Background

Passionfruit are predominantly grown along the east coast of Australia from Cooktown in far north Queensland to Byron Bay in New South Wales. Production also occurs near Darwin and Perth. The number of commercial growers is approximately 130, consisting of a few large growers with the majority classified as small growers.

A statutory research and development (R&D) levy and export charge on passionfruit growers has been in place since 1 May 1999 and has been paid to Horticulture Australia Limited (HAL). The R&D levy is imposed on sales on the fresh domestic and export markets and on product directed to processing. The R&D levy is: 20 cents per 18 litre carton or 20 cents per 8 kilograms for fresh fruit; and $15 per tonne (1.5 cents per kilogram) for fruit directed to processing.

Under the Horticultural Marketing and Research and Development Services Act 2000, HAL is the declared industry services body for the administration of horticulture industry levies and charges for marketing and R&D. It would be the body to manage moneys collected from the proposed marketing levy and charge to be imposed on passionfruit growers. HAL is funded by statutory levies and export charges, voluntary contributions and Australian Government matching funding for eligible R&D expenditure.

Australia produces passionfruit all year round with a peak supply period from November to February. Volatile supply and the lack of any official statistics make it difficult to provide accurate data on Australian production. However, the industry estimates that annually between 2,300-2,800 tonnes of passionfruit are produced for sale on the fresh market while a further 470-580 tonnes are processed.

There are no official trade statistics for fresh or processed passionfruit as there is no separate category for these products in the Australian Customs Tariff and Statistical Nomenclature or the Australian Harmonized Export Commodity Classification. However, only negligible quantities of fresh passionfruit are exported. Imports of fresh passionfruit enter Australia at the peak New Zealand season during low periods of domestic supply. While it is unlikely Australia exports processed passionfruit, imports of cheaper, lower quality pulp is imported from various overseas countries for use in the food service sector and in juice manufacturing. There is no R&D levy on imported passionfruit and the regulations will not impose a marketing levy on imported product.

The annual farm-gate value of the passionfruit industry is estimated at $7-$10 million. This estimate is derived from average R&D levy revenue generated in recent years and assumes farm-gate returns of $25 per 8 kilograms of fresh fruit and 40 cents per kilogram of processed pulp.

Volatile supply and pricing on the domestic market is a problem for the industry. Production is expected to increase in the medium term as new entrants have entered the industry and some other growers have increased the size of their plantings.
HAL, on behalf of the Australian Passionfruit Industry Association (APIA), has made a submission to the Government for the introduction of a statutory marketing levy and export charge (marketing levy) on passionfruit growers. APIA wishes that for the proposed passionfruit marketing levy that the rates are set at the same rates as for the current R&D levy and charge, namely:

- 20 cents per 18 litre carton weighing 8 kilograms (0.8% of the price per carton);
- 20 cents per 8 kilograms, if not packed in cartons (0.8% of the price per kilogram); and
- 1.5 cents per kilogram of processing passionfruit (4% of the price per kilogram).

The marketing levy rates were determined through consultation with passionfruit growers, including at grower meetings. The rates were considered appropriate to undertake the marketing initiatives of APIA’s 2006-2010 Strategic Plan for the industry. The proposed marketing levy would double an individual passionfruit levy payer’s overall liability of levies and charges payable. Like the R&D levy, the proposed marketing levy will be collected at the first point of sale.

In addition, APIA wish to make some ‘machinery’ changes to the collection arrangements to reduce collection costs.

- An exemption from payment for passionfruit sold by a producer by retail sale (ie. direct to the consumer via roadside stalls, shed sales, farm-gate) if the total amount of levy that the producer would be liable to pay in the levy year would be less than $100. This exemption is to apply to the combined R&D and marketing levies.
- Currently collection agents are able to submit quarterly returns, but APIA want provision to be made for the submission of annual returns where the total liability of levy and/or charge payable on passionfruit dealt with in the levy year will be less than $500. This provision is to apply to the combined R&D and marketing levies and charges.

**Assessing the Problem**

The passionfruit industry has identified significant weaknesses in its fresh and processed sectors but neither growers nor the passionfruit industry have been in a position to exploit opportunities for development or to address these weaknesses to date. The main problem is that currently passionfruit sales are low and there is a risk of losing market share to other, better resourced fruit industries.

The passionfruit industry needs to promote fresh passionfruit into a mainstream fruit product eaten more regularly and consistently by consumers, thereby stimulating an increase in sales. Building market share is essential to ensure demand at least keeps pace with the expected increase in production.

