

Frequently Asked Questions

APFA Marketing Levy

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MARKETING LEVY OBJECTIVE

Dear Australian Prawn Farming stakeholder,

The APFA proposes to establish a national statutory levy to support domestic marketing and development of the farmed prawn sector. We propose this levy be established by 1st July 2019 and operate in similar fashion to the existing RD&E levy paid by all farmers.

Australian prawn farms are world leaders in aquaculture productivity and sustainability. Our best farms hold record productivity rates and we farm sustainably next to the world largest marine reef system.

In 2003 our sector committed to invest via a statutory R&D levy (the first in Australian seafood). This joint investment has given us the edge in technology, productivity and underpinned our sustainability. But, while our farms have never been more sustainable, our sector is too small - our sector tonnage has been stuck below ~5,000t for a decade. It is good to see a number of bigger farms and investors now expanding, but these will take time to come on line.

Technology, productivity and sustainability are critical, and increasing our farm tonnage gives each farmer better economies of scale. But these gains will not be enough to maintain market presence, differentiate our offer, and ensure our sector remains competitive over the long term. We have a great product and we need to jointly market and promote it, and educate consumers and regulators about the benefits of our sector.

Since 2012 the APFA has facilitated downstream investment in the national Love Australian Prawns Program to boost awareness and demand for Australian prawns. After 5 years of voluntary investment the leading wild catch suppliers and farmers all confirm what the figures show - this program is boosting consumers' awareness of "Australian prawns" and our profit margins are improving.

But we need to do more to educate consumers, regulators and stakeholders about the quality of Australian farmed prawns, and the sustainability professionalism and economic benefits of Australian prawn farms. In 2016 the APFA developed a National Marketing Strategy that identifies the marketing goals and priorities, and the investment resources required to drive a marketing program. (see weblink)

This document presents a series of Frequently Asked Questions about this proposed levy. Please review these questions and contact the APFA if you need further advice.



Matt West, APFA Chairman

1. Why do we need to invest in marketing and education?

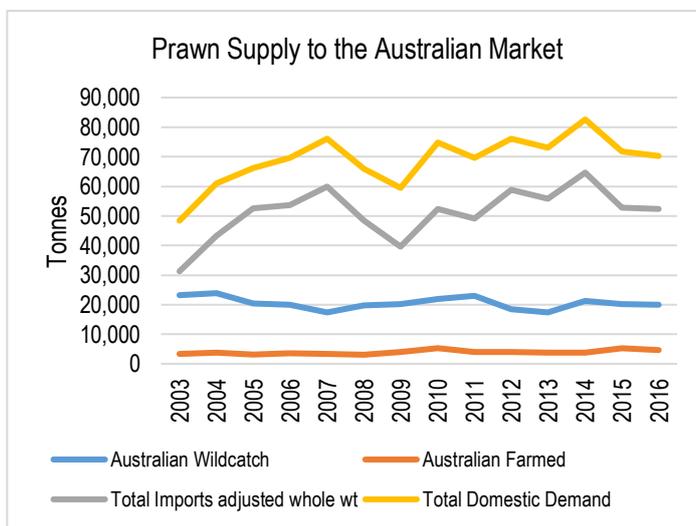
We need to invest in marketing because our long term returns to prawn farmers are under threat on a number of fronts:

a. Total Supply

Australian consumers love prawns – total domestic demand for prawns has been growing on average by 2% per year since 2003, to 70,000 tonnes in 2016.

But Australian producers (fishers and farmers) are not/can not increase supply and therefore are losing market share to imports. Importers are capturing all the growth in domestic consumer demand.

