BACKGROUND

Australian banana production is regionally based. For 2004-05, approximately 89 per cent of banana production occurred in Queensland (Innisfail/Tully and Sunshine Coast), approximately 7 per cent in New South Wales (Murwillumbah, Coffs Harbour), approximately 3 per cent in Western Australia (Carnarvon and the Ord region) and approximately 1 per cent in the Northern Territory.

In 2004-05 Australian banana production totalled 266,000 tonnes, with Queensland production 238,000 tonnes, New South Wales production 18,000 tonnes, Western Australian production 8,000 tonnes and Northern Territory production 2,000 tonnes.

The gross value of production at the farm gate for Australian bananas in 2004-05 was $327 million, with the value of production in Queensland being $291 million, in New South Wales $22 million, in Western Australia $10 million and in the Northern Territory $4 million.

The Australian Banana Growers' Council (ABGC) is the peak industry body. The Council believes there are approximately 800 growers producing bananas and that the industry provides employment for approximately 5,000 people in parts of regional Australia.

Australia produces bananas all year round with a supply peak in the summer months. Production is susceptible to wind and flood damage and the industry can experience supply shortages following cyclone events in production regions. For example, in March 2006, Cyclone Larry devastated approximately 80 per cent of Australia’s banana production around Innisfail.

Australia’s overseas trade for fresh bananas is virtually zero. Only very small quantities of bananas are exported and there currently exists a quarantine ban on the import of fresh bananas into Australia.

The banana industry makes voluntary contributions to Horticulture Australia Limited (HAL), the industry services body for the horticulture sector, to fund research and development (R&D) activities. In 2006-07 the banana industry provided $437,000 to HAL in voluntary contributions for R&D projects. The Australian Government has matched R&D expenditure funded from these voluntary contributions.

HAL, on behalf of the ABGC, has made a submission to the Government to introduce a new statutory levy on banana growers for the purpose of undertaking marketing and R&D. The ABGC proposal is for a levy of 1.7 cents per kilogram to be collected at the first point of sale (1.16 cents per kilogram for marketing and 0.54 of a cent per kilogram for R&D). The levy will not apply to bananas directed to processing nor will an export charge be applied on bananas exported. The ABGC expects the levy to raise approximately $4.4 million annually.

ASSESSING THE PROBLEM

The Queensland Government abolished a number of compulsory state agricultural levies in 2000 after receiving legal advice that it was unconstitutional for states to impose excise duties. Transitional arrangements to move affected industries from compulsory state levies to voluntary
contributions concluded in 2003, including for the banana industry. Before its abolition, the state banana levy had funded a range of research and development projects (for example, disease-resistant breeding projects), biosecurity compliance and pest surveillance services. Following the abolition of the compulsory state levy, the ABGC commissioned a consultant to conduct an industry review which included how the banana industry could best fund the promotion of bananas, undertake core R&D activities and manage plant health.

The ABGC believes that under-investment in these key areas is hindering the development of the Australian banana industry and placing the industry at risk from pest and disease incursions. The ABGC believes that this is under-investment is:
- Limiting the industry’s ability to increase its market share of the fresh fruit segment;
- Resulting in the loss of potential profitability gains driven by research and innovation;
- Leaving the industry unprepared to deal with an exotic pest or disease incursion; and
- Leaving the industry unprepared to effectively control the spread of an established pest or disease.

The ABGC submission mentions banana research investment has fallen substantially since the abolition of compulsory Queensland levies. According to the ABGC, destructive diseases impacting on the banana industry such as black sigatoka, panama disease tropical race 4, bract mosaic virus and bunchy top virus require on-going R&D investment, surveillance and monitoring to maintain plant health and manage any disease outbreaks that may result.

The restrictions on imports mean that any major disease outbreak may result in supply shortages and potentially higher fruit prices. For example, supply shortages and higher prices occurred in 2006 owing to a natural disaster and impacted severely on growers, plantation workers, carton manufacturers, machinery suppliers, transporters, wholesalers and consumers.

The ABGC believes there is a ‘free-rider’ problem currently existing for the voluntary banana R&D programme leading to under-investment in critical research necessary to maintain healthy banana plants, which, in turn impacts on the availability and price of fruit to consumers. Further, promotion of bananas is now constrained because it is only funded by a minority of growers.

As such, the ABGC claims that the banana industry must establish a sufficient and consistent source of funds to finance the R&D and marketing initiatives that it believes are essential to advance the industry and protect it from pest and disease incursions.

