

## PROS and CONS OF A PRAWN FARM MARKETING LEVY

Prawn supply and trade trends from ABARES Data 2010-2014:

- Each year around 24,000 tonnes of prawns are harvested in Australia - local prawn farmers supply around 16% (3,800 tonnes) of this total.
- Each year around 77,000 tonnes (whole weight) of prawns is consumed in Australia – local farmers supply around 5% of this market demand.
- Australian prawn farmers' share of domestic market demand is falling, down from 7.1% in 2010 to 4.6% in 2014. During this 4 year period prawn imports (whole weight) have risen from 52,000 tonnes to 65,000 tonnes and import's share of domestic demand has risen from 70% to 78%.
- On average per kilo, over the last 4 years Australian prawn farmers achieved sales prices 31% higher than Australian wild catch prawn prices.

Marketing and promotion are increasingly important to the viability of all primary industry food producers, especially those small sectors facing strong market competitors and importers. The APFA is proposing to establish a national *Prawn Farmers Marketing Program* to be funded by a compulsory national levy paid by all farmers. This levy would operate in a similar way to the sector's existing compulsory RD&E levy which is 3.64 cents per kg harvested. This table identifies advantages and disadvantages of a proposed compulsory marketing levy for the Australian prawn farming sector.

Issue	Advantages	Disadvantages
1. What Marketing and Promotion will be undertaken	<ul style="list-style-type: none"> <li>• Levy funds will be used to fund only “precompetitive” generic marketing, promotion and related research activities in the domestic market (activities are outlined in Section 2 of the <i>Frequently Asked Questions</i>). These are “market failure” activities that are best done once collectively, rather than by each farm doing their own (eg maintaining market and trade databases and communicating related information to farmers).</li> <li>• This precompetitive once-only approach will be more efficient for all farms, but especially for small farms less able to cover all these costs privately.</li> <li>• Levy funds may be used to support any contribution APFA makes to the <i>Love Australian Prawns</i> program. All local farms benefit from this joint national promotion with the wild catch sector through higher prices and increased consumer awareness of Australian prawns. Currently this program is funded voluntarily and only by some farms.</li> </ul>	<ul style="list-style-type: none"> <li>• Levy funds can not fund marketing or promotion for any branded farmed prawns – funds can only be invested in generic market development and promotion activities.</li> <li>• Each farm must pay extra for its own branded prawn marketing and promotion activities.</li> <li>• Levy funds can not be used to support any exported or imported prawns.</li> <li>• Large farms will likely have the financial capacity to undertake these precompetitive marketing activities on their own, but will be required by the proposed levy to undertake them jointly with other farms.</li> <li>• Any funds collected via a statutory levy must not be used for agri-political activities.</li> <li>• Voluntary levy payments are a simpler approach to collect funds but are often not equitable.</li> </ul>

<p>2. Levy payment equity between and across all farms</p>	<ul style="list-style-type: none"> <li>• The proposed marketing levy will be payable each year by all Australian farms that are licenced and active. The producer (the person who owns the farmed prawns immediately after harvest) is liable to pay the levy.</li> <li>• The levy will be charged at a standard rate (cents/kg), determined by a poll of all farms for the following prawns: banana prawns (<i>Penaeus merguensis</i>), black tiger prawns (<i>Penaeus monodon</i>), brown tiger prawns (<i>Penaeus esculentis</i>), kuruma prawns (<i>Penaeus japonicus</i>), school prawns (<i>Metapenaeus macleayi</i>)</li> <li>• A majority of farms can readily change the levy. They can determine if they want to change the rate of the levy or turn it off (i.e. set it at zero cents/kg.)</li> <li>• Australian Government levies exclude GST.</li> </ul>	<ul style="list-style-type: none"> <li>• APFA as the nominated Industry body, must undertake and pay to demonstrate that a majority of licensed and active farms have been consulted to determine any change to the levy arrangement or levy rate.</li> <li>• All farms will pay the levy at the same rate, but in absolute dollar terms large farms will contribute far more funds to the generic marketing program. They may prefer to make a private investment in private branding and promotion rather than contribute to a generic program.</li> <li>• A levy year is a financial year—that is 1 July to 30 June. This may not align with the financial year of the levy paying farm.</li> </ul>
<p>3. Efficiency of collection</p>	<ul style="list-style-type: none"> <li>• The collection of the levy will be practical and very efficient - by electronic transfer from each farm on <u>a quarterly basis</u>. Funds will be received and checked by the Federal Dep't of Ag and Water Resources (DAWR), before a net amount is transferred to an FRDC account managed jointly with the APFA on behalf of industry. In the last 4 years the net amount transferred by DAWR for the RD&amp;E Levy has averaged \$157,000. A similar amount is expected to be collected for the marketing levy.</li> <li>• The levy payer must submit a brief return (per DAWR website) with levy payment to DAWR within 28 days of the end of the quarters of March, June, September and December.</li> <li>• With a second prawn farm levy being added, the cost of overall collection and compliance will fall per dollar collected. This will mean the overall levy mechanism (RD&amp;E + Marketing = \$300,000) for APFA will become more efficient and cheaper for all farmers per dollar invested.</li> </ul>	<ul style="list-style-type: none"> <li>• Compulsory levies must involve some element of “red tape”, a burden that farms will bear.</li> <li>• All farms will need to manage their quarterly cash flows to enable levy payment of the correct amount within payment terms specified.</li> <li>• A compliance fee (cost recovery) will be charged by the DAWR to ensure compliance by all farms with the compulsory marketing levy. In the last 4 years the total charge has averaged \$12,600 or 7% of gross levy funds received. Higher industry compliance means lower recovery costs.</li> <li>• If a levy payer submits the levy after the due date, a late payment penalty at the rate of 2 per cent per month, compounding monthly, will apply. The DAWR may choose to void any late payment penalty where natural disasters have impacted a levy payer, if a new levy payer did not know they had levy liability, if previously submitted returns are adjusted, or when a penalty arises from a departmental system error.</li> </ul>
<p>4. Investment planning for Levy Funds</p>	<ul style="list-style-type: none"> <li>• The APFA Board and Marketing Committee will determine the strategies that control the investment of all marketing levy funds (All prawn farms can seek to join APFA and nominate for these committees). These strategies must be documented in an annual Marketing Plan and related budget.</li> <li>• The APFA must base these marketing plans and investment strategies on detailed and frequent consultation with its farmer members and other non-member farms.</li> </ul>	<ul style="list-style-type: none"> <li>• The APFA needs to invest time and resources to work annually with industry and members to maintain an up-to-date Marketing Plan for the Industry.</li> <li>• All the marketing funds generated by the levy do not need to be invested every year. The APFA needs to adjust the levy according to the generic marketing expectations and needs of its members and other farms.</li> </ul>