Based on ABARE data, in the 13 years since 2003:

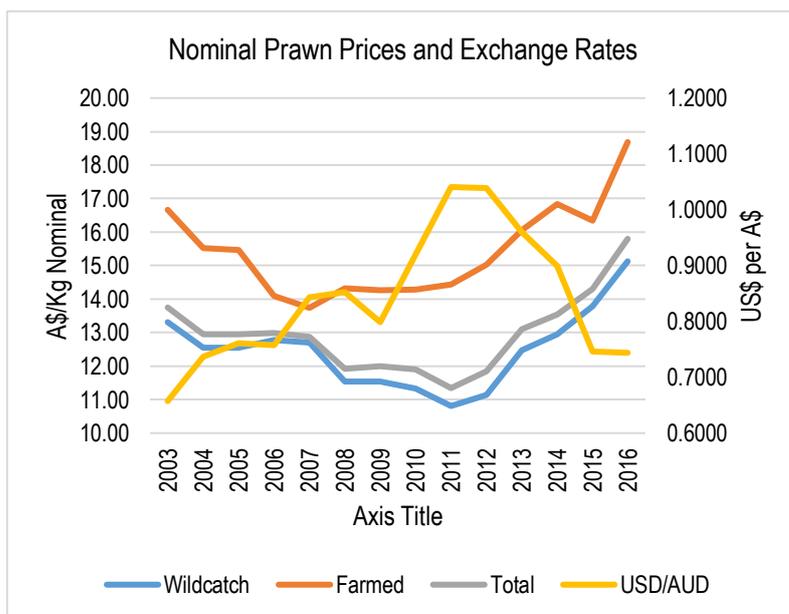


- Imports (whole weight equivalent) have increased 67% from 31,300t to 52,354t,
- Local fishers and farmers have lost local market share from 35% to 25%,
- Local farmed prawns have lost market share from 7.0% to 6.6%.

b. Prices & Exchange Rates

Nominal prices (not adjusted for inflation) for Australian produced prawns are subject to the AUD/USD exchange rate. After falling for a decade, they have recovered in the last five years as the A\$ has weakened against the US\$. Nominal farm gate / beach prices are now just above where they were in 2003. Farmed prices are higher but a little more volatile than wild catch prices.

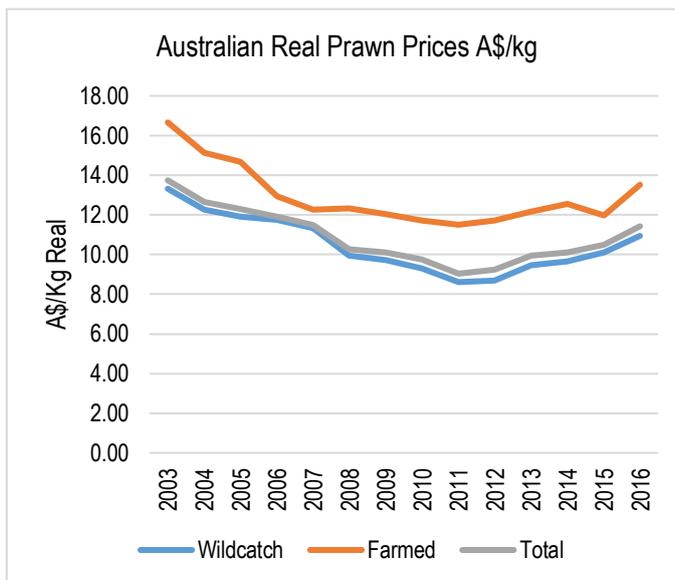
However, real prices (adjusted for the rate of inflation) are a more accurate international indicator of the



competitiveness of the prawn sector’s market offer and its underlying productivity. As this chart shows, the long-term real prawn price decline is slowly being reversed.

In 2003 farmers received an average farm gate price of \$16.66/kg – in 2016 their real price (adjusted for inflation) had declined 19% to \$13.51/kg. In the same period wild catch prices have declined on average 18%.

The bottom line is that overseas prawn farm competitors are now mostly very large companies with very efficient production systems and sophisticated, accredited supply chains. They offer an increasingly attractive product to Australian consumers in large volumes.

