

DEPARTMENT OF AGRICULTURE

Ref: MNMT2014-02323

To: Minister (for decision)

PROPOSAL TO INCREASE MUSHROOM LEVY RATES

Timing: Urgent. You are asked to consider the proposal and seek the agreement of the Treasurer by 14 March 2014. The proposal has been with the government for more than 12 months, industry is concerned with the delay and Treasury has now agreed to treat the proposal as urgent.

Recommendation/s:

1. Note that Horticulture Australia Ltd (HAL) forwarded a levy submission from the Australian Mushroom Growers' Association's (AMGA) for consideration by the Australian Government on 10 April 2012 (Attachment A).

Noted / Please discuss
2. Note that the department has assessed the submission as meeting the government's *Levy principles and guidelines*, including that a majority of mushroom producers, measured as a proportion of liability for the existing mushroom levy, support the proposal.


Noted / Please discuss
3. Agree to the AMGA's request to: increase the levy rate for research and development (R&D) from \$0.54/kilogram of mushroom spawn to \$1.08/kg; and increase the levy rate for marketing from \$1.62/kg of mushroom spawn to \$3.24/kg.

Agreed / Not agreed
4. Note that you need to seek the Treasurer's agreement and the Prime Minister's support for any levy amendments, and that the Treasurer's office has requested that the levy proposals for s. 22(1)(a)(iii), s. 22(1)(a)(ii), mushroom and s. 22(1)(a)(iii) be brought forward in one letter.

Noted / Please discuss
5. Note that should you agree to all four levy proposals, MNMT2014-02205 attaches a draft letter to the Treasurer and a draft letter to the Prime Minister for your consideration.

Noted / Please discuss

Minister:



Date: 12-3-14

Comments:

Key Points:

1. The Australian Government's Budget Process Operational Rules require you to seek the agreement of the Treasurer and the support of the Prime Minister for any proposal with

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financial implications for the government. There are currently four horticulture-related levy proposals: ^{s. 22(1)(a)(iii)} **s. 22(1)(a)(ii)** mushroom and ^{s. 22(1)(a)(iii)} under consideration.

2. **s. 47C(1)** the Treasurer's office has indicated the Treasurer will consider the proposals earlier provided they are brought forward in one letter for his consideration.
3. AMGA is becoming increasingly concerned with the delay. It was hoping that the amended levies would commence on 1 April 2014 with a fallback of 1 July 2014 (these dates are the beginning of quarterly levy periods). To achieve a 1 July start, draft documents would need to be with the Federal Executive Council (ExCo) secretariat by 24 April 2014. Your agreement, the agreement of the Treasurer and the support of the Prime Minister are required before documents can be provided to ExCo.
4. We have provided concurrent briefs on **s. 22(1)(a)(ii)** ^{s. 22(1)(a)(iii)} and **s. 22(1)(a)(ii)** for your consideration. Should you agree to all four proposals, draft letters to the Treasurer and to the Prime Minister are provided by MNMT2014-02205.
5. The AMGA wishes to have the levy rates on mushrooms for marketing and research and development (R&D) increased to enable the Agaricus mushroom industry to meet the objectives of its Strategic Plan 2011-16. The Strategic Plan forecasts production to increase by around 28 percent from 65,000 tonnes in 2011-12 to 90,000 tonnes by 2015-16.
6. According to the AMGA, dramatically increasing mushroom production is reducing prices and, as a result, the profitability of the industry. It therefore wishes to stimulate consumption through a considerably increased marketing and promotion program (outlined in the Strategic Plan) funded by a doubling in the current marketing levy. A pilot program run in Tasmania demonstrated the likely effectiveness of this activity.
7. The AMGA also wishes to double the levy rate for R&D to increase the market research budget, which cannot be funded from marketing levy funds.
8. The AMGA's proposal at Attachment A is supported by considerable evidence, and the department has assessed it as meeting the Government's *Levies principles and guidelines*. More information about the Government's processing of the proposal is at Attachment B.
9. **s. 11C(1)(b)**
10. The mushroom industry is seeking urgent policy approval and implementation from the Government. As there are quarterly collection periods the next possible date to commence the proposed levy changes would be 1 July 2014.
11. There are no financial impacts for the government. As HAL already receives matching government funding for eligible R&D expenditure up to the 0.5 percent gross value of production limit for the horticultural sector. The marketing levy does not attract matching government funds. A costing has been agreed with the Treasury and Department of Finance.
12. The department has prepared a Regulation Impact Statement (RIS) that considered a range of

options ranging from maintaining the status quo to implementing the AMGA's proposal. The Office of Best Practice Regulation (OBPR) assessed the RIS as adequate (OBPR #14183). OBPR's assessment, a one page summary and the RIS are at Attachment F.

13. The analysis concluded that the AMGA's proposal was the most effective means of correcting market failure in funding R&D and marketing that currently exists in the industry.
14. The submission provides a detailed assessment of points raised in opposition to its proposal and the consequences of not increasing the levy.
15. The department is satisfied that the ballot was conducted fairly and the result is reliable. It has majority industry support (75 per cent by enterprise number and at least 53.7 per cent by level of production). The Board of HAL is also supportive of the increase, having considered the proposal at its 28 March 2012 meeting and forwarded it to the government on 5 April 2012.
16. We therefore recommend you agree to the AMGA's proposal to double the existing levy rates on Agaricus mushrooms.
17. Your decision to support the proposal would mean that all Agaricus mushroom growers' annual levy payments would double. Mushroom Exchange's payments are capped to production of 370,000kg of mushroom spawn per annum and they would pay double the existing levy on the same level of capped production. However, while Mushroom Exchange accounts for about ^{s. 11C(1)} per cent of national production, under its levy cap it pays levy on only 30 per cent of national production. This means other mushroom producers subsidise Costa by paying a higher level of levy than they would if no cap was in place (see Attachment B1 pp 11-12).
18. The AMGA, through HAL, would immediately commission additional R&D and marketing programs to help increase consumer uptake of mushrooms and thus attempt to maintain prices around current levels while the industry is expanding and producing more.
19. A summary of the process to amend or establish a levy is at Attachment E.
20. The Stakeholder Relationships and Legislation Section and the External Budget and Strategy Branch in the Finance and Business Support Division, have been consulted in the preparation of this minute. The Treasury and the Department of Finance have been consulted on the proposed amendments to the levies.

s. 22(1)(a)(ii)

Peter Ottesen
Assistant Secretary
Crops, Horticulture & Wine
Ph: **s. 22(1)(a)(ii)**
Mob: **s. 22(1)(a)(ii)**

Contact Officer: **s. 22(1)(a)(ii)**
Horticulture Policy
Ph: **s. 22(1)(a)(ii)**
Mob: **s. 22(1)(a)(ii)**

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ATTACHMENTS

A: HAL's letter and AMGA submission dated 5 April 2012

B: Assessment of AMGA proposal

s. 11C(1)(b)

C: AMGA response dated 7 August 2012 to the issues raised by Costa Exchange

D: AMGA letter dated 12 March 2013 with additional information [*commercially confidential*]

E: Summary of the process to amend or establish horticulture levies

F: OBPR's assessment, a one page summary and the RIS