**Objectives of Government action**

The objective is to enable the banana industry to establish a more substantial and consistent source of funding for R&D and marketing initiatives identified by the industry. This will give the banana industry a greater capacity to finance a range of R&D and marketing programmes that will help the industry to achieve its goals, such as the maintenance of plant health, the development of disease free plants and/or varieties as well as increasing consumption of bananas.

**Options that may achieve the objective**

**Option 1 - Status Quo**

Under this option the current level of funding going to the banana industry for marketing and R&D purposes could be expected to remain at its current level. It should be noted, however, that the ABGC expects it to decline under the status quo, because it claims that those growers currently paying voluntary contributions will not maintain their current level of payments.
**Option 2 – Utilise Industry Cooperative/Marketing Groups and Private Research Providers**

Individual growers, industry cooperatives and/or marketing groups could undertake marketing activities and/or engage private research providers to conduct R&D initiatives.

**Option 3 - Implement A Voluntary Levy System**

Banana growers could be asked to pay voluntary contributions for the purpose of raising monies to fund marketing and R&D activities.

**Option 4 – Implement the proposed Statutory Levy**

The Government could accept the ABGC proposal to establish a new statutory levy on banana growers set at a rate of 1.7 cents per kilogram to be collected at the first point of sale for the purpose of undertaking both marketing and R&D.

**Impact analysis – costs, benefits and risks**

**Impact group identification**

Increasing the funds available for marketing and R&D is expected to principally impact on growers and consumers. It will also indirectly impact on other businesses located in banana growing communities and on suppliers/customers of growers (for example, plantation workers, carton manufacturers, machinery suppliers, transporters, wholesalers and retailers).

The provision of funds to HAL for R&D and marketing of bananas is most suitably funded by the Australian banana industry, as banana growers are likely to be the beneficiary of the outcomes achieved by the R&D and marketing work. Therefore, the group most likely to be impacted by the proposal to raise the R&D and marketing funds are also expected to be the beneficiaries; that is banana growers.

The impact on consumers is considerable as evidenced by a 2006 survey showing that 36 per cent of males and 33 per cent of females classify bananas as their favourite fruit. Increasing the funds available to HAL for additional R&D and marketing of Australian bananas is aimed at maintaining supply and generating increased market demand for bananas.

**Option 1 – Status Quo**

Continuing the status quo, with no statutory levy would mean the banana industry would have insufficient funds to pursue the R&D and marketing initiatives the industry wishes to undertake. It would leave the banana industry as the only major Australian fruit industry that does not have a compulsory national R&D levy in place.

Maintaining the status quo is viewed by the ABGC as not being able to secure the industry’s future. For example, there may be insufficient R&D funds to adequately protect the health of banana plants against potential destructive diseases. This could lead to volatile supply of product and volatile price movements with the potential to impact on the broader economy. For example, following the impact of Cyclone Larry, volatile prices for bananas were reported to have had an impact on the Consumer Price Index in 2006-07.

Maintaining the status quo would mean there is likely to be insufficient funds for marketing to maintain or increase demand. In those seasons where there is no disruption to supply because of a disease outbreak or a natural disaster, prices to growers may decline because other fruit industries
that have statutory marketing levies would be able to promote those fruits and gain market share to
the disadvantage of the banana industry.

**Option 2 – Utilise Industry Cooperative/ Marketing Groups and Private Research Providers**

Funds for a major marketing campaign were available when compulsory state levies existed in
Queensland. However, these levies were concluded in 2003. The industry did not need to
undertake marketing in 2006 as the shortage of supply resulting from the destruction caused by
Cyclone Larry, together with import restrictions, meant there were few bananas available for
consumption. When the compulsory state levies existed a national banana promotions programme
ran at a budget of $2.5 million annually.

Nevertheless, there have been private marketing campaigns. The vast majority (95 per cent) of
bananas sold in Australia are of the cavendish variety. Therefore, bananas could be classified as an
homogenous product. However to differentiate the product in the marketplace a small group of
growers undertook to market red-tipped bananas (cavendish bananas where the bottom is dipped in
red wax).

The Australian Banana Promotions Company Limited was incorporated in July 2004 with the
objective of developing and delivering an efficient and effective integrated promotional programme
for bananas. The ABGC has the goal of increasing banana consumption by at least 1.5 kilograms
per person per year for five years. The ABGC and the Australian Banana Promotions Company
Limited believe that a promotions budget of $3.0 million annually is needed to achieve this goal.

