

REGULATION IMPACT STATEMENT
(Office of Best Practice Regulation ID No 9884)

**REGULATIONS FOR PINEAPPLE INDUSTRY MARKETING,
RESEARCH AND DEVELOPMENT, PLANT HEALTH
AUSTRALIA MEMBERSHIP AND EMERGENCY PLANT PEST RESPONSE
LEVY AND EXPORT CHARGE**

Background

Australian pineapple production is regionally based. Virtually all pineapple production occurs in Queensland, with small quantities grown in northern New South Wales and the Northern Territory. About 75 per cent of Queensland's pineapple crop is grown between Brisbane and Gympie, with other producing areas being central Queensland near Yeppoon, the Bundaberg region and far north Queensland near Murtarnee.

There is one major processor, Golden Circle Limited, located at Northgate, a suburb of Brisbane. Approximately 65% of pineapple production is delivered to Golden Circle for processing.

Approximately 155 growers produce pineapples for the fresh market and/or for the processing sector. Growcom is the peak industry body. In 2006, the industry formed a Pineapple Growers' Advancement Group made up of representatives of each of the nine pineapple study groups that have been formed to support the growers in the major pineapple producing regions of Australia. More than 75% of pineapple growers are actively involved with these study groups.

Horticulture Australia Limited (HAL), on behalf of Growcom, has made a submission to the Government to introduce a new statutory levy and export charge on pineapple growers for the purpose of undertaking marketing and research and development (R&D) through HAL as well as to pay for Plant Health Australia (PHA) membership and establish an Emergency Plant Pest Response levy.

The proposed R&D levy and PHA levy will be on pineapples sold either on the fresh market or directed to processing while the proposed marketing levy will be on fresh sales only. The emergency plant pest response levy is to be initially set at zero and only to be activated if a pest or disease outbreak occurs. The export charge will be implemented only on fresh sales. The levy and export charge will be collected at the first point of sale. Growcom expects the levy and export charge to raise approximately \$320,000 annually.

Where a grower sells 30 tonnes or less of fresh pineapple to the public through retail sale (that is, direct to the consumer through roadside stalls, shed sales, farmgate etc) in a levy year, this fruit is to be exempt from levy.

For the remainder of this paper the term "levy and export charge" is referred to as "levy".

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 pineapple industry.

Before its abolition, the state pineapple levy had funded R&D projects and promotion activities. Since 2003 there has been minimal investment by the pineapple industry in R&D or marketing. Growcom provided limited funds for maintenance of some existing R&D programs, critical future R&D and PHA membership since 2003. The R&D expenditure was paid to HAL in the form of voluntary contributions. The Australian Government has matched the R&D expenditure funded from these voluntary contributions.

This period of non-investment since 2003 has resulted in critical issues, particularly related to pest and disease control, emerging in the industry. An example is the withdrawal of the essential chemical controls and the need for further R&D to identify alternate control methods or gain appropriate registrations of existing chemicals. The industry needs to invest at least \$600,000 over the next three years to address chemical replacement issues alone.

Also, the Australian Pineapple Strategic Plan 2007-2012 outlined the current reality facing the industry as being:

- increasing global competition in the pineapple processing sector;
- imminent global competition in the fresh pineapple sector;
- poor grower and supply chain profitability;
- changing industry leadership and farm succession;
- variability of fruit quality and supply through the year; and
- poor consumer awareness and knowledge about pineapple.

Failure to address the current realities means the industry is characterised by:

- a high domestic market focus and dependence;
- low consumption levels and increasing competition for the consumer dollar;
- product variability causing consumer dissatisfaction in fresh market pineapples; and
- lack of volume and product identity in fresh market pineapples.

The Strategic Plan outlines that considerable industry investment is required as the industry moves into a period of intense global competition, rising costs and declining farm numbers. The broad industry objectives identified in the Plan are:

- to improve consumer demand for Australian pineapple products;
- to improve industry competitiveness; and
- to improve industry leadership, unity and communication.