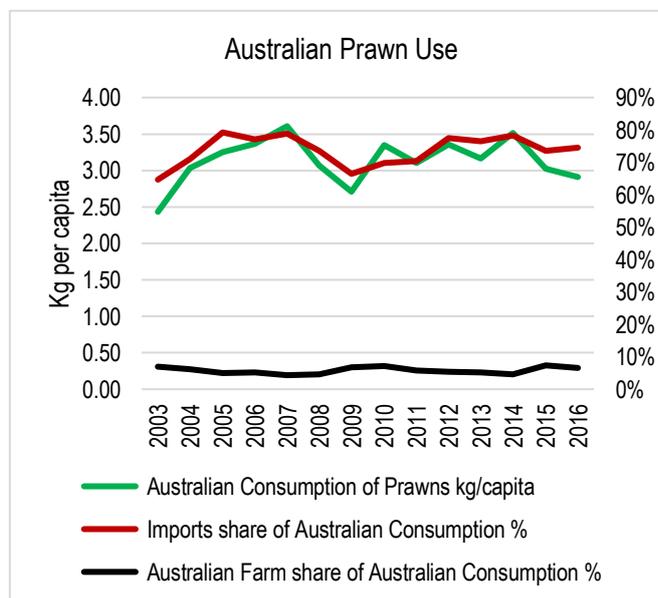


c. Per Capita Demand

Since 2003 Australia’s population has grown at approximately 1.5% per year, to 24.13 million in 2016. There are increasing numbers of Australians, but in the last couple of years each of us is eating less prawns.

Average consumption of prawns per person has risen from 2.4 kg per person in 2003 to 2.9 kg per person in 2016 – up 21% or around 1.6% increase per year. Over the 5 years to 2014 the rate of increase rose to 5.9% per year.

But the graph suggests per capita consumption has declined from 2014-2016 from 3.5 kg to 2.9 kg. (This data is prior to the outbreak of White Spot Disease in SE Qld). Part of this decline is due to a recent surge in the Australian population through immigration. A number of other factors are also driving volatility



including: consumer desire for prawns and seafood generally due to a healthy lifestyle; the impact of the Love Australian Prawns promotion program; the increased quality and integrity of imported prawns offered to domestic consumers; and the competitive pricing strategies of competing proteins (beef, pork, lamb, chicken).

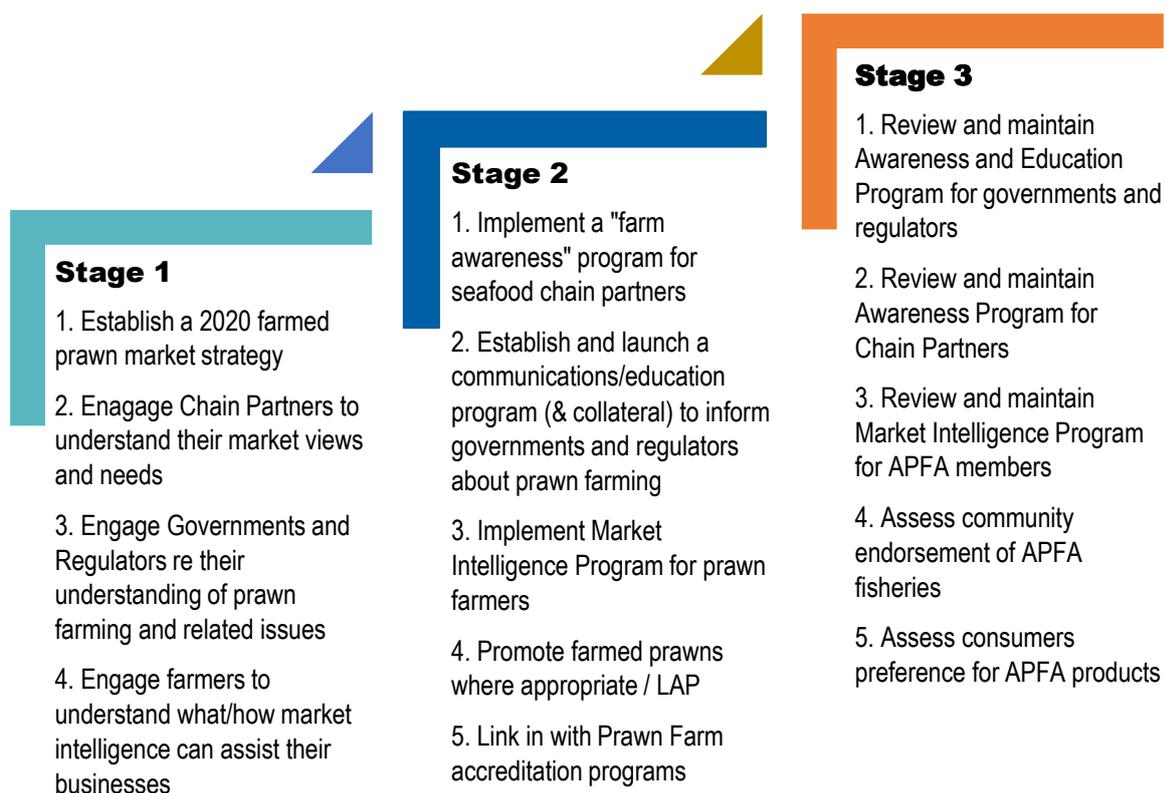
Whatever the reason, the fact remains that Australian farmed prawns are struggling to maintain or build market share and without new investment (in markets, promotion, supply chains and farms)