The private marketing of an homogenous product by only some growers and/or wholesalers results
in benefits accruing to all growers while the cost is borne only by the participating growers and/or
wholesalers. Thus the ‘free-rider’ problem causes market failure resulting in an unwillingness of
most growers to utilise industry cooperatives or marketing groups to undertake major marketing
campaigns.

The lack of a major marketing campaign can reduce returns to growers as bananas must compete
against a greater variety of fruits in the marketplace than in the past. In the summer months
mangoes are an increasing competitor while in the winter months the recently allowed import of
out-of-season cherries and grapes provides competition which did not exist in the past.

The substantial decline in the availability of funds for banana research following the abolition of the
compulsory Queensland levy demonstrates that utilising private research providers has not been
taken up by the industry. Again the ‘free-rider’ problem makes it unlikely that an individual grower
or a group of growers will provide the necessary funding for the required R&D.

The numerous destructive diseases that can impact on bananas and the subsequent dislocation this
can cause to banana growing communities (for example, the outbreak of black sigatoka in the Tully
Valley in 2001) shows there is a need for adequate investment in banana R&D to ensure the
maintenance of plant health and the development of disease free plants and/or varieties. The
eradication of black sigatoka from the Tully Valley cost the industry and governments $17 million.

Any research conducted privately is unlikely to be provided for the benefit of all growers, as it is
most likely the benefits of the research will be captured privately. In seeking a competitive
advantage, private researchers would also be less likely to pursue research of an industry-wide or
public good nature.

Also, the recent lack of funding for banana R&D has resulted in researchers formerly engaged in
banana research activities now devoting their time to undertaking research on other agricultural
commodities. This has long term implications and only exacerbates the urgent need for consistency of funding required for pursuing banana R&D strategies identified by the industry.

**Option 3 - Implement A Voluntary Levy System**

The banana industry provided $438,000 in voluntary contributions to HAL in 2006-07 to be utilised for R&D projects. No voluntary contributions were provided for marketing activities.

The substantial fall in levy funds received following the abolition of the compulsory Queensland levy demonstrates that the free-rider problem exists under the current voluntary levy system. Therefore, under this option the industry is unlikely to consistently generate the quantum of funding the ABGC believes is necessary to advance the industry and protect it from pest and disease incursions.

Core programmes that have been funded from the former compulsory Queensland levy and subsequent voluntary contributions include the development of a suite of banana disease diagnostic tools, a tissue culture accreditation scheme, a surveillance monitoring programme for black sigatoka throughout Cape York Peninsula and surveillance of bunchy top virus in southern growing areas. These activities have been cut back since July 2003 and have recently been supported by some growers paying voluntary contributions in the hope that a compulsory national levy will be implemented. The ABGC believes that continuation of these programmes requires far more funds than is currently being provided by those paying voluntary contributions.

It is unlikely that voluntary levies could significantly increase to the necessary levels desired by the ABGC. Either the ‘free riders’ would need to start contributing levy funds, or else current contributors would need to pay greater amounts.

In addition, the option of raising the necessary funds through a voluntary levy system results in equity problems between growers as well as a varying source of funding. It would be difficult to forecast who will pay voluntarily levy contributions in any given year. A voluntary levy system where funding is likely to be inconsistent and unpredictable, would make it difficult to plan marketing programmes or to commit to R&D projects that run for longer than 12 months. The potential for unpredictable and varying annual amounts of voluntary contributions are a significant detractor of a voluntary levy system.

Leaving the banana industry as the only major Australian fruit industry that does not have a compulsory national R&D levy would continue to disadvantage banana growers compared to growers in the other major fruit industries. Marketing campaigns by other fruit industries would increase sales of those fruits, potentially in substitution for bananas. The resulting decrease in banana sales would impact negatively on returns to banana growers. Also, R&D monies spent on other fruit commodities is likely to attract researchers to those industries. This could result in a lack of research expertise in the banana industry and could limit the industry from undertaking important plant, harvest, supply chain and consumer research.

**Option 4 – Implement the proposed Statutory Levy**

The fourth option is for the Government to agree to the ABGC proposal to establish a new statutory levy on banana growers set at a rate of 1.7 cents per kilogram to be collected at the first point of sale for the purpose of undertaking both marketing and R&D. The proposed statutory levy would be compulsory Australia-wide and managed by HAL. The levy would be collected quarterly from first purchasers (wholesalers and retailers), consistent with arrangements for other statutory fruit levies. This method ensures a regular supply of levy funds and minimises collection costs, as wholesalers and retailers are able to remit levy returns for various commodities at the same time.
A compulsory national levy will address the market failure in marketing and R&D applicable to the banana industry and fund necessary activities to maintain the viability of the industry. In addition, the R&D component of the levy will attract Australian Government matching of R&D expenditure.

