for the turf industry:
- conforms to the Australian Government's levy principles and guidelines;
- has limited financial impact on the Commonwealth; and
- has clear potential to benefit the industry.

The recommended option is to implement a compulsory levy and export charge under the *Primary Industries Levies and Charges Collection Act 1991*, the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs) Charges Act 1999* to fund turf M&P and R&D through HAL.

**Implementation and review**

The levy is to be implemented as soon as practicable, depending on the legislative process.

TPAL does not expect to review the levy and export charge within a designated time frame. However, the compulsory annual levy payers meeting (currently held for all the 23 existing horticultural industries with statutory levies in place and to be obligatory for the turf industry once a statutory levy and charge has been enacted) provides growers with an annual forum in which levy matters can be raised and reviewed.

Horticulture Policy Section
Food and Agriculture Division
Australian Government Department of Agriculture, Fisheries and Forestry

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