The major barrier to establishing a voluntary marketing program is the free-rider problem. There are no incentives for individual growers to undertake marketing. Any marketing conducted privately would benefit all growers without most of them making any financial contribution towards the campaign. The free-rider notion would erode the profits of those funding private marketing thus discouraging individual or group investment. In addition, while it is possible for an individual grower or a group of growers to develop a branded product, the generic nature of the product makes this an unlikely development as it would be difficult for the private investors to exclusively capture the benefit.
In Australia passionfruit is currently sold as a generic product and there are no industry co-operatives or marketing groups within the industry. The preferred commodity nature of fresh produce markets, as well as the potential for other individuals in the industry to benefit without contributing, makes the development of branding by individuals or groups in the industry risky, expensive and likely to fail.

APIA wishes the statutory marketing levy to be introduced to enable it to achieve priorities identified in its 2006-2010 Strategic Plan and strategies outlined in its Annual Marketing Plan 2009-2010. These include:
- Developing a marketing program to promote passionfruit throughout its variable annual production cycles, to generate short term demand during period of over-supply, and long-term demand to ensure higher constant demand and returns;
- Initiation of retailer and consumer promotion and education programs; and
- The establishment of regular communication / information flow along the supply chain.

Failure to address the current lack of marketing activities would result in a passionfruit industry characterised by:
- Low consumption levels at a time of increasing competition for the consumer dollar;
- Supply outstripping demand resulting in falling returns to growers;
- Volatile product variability causing consumer dissatisfaction; and
- Less than satisfactory knowledge about passionfruit along the supply chain.

APIA believes meeting industry priorities is critical for the ongoing growth and survival of the industry in an increasingly competitive marketplace. Further, APIA believes that without industry investment in marketing of fresh and processed product the industry risks losing market share and opportunities to better resourced competitors.

Therefore, APIA proposes to underpin the viability and development of the Australian passionfruit industry through establishing a sufficient and consistent source of funds to finance the marketing initiatives that it believes are essential to advance the industry.

**Objectives of Government action**

The objective is to enable the passionfruit industry to establish a consistent source of funding for marketing initiatives identified by the industry. This would give the industry a greater capacity to finance the marketing activities identified in the Strategic Plan and Annual Marketing Plan.

**Options that may achieve the objective**

*Option 1 - Status Quo*

Under this option the current level of funding going to the marketing of passionfruit could be expected to remain at its current low level.

*Option 2 – Utilise Industry Cooperative/ Marketing Groups*

Individual growers, industry cooperatives and/or marketing groups could undertake marketing activities.
Option 3 - Implement A Voluntary Levy System

Passionfruit growers could be asked to pay voluntary contributions for the purpose of raising monies to fund marketing activities.

Option 4 – Implement the proposed Statutory Levy

The Government could accept the APIA proposal to establish a new statutory marketing levy on passionfruit growers to be set at the following rates:

- 20 cents per 18 litre carton;
- 20 cents per 8 kilograms, if not packed in cartons;
- 1.5 cents per kilogram of processing passionfruit.

Impact analysis – costs, benefits and risks

Impact group identification

Increasing the funds available for marketing is expected to principally impact on growers and consumers. Wholesalers and retailers would benefit indirectly if successful marketing activities lead to increased purchases by consumers.

Providing funds for marketing of Australian passionfruit is aimed at generating increased consumer demand for the product. Passionfruit growers are most likely to be the major beneficiaries of this in the medium term through improved demand and, potentially, prices.

The benefits for consumers would include being better informed on when passionfruit is available and being better informed about the quality of the product.

Supply chain partners would also benefit in the medium term from successful marketing initiatives through improved demand, prices and stabilisation of supply. Backed by continuing R&D projects the quality of product should improve thus enhancing the benefits accruing.

Indirect public benefits could include: improved full time and casual employment in the fruit industry; supporting rural communities where passionfruit is grown; and contributing to a healthier diet for consumers through increasing consumption of fruit.

Option 1 – Status Quo

Continuing the status quo would mean the passionfruit industry would have insufficient funds to pursue the marketing initiatives as outlined in their Strategic Plan and Annual Marketing Plan. APIA believes investment in marketing is essential for the long term future of the passionfruit industry.

Maintaining the status quo could mean other fruit industries that have statutory marketing levies would be able to promote those fruits and gain market share to the disadvantage of the passionfruit industry.
Under this scenario the Australian economy could expect net costs to result, as this $7-$10 million per annum farm-gate industry: would receive lower returns to growers, local plantings would be taken out of production, little new investment in the industry and losses to employment in rural communities would occur, and local processors either would take on increased imported bulk pulp or could face closure.

The costs to growers and rural communities would be mitigated, to some extent, by the ability of passionfruit growers to move into production of other horticultural crops.

**Option 2 – Utilise Industry Cooperative/ Marketing Groups**

All passionfruit is currently sold as generic produce. There are no industry co-operatives or marketing groups within the industry at present.

The major barrier to the establishment of co-operatives or marketing groups is the free-rider problem. The marketing activities required to achieve the strategies outlined in their Annual Marketing Plan are generic in nature and aimed at assisting the industry as a whole.