they face the prospect of losing visibility and differentiation in the mind of the domestic consumer. Loss of share and visibility put downward pressure of farmed prawn sales margins and farm profits.

In order to boost real prices and lift long-term returns to prawn farmers across Australia, we need to educate consumers in our target markets about the benefits of eating Australian prawns (preferably farmed), and the unique and sustainable benefits offered to consumers and the economy by the farm sector. The only way to do this is to invest in strategic marketing /promotion /education i.e. create an awareness of and a preference for Australian farmed prawns.

2. What does the APFA propose to do with the funds from the levy?

In August 2016 the APFA Marketing Committee undertook a process to assess options and determine the marketing, promotion and education priorities for farmed prawns over the next five years. These discussions lead to the development of the APFA's Strategic Marketing Plan which is available to industry on the APFA website. On-hold due to the white spot outbreak, the key strategies in that plan will be implemented, in the domestic market only, over three stages as follows:



This Plan has been endorsed by the APFA Board and will be implemented in the domestic market using funds raised by the proposed marketing levy.

3. What's in it for me?

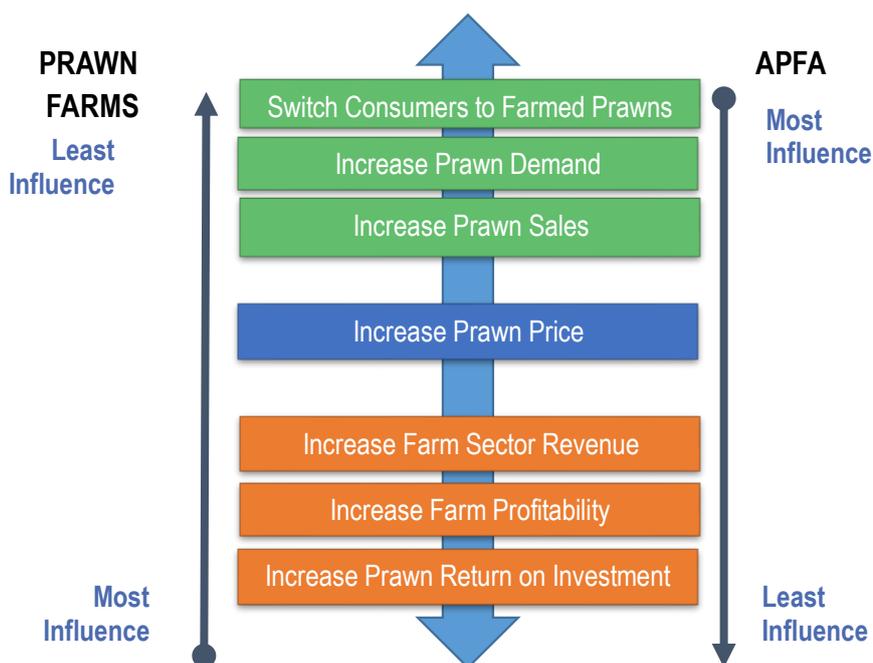
a. Investment efficiency

The APFA lead the farmed prawn sector to establish a statutory national RD&E levy in 2003. This 3.4c/kg levy has enabled the sector to invest over \$2.0 million in jointly agreed RD&E over the last fifteen years (15 years at an annual average of approximately \$150,000 per year). The RD&E levy arrangement is a very efficient way for prawn farmers to invest in technology, innovation and productivity as it provides the security of long term investing with equity and efficiency across all farms – big and small; established and startup. No single farm could achieve alone what the joint levy enables each farm to achieve. And it does so very efficiently by attracting at least dollar-for-dollar leverage from taxpayers through the FRDC (Fisheries Research and Development Corporation, Canberra).

The proposed statutory marketing levy will also benefit from this joint “precompetitive investment” approach. The proposed levy payment (~3.5c/kg) and collection (quarterly by bank transfer) arrangements will be similar, and therefore the fixed collection costs paid per dollar invested to the Australian Government (Commonwealth Department of Agriculture and Water Resources-DAWR) will reduce as they are spread across two levies. Statutory marketing levies are commonly used across many other rural industries (e.g. dairy, beef, pork, sugar, horticulture) and are not matched (by law) by funds from taxpayers. The proposed prawn marketing levy will not attract any matching funds from the FRDC or taxpayers.