Growcom believes meeting these objectives over the next five year period is critical for the ongoing growth and survival of the industry in an increasingly competitive marketplace and will provide real improvements to pineapple producing businesses.

Growcom believes that without industry investment in R&D and marketing of fresh product, as well as plant health related activities, the industry risks:

- being unable to respond effectively to the spread of established pests and diseases through lack of R&D into alternate control mechanisms, including new crop protection formulations;
- becoming less competitive and profitable as gains through improvements in production system efficiency are not realised;
- being unable to meet expected environmental outcomes;
- being ill-prepared for dealing with an exotic pest or disease incursion; and
- losing market share and opportunities to better resourced competitors.

Therefore, Growcom proposes to underpin the viability and development of the Australian pineapple industry through establishing 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 pineapple 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 industry a greater capacity to finance a range of R&D and marketing programs that will help undertake key projects identified in the strategic plan which relate to:

- ensuring effective pesticides are available and registered to control important pests and diseases;
- adoption of best practice management through industry study groups and other activities; and
- enhancing industry information flows through the employment of an industry development officer.

Options that may achieve the objective

Option 1 - Status Quo

Under this option the current level of funding going to the pineapple industry for marketing and R&D purposes could be expected to remain at its current low level.

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

Pineapple 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 Growcom proposal to establish a new statutory levy on pineapple growers to be set at the following rates:

For pineapples directed to processing

Research and Development	\$1.90 per tonne
Plant Health Australia membership	\$0.10 per tonne
Emergency Plant Pest Response	to be set at zero;

For pineapples sold on the fresh market

Marketing and Promotion	\$2.00 per tonne
Research and Development	\$2.90 per tonne
Plant Health Australia membership	\$0.10 per tonne
Emergency Plant Pest Response	to be set at zero.

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 pineapple 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 pineapples is most suitably funded by the Australian pineapple industry, as pineapple growers are likely to be the beneficiary of the outcomes achieved by the R&D and marketing work.

The impact on consumers is the ability to more regularly purchase better quality fresh pineapple. Providing funds to HAL for R&D and marketing of Australian pineapples is aimed at maintaining supply and generating increased market demand for pineapples.

Option 1 – Status Quo

Continuing the status quo, with no statutory levy would mean the pineapple industry would have insufficient funds to pursue the R&D and marketing initiatives as outlined in their strategic plan. Growcom believe investment in R&D and marketing is essential for the long term future of the pineapple industry.

For example, Growcom believe the possible benefits that the industry will realise through R&D activities will include:

- access to crop protection formulations and alternate pest control mechanisms critical for the production of pineapples;
- improved grower profitability and sustainability through the application of other R&D projects designed to address specific industry needs; and
- improved communication of R&D outcomes and other issues, improving industry adoption of best practice techniques.

Growcom believe the benefits that the industry will realise through having statutory PHA membership and a statutory EPPR levy structure in place include:

- access to the national plant health system; and
- a mechanism to raise required funds if there is a pest incursion that threatens the viability of the industry.

Growcom believe the possible benefits that the industry will realise through promotion and marketing activities for fresh fruit include the sale of more Australian grown pineapples at higher prices, through a targeted promotions campaign that encourages positive consumer attitudes towards the product. It is intended to use the marketing levy to deliver a generic message encouraging consumers to purchase Australian grown pineapples. The generic campaign is intended to underpin seasonal promotions or those undertaken by private marketing companies promoting a specific brand.

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 pineapple industry.

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

Funds for a marketing campaign were available when compulsory state levies existed in Queensland. There has been no national pineapple promotion program since the transitional arrangements for these levies were concluded in 2003 (the industry was collecting approximately \$67,000 annually for both R&D and promotion).

Nevertheless, there have been some private marketing campaigns. Some growers pay a promotions fee to their packhouse or wholesaler to promote their brand of pineapples. The proposed statutory marketing levy on fresh sales is to be used to generically promote Australian grown pineapples, not specific brands. Therefore, the compulsory levy would complement activities that packhouses and wholesalers conduct in relation to specific brands of Australian grown fruit.