Further, should it be possible to successfully market a private brand it is unlikely that the marketing would provide industry-wide or public good benefits.

Thus the free-rider problem makes it unlikely that an individual grower or a group of growers will provide the necessary funding for the required marketing. This option is unlikely to lead to a major marketing campaign leaving the industry facing reduced returns as passionfruit must compete against a greater variety of fruits in the marketplace than in the past.

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

A free-rider problem would also exist under a voluntary levy system. Therefore, under this option the industry is unlikely to consistently generate the quantum of funding APIA believes is necessary to advance the industry.

In addition, it would be difficult to forecast who will pay voluntary levy contributions in any given year. A voluntary levy system would make funding inconsistent and unpredictable and in turn would make it difficult to plan marketing programs.

The equity problems from free-riders and the potential for unpredictable and varying annual amounts of voluntary contributions are the significant detractions of a voluntary levy system. The impact would be that a voluntary levy would not raise a sufficient or reliable enough source of funds to meet the marketing objectives as outlined in the Strategic Plan and Annual Marketing Plan.

The option of a voluntary levy would continue to disadvantage passionfruit growers compared to growers in the other fruit industries. Marketing campaigns by other fruit industries would increase sales of those fruits, potentially in substitution for passionfruit. The resulting decrease in passionfruit sales would impact negatively on returns to growers.
Option 4 – Implement the proposed Statutory Levy

The fourth option is for the Government to agree to the APIA proposal to establish a new statutory marketing levy on passionfruit growers to be collected at the first point of sale for the purpose of undertaking marketing through HAL.

The proposed statutory marketing levy would be compulsory Australia-wide. The marketing levy would be collected from first purchasers (processors, exporters, wholesalers and retailers). These arrangements are consistent with those applying to other statutory fruit levies. This approach ensures a regular supply of levy funds and minimises collection costs, as exporters, wholesalers and retailers are able to remit levy returns for various commodities at the same time.

There is not expected to be any impact on growers from not having a levy on imports. Most passionfruit imports are lower quality pulp for use in the food service sector and in juice manufacturing. Fresh passionfruit imports generally occur during low periods of domestic supply. The marketing levy would be a cost borne by growers and therefore would not in the short term increase the price of domestic product compared to imported product. If the levy was passed on to the consumer, resulting in a rise in passionfruit prices, it is likely Australian growers would be less competitive against importers and the level of imports may increase. However, other factors such as exchange rate movements are more likely to influence the competitive position of Australian growers.

The existing passionfruit R&D levy raised $76,000 in 2007-08. Funds expected to be generated from the proposed marketing levy will be $60,000 to $80,000 annually, depending on seasonal conditions.

As a percentage of the farm-gate value of the passionfruit industry, the marketing levy would represent an estimated 0.8% of the sale price of fresh passionfruit and an estimated 4% of the sale price of processing passionfruit. This analysis is based on the estimated annual farm-gate value of the industry of $7-$10 million. This estimate is, in turn, derived from the average R&D levy revenue generated in recent years and assumes farm-gate returns of $25 per 8 kilograms of fresh fruit and 40 cents per kilogram of processed pulp.

There would be no additional cost to the Australian Government. While the Government provides matching funds for eligible R&D expenditure it does not match funds utilised for marketing. There will be no administrative costs for the Government in collecting and remitting the levy as the Levies Revenue Service (LRS) of the Australian Government Department of Agriculture, Fisheries and Forestry operates under full cost recovery.

The current LRS cost recovery charges are $10,700 per levy year – however, a one-off fee associated with the start up of the collection of the marketing levy and charge would also be incurred. The proposed ‘machinery’ changes to the collection arrangements should reduce some of these collection costs. HAL’s management charges to apply would be around 11 per cent of the funds collected through the marketing levy and charge. Based upon a levy collection of $80,000 per annum, and after taking account of fees and charges from LRS and HAL, projected funds available for marketing activities could be expected to be around $60,000 per annum.
The majority, if not all, of the cost of the marketing levy will be borne by passionfruit growers. Growers wish to impose the levy on themselves as an investment in their future. They are willing to bear a medium-term cost for longer-term gain. A successful marketing campaign over the medium term should lead to an increase in consumption and a rise in prices. However, it is recognised that in the medium term, under certain circumstances, processors, wholesalers and/or retailers may choose to pass the cost of the levy on to their consumers by way of an increase in the price.

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

A study, commissioned in 2005 by HAL titled Quantifying the Return on Investment of Horticulture Australia Supported Projects, estimates that the economic returns on R&D and marketing investment for horticultural industries have provided a benefit cost ratio of 3.8. That is HAL estimates that for every dollar invested in HAL projects a benefit of $3.80 is generated.