b. Targeting consumers to switch

Farms typically have a lot of influence over their own farm return on investment, largely by controlling costs. But each farm has limited capacity individually to attract large numbers of new domestic market customers willing to pay higher prices, as illustrated in the following figure.



The joint precompetitive marketing investment will enable the farmed prawn sector to achieve a realistic and larger scale of investment in marketing - an area where (collectively and individually) farms have limited influence. This will enable the farmed prawn sector to target (and therefore potentially switch) large numbers of consumers to farmed prawns.

The benefit for prawn farmers will be in line with the benefits achieved from marketing levies run by other industries – increase in product awareness and attractiveness, that leads to increased sales and farm returns.

The strategy on the previous page identifies a number of priority investment areas for funds generated by the proposed marketing levy. In addition, the funds will also secure APFA's small but important investment in the Love Australian Prawns promotion program.



Love Australian Prawns

c. LAP program support

To date some APFA Members have been investing voluntarily in the national Love Australian Prawns (LAP) program, jointly with the wild catch sector. This program has started to increase consumers awareness of Australian prawns, with evidence farmers and fishers are confirming that their sales margins are increasing, potentially as a result of the LAP program. This proposed marketing levy will enable all prawn farms to equitably invest to support the program over the long term.

4. How much money do we need to invest for farmed prawn marketing?

The APFA Marketing Committee estimates that the proposed Strategic Marketing Plan (discussed above) will need to invest around \$150,000 per year over the next 5 years to achieve its objectives for the sector.

This means a conservative gross collection of around \$175,000 per year which equates to around 3.5 cents per kilo from an annual harvest of 5,000 tonnes.

5. Who will pay the Farmed Prawn Marketing Levy?

The biggest advantage of the proposed Farmed Prawn Marketing Levy is that the cost is spread as widely as possible across the sector keeping the cost to each farm business at an absolute minimum. The APFA Levy Project Team have met several times with staff at the *Levies Collection Unit* (DAWR) and have discussed the options and mechanism for collecting a statutory (i.e. compulsory) marketing levy on behalf of the Australian Farmed Prawn sector.