The private marketing of a brand of pineapples by only some growers and/or wholesalers can result in benefits accruing to all growers while the cost is borne only by the participating growers and/or wholesalers. The lack of a major marketing campaign can reduce returns to growers as pineapples must compete against a greater variety of fruits in the marketplace than in the past.

The decline in the availability of funds for pineapple research following the abolition of the compulsory Queensland levy demonstrates that the option of utilising private research providers has not been taken up by the industry. 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.

Destructive pineapple diseases and the subsequent dislocation this can cause to pineapple growing communities shows there is a need for adequate investment in pineapple R&D to ensure the maintenance of plant health and the development of disease free plants and/or varieties.

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, a lack of funding for pineapple R&D could result in researchers 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 pineapple R&D strategies identified by the industry.

Option 3 - Implement A Voluntary Levy System

Since 2003 the pineapple industry has not collected funds to undertake collective activities such as R&D or promotion and marketing. Growcom provided limited funds for maintenance of some existing R&D programs, critical future R&D and PHA membership since 2003. The R&D monies were paid to HAL in the form of voluntary contributions.

The 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 Growcom believes is necessary to advance the industry and protect it from pest and disease incursions.

It is unlikely that voluntary levies could significantly increase to the necessary levels advocated by Growcom. Either the ‘free riders’ would need to start contributing levy funds, or those who are willing 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 programs 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 detraction of a voluntary levy system.

Leaving the pineapple industry as a major Australian fruit industry that does not have a compulsory national levy would continue to disadvantage pineapple 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 pineapples. The resulting decrease in pineapple sales would impact negatively on returns to pineapple 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 pineapple 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 Growcom proposal to establish a new statutory levy on pineapple growers to be collected at the first point of sale for the purpose of undertaking marketing and R&D through HAL as well as to pay for PHA membership and establish an Emergency Plant Pest Response levy, initially set at zero, and only be activated if a pest or disease outbreak occurs.

The proposed statutory levy would be compulsory Australia-wide and managed by HAL. The levy would be collected quarterly from first purchasers (processors, exporters, 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 exporters, 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 pineapple 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 funding.

Based on the Growcom projection of average annual pineapple production of 115,000 tonnes, the levy is expected to raise \$320,000 annually: \$60,000 for marketing; \$248,500 for R&D; and \$11,500 for the PHA levy. Excess funds from the PHA levy above the annual PHA membership fee can be returned to HAL to be utilised on R&D. After deducting levy collection costs and the HAL administrative fee it is expected there would be approximately \$207,500 available annually for expenditure on R&D.

There will be an annual cost to the Australian Government of approximately \$207,500 dollars annually through providing matching funds for R&D expenditure. The Government does not match expenditure on marketing programs. 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 pineapple 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, processors, 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 grower, as the percentage of levy payable on the sale of pineapples 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 pineapple 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 pineapples are in bountiful supply and through R&D investment in disease and pest management. These measures would assist in ensuring product availability and stable prices.

Similar to other horticulture industries with statutory levies, pineapple industry specific projects for funding would be determined each year by a Pineapple Industry Advisory Committee that would be established by HAL.

The R&D programs to be funded from the national compulsory pineapple R&D levy will be compatible with the Australian Government's rural research priorities.

Competition Policy

The levy will be applied equitably to all pineapple growers. The money to be raised would be utilised solely for marketing and R&D activities and the annual membership fee of PHA, 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 pineapple growers who have invested in their own marketing may lose some competitive edge in relation to other growers.

Consultation

Growcom conducted a thorough consultation campaign with all known potential levy payers, in line with the Levy Principles and Guidelines.

The process began in late 2006 including a review of the industry strategic plan. The Australian Pineapple Industry Strategic Plan 2007–2012 was finalised in June 2007. Growcom assessed what investment the industry would need to make to meet the objectives outlined in the plan. In May 2007, regional meetings surveyed growers on whether they were in favour of a compulsory levy, what should be levied and what the rate of levy should be.