5. Management of the Funds Pool	<ul style="list-style-type: none"> <li>Once the FRDC receives net levy funds from DAWR, the FRDC and APFA will jointly manage all levy funds according to federal levy legislation. (APFA is the nominated industry party in the levy legislation).</li> <li>All FRDC-APFA governance arrangements and transactions related to levy funds will be transparent and accounted for at least annually to levy payers.</li> <li>Funds will only be invested / expended where they are based on the APFA's Marketing Plan as developed by the APFA Marketing Committee and agreed to by the APFA Board.</li> </ul>	<ul style="list-style-type: none"> <li>The APFA receives a matching dollar from taxpayers for every RD&amp;E levy dollar it contributes. <u>But there is no tax-payer incentive of matching funds in any marketing levy.</u> This is the same for all marketing levies across all Australian agricultural industries.</li> <li>APFA needs to establish and fund a joint levy governance structure with the FRDC, and then provide executives or members to work with the FRDC to manage the levy funds and related reporting to the Commonwealth and levy payers.</li> <li>Unspent levy funds will not nominally attract interest.</li> <li>The FRDC will charge an annual levy management fee based on the total marketing levy funds deposited to its levy account.</li> </ul>
6. Control over the levy mechanism	<ul style="list-style-type: none"> <li>Once the initial marketing levy application is approved by the Federal Minister for DAWR, the marketing levy is compulsory and payable by all licensed and active prawn farms. The Prawn farm license holders, by majority poll, then have complete control over the levy rate, funds collection, investment, and disbursement of any levy funds thereafter.</li> </ul>	<ul style="list-style-type: none"> <li>Industry control can only be exercised by undertaking a formal process of requesting all licensed prawn farms to participate in a poll. This is the procedure undertaken across all other compulsory levies in other industries. (However, this procedure will be quite easily achieved in such a small industry as prawn farming where there are less than 30 farms.)</li> </ul>
7. Review and audit of levy process and outcomes	<ul style="list-style-type: none"> <li>Under Commonwealth legislation, all compulsory levies must be reviewed periodically against the 12 Levy Principles in the manner determined by the Government and the industry when the levy was first imposed. The proposed marketing levy must be reviewed within every 5-year period.</li> <li>The levy will only be approved where it relates to market failure within the farmed prawn sector.</li> <li>The FRDC and APFA (as nominated industry body) must account for and report to all levy payers and members on at least an annual basis.</li> </ul>	<ul style="list-style-type: none"> <li>APFA must establish a Levy Review Plan as part of its work for the levy.</li> <li>Audits and reviews cost money, and will reduce the amount of net levy funds invested for industry benefit.</li> <li>The APFA must allocate resources to monitor and review the effect of related market failure that the marketing levy addresses.</li> <li>The APFA must allocate resources to consult farmers and document their views supporting and opposing the initial levy and any subsequent adjustments to it as a result of formal reviews.</li> </ul>
8. Communication of Progress and Outcomes	<ul style="list-style-type: none"> <li>The APFA and FRDC will report periodically to levy payers (at least annually formally, and at all times via the FRDC and APFA websites) on the status and outcomes of the levy and related marketing and promotion investments.</li> </ul>	<ul style="list-style-type: none"> <li>The APFA, as levy initiator, shall demonstrate that all reasonable attempts have been made to inform all relevant parties of the levy proposal and that they have had the opportunity to comment on the proposed levy, and any subsequent periodic reviews.</li> <li>APFA must spend time and resources to maintain an up-to-date database of all licenced prawn farms as a basis for reporting to them.</li> </ul>