Based on the ABGC projection of average annual banana production of 260,000 tonnes, the levy is expected to raise $4.4 million annually, $3.0 million for marketing and $1.4 million for R&D. Bananas directed to processing or exported will not be leviable but these outlets only utilise negligible quantities. In addition, small growers whose annual levy liabilities for bananas sold directly to consumers would be less than $100 will be exempt from paying the levy.

After deducting levy collection costs and the HAL administrative fee it is expected there would be approximately $2.4 million available annually for expenditure on R&D.

There will be an annual cost to the Australian Government of approximately $1.2 million dollars annually through providing matching funds for R&D. The Government does not match expenditure on marketing programmes. However, the Australian Government provided $437,000 in 2006-07 by matching the voluntary contributions paid to HAL to undertake R&D projects. Therefore the marginal cost to the Government initially may be as low as $800,000 annually if voluntary contributions fall following the adoption of the proposed statutory levy. However, it is also possible some voluntary contributions to R&D could continue or even increase if a statutory levy was in place.

There will be no administrative costs for the Australian Government in collecting and remitting the levy as the Levies Revenue Service of the Australian Government Department of Agriculture, Fisheries and Forestry operates under full cost recovery.

As the levy is borne by banana growers it is likely that growers would bear the majority, if not all, of the cost of the levy. However, it is possible that, under certain circumstances, wholesalers and/or retailers may choose to pass the cost of the levy on to their consumers by way of a minor increase in the price.

The levy would not have a disproportionate impact on a particular group or size of growers, as the percentage of levy payable on the sale of bananas would be the same for all growers, irrespective of size of operation. Additionally, a compulsory national statutory levy would eliminate the potential for ‘free-riders’.

While banana growers are expected to bear the cost of the statutory levy, they are most likely to be the beneficiaries of increased marketing and R&D initiatives. Positive investment returns have occurred for other horticultural industries which have statutory levies in place. A study, commissioned in 2005 by HAL titled Quantifying the Return on Investment of Horticulture Australia Supported Projects, reveals 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 growers and consumers through marketing campaigns informing consumers when bananas are in bountiful supply and through R&D investment in disease management, surveillance and monitoring to maintain plant health. These measures would assist in ensuring product availability and stable prices. Growers, consumers and the environment have already benefited through R&D expenditure which has reduced pesticide and fertiliser use in the industry by up to 95 per cent.

The R&D programmes to be funded from the national compulsory banana R&D levy will be compatible with the Australian Government's rural research priorities.
Competition Policy

The levy will be applied equitably to all banana growers. The money to be raised would be utilised solely for marketing and R&D activities, thereby assisting the industry as a whole. Over time, continuing funding on marketing and R&D projects is expected to enhance the industry’s efficiency and profitability. There is likely to be minor impacts on competition within the industry. For example, those banana growers who have invested in their own marketing (for example, red-tipped bananas) may lose some competitive edge in relation to other growers.

Consultation

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

The ABGC initially developed a proposal recommending the introduction of a levy of 1.2 per cent of the sale price of bananas at first point of sale for marketing and R&D activities. After six months of consultation, including meetings in all growing areas, a ballot of banana growers was conducted by the Australian Electoral Commission in November 2005. This ballot conducted on a one vote per enterprise basis received only 43 per cent support from the 450 voters who had returned ballot papers for scrutiny. A total of 1755 potential levy payers had been issued with ballot papers.

Following requests from within the banana industry for a revised proposal which allowed growers to vote on a cents-per-kilogram levy rather than an ad-valorem (percentage of sales) levy, the ABGC developed a new proposal for a levy of 1.7 cents per kilogram to be collected at the first point of sale. Through a combination of industry consultation and needs analysis (for example by reviewing the objectives set out in the Australian Banana Industry Strategic Plan 2002-2005), the proposed levy rate of 1.7 cents per kilogram was determined as the optimal rate that growers would support for establishing a comprehensive R&D and promotions programme commensurate with the size of the industry. The ABGC wanted a ballot that fairly accounted for the differing levels of investment in the industry with each grower given a number of votes in proportion to the plantation size of bananas under production. Growers were awarded one vote for every five hectares of banana production, with all growers entitled to at least one vote regardless of plantation size. Plantation sizes for additional votes were rounded to the nearest five hectares (for example, plantations between 7.5 and 12.4 hectares were rounded to 10 hectares; 12.5 to 17.4 hectares were rounded to 15 hectares). To ensure a fair and equitable system, the ABGC undertook a comprehensive audit of grower numbers and plantation sizes.