APIA considers the estimated annual marketing levy revenue would provide necessary funds to implement activities to achieve priorities identified in the Strategic Plan. Activities would include a targeted promotions campaign that provides specific information on passionfruit’s unique status and health benefits, supported by in-store sampling. APIA believes this and other marketing initiatives would result in the sale of more Australian grown passionfruit at more stable prices, particularly during periods of peak supply. Further, benefits will flow to consumers through informing them when passionfruit are in bountiful supply.

The industry’s Annual Marketing Plan specifies there will be a national marketing campaign aimed at education, targeting media outlets for key occasional times (Christmas, Valentine’s Day), the development of A6 leaflets and posters for point-of-sale marketing at independent fruit shops, IGAs and independent supermarkets and in-store sampling in selected independent fruit shops to educate consumers on how to pick store and use passionfruit, and on the different varieties of passionfruit available.

**Competition Policy**

The marketing levy will be applied equitably to all Australian passionfruit growers. The money to be raised would be utilised solely for marketing activities focussed at assisting the industry as a whole. Hence this marketing should be competitive neutral in the industry (ie. not favouring or disadvantaging one individual or group in the industry over another). Over time, continuing funding on marketing projects is expected to enhance the viability and profitability of the industry.

**Consultation**

APIA conducted a thorough consultation campaign with all known potential levy payers, in line with the *Levy Principles and Guidelines*. A levy proposal document was developed as a basis for discussions with those potential levy payers.
The proposed levy consultation process was advertised in the major newspapers in known major growing regions, promoted on the APIA website, and also sent out to known current and previous APIA member growers so that the information could be passed on. Meetings were held at four locations on the eastern coast at major concentrations of growers. The levy rate appropriate to undertake the marketing initiatives of the Strategic Plan was determined through this industry consultation.

APIA was disappointed at the smaller than expected turnout of growers at the consultation meetings. However, when growers at the meetings were requested to show their willingness or otherwise to proceed to a formal ballot, a response was given by 37 growers of whom 35 agreed that a ballot should be held.

A postal ballot was conducted by the Australian Electoral Commission. Ballot papers were sent to 130 known commercial growers. 62 valid papers were returned, with 2 ballots deemed informal. The result of the vote was 38 growers (63%) in favour of the marketing levy proposal and 22 growers (37%) against. As it was a secret ballot it is not known which growers voted against the proposal nor why they chose to do so.

The Levy Principles and Guidelines state that it is a requirement for industry to achieve a majority of those that vote if a new levy is to be implemented. Thus with almost two-thirds of valid votes in favour on a one vote per enterprise basis, APIA considers it has achieved a mandate for progressing implementation of the marketing levy.

After formal submission of the APIA proposal to the Government, the Levy Principles and Guidelines provide for a six week period for industry comment. The six week period which ended on 24 August 2009 was advertised by HAL and APIA. The Government did not receive any dissenting submissions during this six week period.

The percentage of voters in favour of the new marketing levy compares favourably with other ballots.
- For example, regulations which came into force on 1 April 2005 increased the passionfruit R&D statutory levy and export charge from 15 cents per carton or 15 cents per 8 kilograms for fresh fruit and $10 per tonne for fruit directed to processing to the current rates of 20 cents per carton or 20 cents per 8 kilograms for fresh fruit and to $15 per tonne for fruit directed to processing. A ballot of growers was conducted for this change with ballot papers sent to 179 known commercial growers. Of the 113 valid votes returned, 72% voted in favour of the increase to the fresh fruit rate and 69% voted in favour of the increase to the processing fruit rate.
- Recent ballots have been conducted for other fruit industries implementing new marketing levies.
  - On 1 July 2009 a new marketing levy was enacted on pineapple growers. A postal ballot for this levy conducted by the Australian Electoral Commission resulted in 86 valid papers being returned. The result was 52 growers (60%) in favour and 34 growers (40%) against.
  - On 1 July 2008 a new marketing levy was enacted on banana growers. A postal ballot for the banana levy resulted in 186 growers (67%) in favour and 90 growers (32%) against.
  - On 1 September 2007 a new marketing levy was enacted on cherry growers. Of the valid votes returned for the cherry levy 136 growers (51%) voted for the new levy and 129 (49%) voted against.
Conclusion and recommended option

The recommended option is to implement a compulsory marketing levy under the Primary Industries (Excise) Levies Act 1999 and the Primary Industries (Customs) Charges Act 1999 to fund passionfruit marketing through HAL. The proposed ‘machinery’ changes to the collection arrangements to reduce collection costs will be implemented under the Primary Industries Levies and Charges Collection Act 1991.

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

The proposal for a national statutory marketing levy for the passionfruit industry:
• conforms to the 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 significant costs on consumers.

Implementation and review

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

The compulsory annual levy payers meeting provides growers with an annual forum in which levy matters can be raised and reviewed.

The Government does not intend to review the operation of the levy.