Farm owners will pay the levy which will be collected in the same way as the existing RD&E Levy – at the farm gate by each farm. The entire process will be managed in the same way as the existing RD&E Levy by the APFA, the FRDC and the Commonwealth *Levies Collection Unit* in DAWR.

For information about levies, please go to: <http://www.agriculture.gov.au/ag-farm-food/levies>

For information about the levy principles and process to set up the Farmed Prawn Marketing Levy, please go to: <http://www.agriculture.gov.au/ag-farm-food/levies/publications>

During 2018/2019 the APFA Levy Project Team will undertake consultation about the proposed levy with farmers and stakeholders. Based on that consultation, related research and a poll of farmers, the levy application will be developed and submitted to the Federal Minister at DAWR for approval. The compulsory levy is proposed to commence from 1 July 2019 (following Ministerial approval) with levy payments occurring on the same cycle as the existing RD&E levy from that point forward, subject to Commonwealth Acts and related matters managed jointly with FRDC.

6. Who gets the benefits of the Levy investment?

The benefits of the Farmed Prawn Marketing Program will “in time” flow to all prawn farmers and stakeholders (eg staff, contractors, regulators) as the Marketing Plan is progressively implemented.

Increased market and consumer “pull” generated by a successful farmed prawn marketing, promotion and education program within the domestic market will maintain and increase financial returns to all prawn farmers and stakeholders along the supply chain.

7. If we agree to a levy, will it be forever?

No, the farmed prawn sector (i.e. Farm owners) will always retain the power at any time, to alter the levy rate (i.e. the payment amount per kilogram), or the collection time, or payment terms of the levy, via a national vote. This power includes the power to turn the levy off completely (i.e. setting the amount payable to zero cents per kilo) while still retaining the structure and mechanism of the levy for further use if required later.

8. How much will it cost me and is everyone going to pay?

As noted previously the levy rate will be approximately the same as the existing RD&E levy – 3.5c/kg of commercial sales.

All licensed and active prawn farms will pay the proposed marketing levy.

9. What if people don't pay?

If the levy is confirmed by the Minister to be compulsory (i.e. statutory) it will have the status of a tax and therefore any non-payment will be taken up by the Commonwealth Government (DAWR Levies Collection Unit) and payment will be enforced through legal action if necessary.

10. What other Australian Primary industries have marketing levies?

Marketing Levies are collected via the Commonwealth Dept. of Agriculture and Water Resources for each of the following industry bodies:

- Australian Egg Corporation Limited,
- Australian Grape and Wine Authority,

- Australian Meat Processors Corporation,
- Australian Pork Limited,
- Australian Wool Innovation,
- Cotton Research & Development Corporation,
- Dairy Australia Limited,
- Forest and Wood Products Australia Ltd,
- Grains Research & Development Corporation,
- Horticulture Australia Ltd,
- Live Corp, Meat & Livestock Australia,
- Plant Health Australia,
- Sugar Research Australia
- Wheat Exports Australia.

The Seafood industry is the last remaining primary industry to adopt a compulsory marketing and promotion levy.

11. Who will manage the APFA program and how do I get a say in what the priorities are?

The Farmed Prawn Marketing Levy will be managed by the FRDC (as the relevant statutory body nominated in legislation), jointly with the APFA (as the nominated sector peak body).

The APFA Board, Executive Team and Marketing Committee will have day-to-day responsibility for managing and investing the marketing levy funds according to the agreed APFA Strategic Marketing Plan. They will jointly work with the FRDC on this funds management, investment and reporting process.

All prawn farmers will have a right to contribute to the decisions regarding investment of the market levy funds, regardless of whether they are members of the APFA or not.

12. How do we find out what's going on?

The APFA and FRDC websites will provide easy access to all levy proposals, documents and progress reports. The APFA will also issue emails, newsletters, Facebook updates and face to face briefings regarding the progress of the levy.

For further information contact Kim Hooper at the APFA:

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