ABGC directors and staff attended many grower meetings and forums to talk about the revised levy proposal. Special grower meetings were held in all growing areas and ABGC directors attended local association meetings. Articles and editorial comments were included in “Australian Bananas” magazine which is sent to all known banana producers. An Information Statement was sent to all growers with the ballot material. The information statement included an outline of broad key areas that the ABGC believed to be essential funding priorities should the levy proposal be supported and implemented. These areas included: the development and delivery of plant health specific programs and services; support for a tissue culture nursery accreditation scheme; and training in banana disease diagnostic capabilities. Similar to other horticulture industries with statutory levies, a banana Industry specific projects for funding would be determined each year by a Banana Industry Advisory Committee that would be established by the horticulture industry services body Horticulture Australia Limited.

Given the size of the industry, especially in major regional growing areas, local papers gave considerable coverage to the proposal while ABGC representatives participated in a number of radio interviews. The proposal was easily accessible on the ABGC website. Overall, consultation was comprehensive.
The ABGC’s comprehensive audit of grower numbers and plantation sizes in the lead up to the 2007 ballot resulted in a significant reduction in the number of banana growers who were eligible to vote in the 2007 ballot when compared with the 2005 levy ballot. The refinements to the ABGC’s list of commercial banana growers were based on a range of information sources including: advice during the 2005 ballot from many recipients of ballot papers that they had left the industry; advice from state representative groups during consultation for the 2007 ballot about growers who had exited the industry; and industry consolidation. While the ABGC was confident that the list of banana growers for the 2007 ballot was far more accurate than the list developed for the 2005, the ABGC advertised extensively during the 2007 ballot urging any banana growers who believed they were entitled to vote to contact the ballot administrator.

The ABGC contracted Registries Ltd to conduct the ballot which ended on 4 June 2007. Ballots were sent to 796 potential levy payers. The ballot delivered a positive result in favour of the revised levy proposal both on a one vote per enterprise basis and on a production-weighted basis.

- The one vote per enterprise vote was 186 growers (67.3 per cent) in favour and 90 growers (32.6 per cent) against.
- On a production-weighted basis the vote was 1303 votes (88.2 per cent) in favour and 175 votes (11.8 per cent) against.

The Government’s levy principles and guidelines state that it is a requirement for a majority of those that vote to be achieved if a new levy is to be implemented. Thus with two-thirds of valid votes in favour on a one vote per enterprise basis the ABGC achieved a solid mandate for the proposed levy. The large majority vote in favour on a production-weighted basis further supports the ABGC’s mandate.

After formal submission of the ABGC proposal to the previous Government, the Government’s Levy Guidelines for new primary industry levies provided it with the ability to have a six week period for industry comment. The former Government invoked a six week period ending 6 November 2007, which was advertised by HAL. The former Government received one dissenting submission and one supporting submission during this six week period.

**Conclusion and recommended option**

The proposed compulsory national banana levy is regarded as the only effective means of correcting the market failure in funding marketing and R&D that currently exists in the industry. In addition, the statutory levy proposal is regarded as the only equitable means of raising the funds required to strengthen the industry’s marketing and R&D.

The proposal for a national statutory levy for marketing and R&D for the banana industry:

- conforms to the Australian Government's levy principles and guidelines;
- will be applied universally across the levy paying population;
- has clear potential to benefit the industry; and
- is not expected to impose extra costs on consumers.

The recommended option is to implement a compulsory levy under the *Primary Industries Levies and Charges Collection Act 1991* and the *Primary Industries (Excise) Levies Act 1999* to fund banana marketing and R&D through HAL.

**Implementation and review**

The levy is to be implemented as soon as practicable, depending on the legislative process. The ABGC has indicated that it intends to review the levy arrangements every five years.
In addition, the compulsory annual levy payers meeting (currently held for all the 25 existing horticultural industries with statutory levies in place and would be obligatory for the banana industry once a statutory levy has been enacted) provides growers with an annual forum in which levy matters can be raised and reviewed.

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Food and Agriculture Division
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