In addition, options were presented at the Annual Pineapple Industry Field Day held on the Sunshine Coast on 13 July 2007 with an information paper, based on an 'Initial Industry Consultation Document' provided in the Field Day Handbook. Approximately 80 growers attended the field day. A sizeable percentage of growers were in favour of pursuing a compulsory levy.

Consultation also occurred with wholesalers in the central markets and with Golden Circle who would be collection agents for the levy. Also the dominance of Golden Circle in the pineapple processing sector together with the concentration of commercial pineapple production in Queensland enabled Growcom to very accurately identify all commercial pineapple production businesses and businesses supplying fruit to processors.

Feedback from growers, in conjunction with determining the minimum investment required to meet the objectives of the strategic plan, resulted in Growcom proposing the levy rates mentioned earlier in this paper and which became the rates upon which growers voted on in the ballot.

Articles were included in the 'Pineapple Press', the pineapple industry newsletter distributed to all pineapple growers by Growcom, and in "Fruit and Vegetable News" a monthly magazine distributed by Growcom to fruit and vegetable growers in Queensland. The proposal was easily accessible on the Growcom website. Final information meetings with industry were held in January 2008 prior to the ballot.

On 19 January 2008 an advertisement was placed in the major newspaper in each of Queensland, New South Wales, Western Australia and the Northern Territory requesting any growers that had not received information about the proposed levy and ballot to contact Growcom urgently. Media releases were distributed to mainstream and rural media outlets which in turn generated 45 media interviews and articles, providing extremely good coverage of the issue in the major pineapple production regions of Queensland. Overall, consultation was comprehensive.

A ballot of pineapple growers on the proposal was conducted by the Australian Electoral Commission as required by the Levy Principles and Guidelines. The results of the ballot were announced on 27 February 2008.

There were a total of 155 ballot papers distributed to prospective levy payers, but the 155 consisted of three separate ballot papers: 47 were sent to growers producing only for the processing sector; 22 were sent to growers producing only for the fresh market; and 86 were sent to growers producing for both the processing sector and for the fresh market. This was done so that growers producing only for the fresh market could not vote on the levy proposal for pineapples directed to processing and vice-versa. Those producing for both processing and fresh were able to vote on the entire proposal.

117 valid ballot papers were returned (75.5%). 30 were returned by growers producing only for the processing sector; 13 were returned by growers producing only for the fresh market; and 74 were returned by growers producing for both the processing sector and for the fresh market. The results of the ballot for the above components are as follows:

Component	Voted Yes	Voted No	% voted Yes	Ballot papers returned
Processing R&D levy	79	25	76%	104
Fresh R&D levy	63	24	72%	87
Fresh marketing levy	52	34	60%	87(a)
PHA membership and EPPR levies	85	29	74.5%	117(a)

(a) one informal vote for the fresh marketing levy and three informal votes for the PHA membership and EPPR levies were recorded. "% voted yes" based on valid votes cast.

The Government's 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 two-thirds of valid votes in favour on a one vote per enterprise basis Growcom achieved a solid mandate for progressing implementation of the levy.

After formal submission of the Growcom proposal to the Government, the Levy Guidelines for new primary industry levies provide for a six week period for industry comment. The six week period which ended on 10 November 2008 was advertised by HAL and Growcom. The Government did not receive any dissenting submissions during this six week period.

Conclusion and recommended option

The recommended option is to implement a compulsory levy under the *Primary Industries (Excise) Levies Act 1999*, the *Primary Industries (Customs) Charges Act 1999* and the *Primary Industries Levies and Charges Collection Act 1991* to fund pineapple marketing and R&D through HAL, to pay for PHA membership and to establish an Emergency Plant Pest Response levy only to be activated if a pest or disease outbreak occurs.

The proposed compulsory national pineapple 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 pineapple 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 extra costs on consumers.

Implementation and review

The levy is to be implemented as soon as practicable, depending on the legislative process. Growcom 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 26 existing horticultural industries with statutory levies in place and would be obligatory for the pineapple industry once a statutory levy has been enacted) provides growers with an annual forum in which levy matters can be raised and reviewed.

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

November 2008