ASSESSMENT OF AMGA PROPOSAL

On 5 April 2012 Horticulture Australia Limited (HAL)\(^1\) wrote to the then Minister for Agriculture, Fisheries and Forestry, Senator the Hon Joe Ludwig, in support of the Australian Mushroom Growers’ Association’s (AMGA)\(^2\) submission dated March 2012 requesting the government to:

- increase the marketing component of the statutory levy from $1.62/kg of mushroom spawn produced or used for use in the production of *Agaricus* mushrooms to $3.24/kg; and
- increase the research and development (R&D) component of the statutory levy from $0.54/kg to $1.08/kg.

The AMGA wishes to have the levy rates increased to enable the *Agaricus* mushroom industry to meet the objectives of its Strategic Plan 2011-16, in which it forecasts production to increase by around 28 percent from 65,000 tonnes in 2011-12 to 90,000 tonnes by 2015-16.

- According to the AMGA, dramatically increasing mushroom production is reducing prices and, as a result, the profitability of the industry. The AMGA 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.
- 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.
- 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 April 2014.

The table below provides details of the mushroom (*Agaricus*) levy/export charge rates.

<table>
<thead>
<tr>
<th>Component</th>
<th>Current Rate</th>
<th>Proposed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic (levy)</td>
<td>Export (charge)</td>
</tr>
<tr>
<td>Marketing</td>
<td>$1.62 per kg</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>$0.54 per kg</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$2.16 per kg (spawn)</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: The mushroom levy is collected on mushroom spawn (an input to growing mushrooms) produced or purchased for use in the production of mushrooms. The proposed increase in the mushroom levy represents less than one percent of the price growers receive.

The AMGA claims that levy payers would need only an additional 4 cents/kg of mushrooms produced to cover the proposed levy rate increase. Taking this and the wholesale price of $5.00-6.00 per kilogram into account, the proposed increase would represent less than one percent of the price producers receive.

The Government’s *Levies principles and guidelines*, require that industry must demonstrate majority support for a levy proposal defined as 50 per cent plus one of those levy-payers that

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\(^1\) The industry-owned research, development and market service provider for horticulture.

\(^2\) The national mushroom peak industry body.
voted on a one vote per enterprise basis or 50 per cent plus one percent of production of levy-payers that voted in a production-based ballot.

In a ballot conducted by the Australian Electoral Commission that closed in December 2011, the AMGA’s proposal received a strong vote of support from growers on a one vote per enterprise basis. Of 68 potential votes, 44 valid votes were cast and there were 33 votes in favour – 75 percent of all valid votes cast.

Consultation
The AMGA conducted a thorough industry consultation process including:

- wide circulation of a detailed discussion paper (dated 30 September 2011) outlining the levy proposal and rationale;
- attempting to personally speak with every levy payer and encouraging them to read the discussion paper and participate in the ballot;
- a series of grower forums in all States except Tasmania (there are only two Tasmanian growers and they were invited to the forum held in Melbourne) to detail the levy proposal, hear comment and answer questions; and
- individual face-to-face consultation and discussion with senior executives of the industry’s biggest producer, Mushroom Exchange (a part of the Costa Group), on two occasions to brief it on the levy increase proposal.

Objections
After receipt of the AMGA’s original submission, the Department activated a six-week period for formal objections to the levy increase and five objections were received including one from the single largest Australian producer, Mushroom Exchange (part of the Costa Group of companies). Since then two producers (not Mushroom Exchange) have withdrawn their objections.

Objection by the Costa Group
The Costa Group owns Mushroom Exchange, which is the single largest mushroom producer in Australia, accounting for an estimated 50 per cent of total production. It is strongly opposed to AMGA’s levy proposal and lodged a formal objection to it (two small producers also lodged objections), during the period for objections activated by the department after the then Minister’s receipt of the proposal. At the heart of Costa’s opposition is that it already has the capacity as a large and influential mushroom producer to invest in marketing its mushrooms to buyers to obtain a reasonable return. It does not wish to be compelled to contribute to statutory levy-funded collective generic marketing and promotion activities.

Mushroom Exchange is the only mushroom producer to benefit from a cap that applies to the levy payments of large producers, which was negotiated at the time the mushroom levy was introduced in 2002. Mushroom Exchange’s levy contributions are capped at 370,000kg of mushroom spawn per annum so that it pays levy on only 30 percent of national production (as measured by mushroom spawn usage), rather than on its estimated actual percent of national production. Smaller mushroom producers therefore pay proportionately more than Mushroom Exchange for collectively-funded research and marketing than they would if no cap was in place. It is estimated that without the cap it currently enjoys on its total levy payments, Mushroom Exchange would have to pay 0.4 cents/kg extra levy on the mushrooms it produces, amounting to extra levy payments of \$1.10C(1)(b) per annum. However, because the rate of levy paid on mushroom production under the cap would double under the AMGA’s proposal,
Mushroom Exchange’s levy payments would in turn double to $1.591 million if the proposal is approved.

s. 11C(1)(b)

It is estimated that without the cap it currently enjoys on its total levy payments, Mushroom Exchange would have to pay 0.4 cents/kg extra levy on the mushrooms it produces. This extra amount is currently being paid by all other mushroom producers meaning that they pay proportionately more than Costa for collectively-funded research and marketing.

The AMGA provided a response dated 7 August 2012 (Attachment C) to the issues raised by the Costa Group/Mushroom Exchange.

Other objections

Three of the five objectors (s. 47G(1)(a)) suggested that if the levy increase must be implemented, it should be staged over a number of years. s. 47G(1)(a) suggested a 10 percent increase per year. A staged introduction over, say, five to 10 years could make the levy more palatable to those opposed to the levy while still boosting existing marketing efforts from the first year. Such staging is administratively possible but it is not the proposal that was voted on in the ballot and a new ballot would be required.

Since the objection period, the number of growers who publicly oppose the levy increase has dwindled from five to three: Mushroom Exchange (Australia’s largest producer, comprising about [53.7] percent of total production), s. 45(1), s. 47G(1)(a) which previously objected to the levy proposal, later retracted their objections and wrote letters in support.

The AMGA has provided information to support its case for doubling the existing rates of levy on Agaricus mushrooms for R&D and marketing.

The AMGA has provided commercial-in-confidence evidence in the form of letters from growers representing at least 53.7 percent of mushroom production as measured by industry’s levy collections on mushroom spawn usage, declaring their support for the AMGA’s levy proposal (Attachment D). As no official production figures are available for the mushroom industry, the AMGA has used a surrogate measure based on the proportion of growers’ levy contributions to the total annual levy collections, which is based on mushroom spawn usage.

s. 45(1), s. 47G(1)(a)

In February 2013, the Costa Group acquired Adelaide Mushrooms (Australia’s second largest producer) and its subsidiary companies Huon Valley Mushrooms and Tasmanian Mushrooms. Adelaide Mushrooms had supported the levy increase. The AMGA argues this does not weaken overall grower support for the levy increase as Mushroom Exchange’s levy contributions are capped at 370,000kg of mushroom spawn per annum and it should not be given extra voting ‘weight’ for production on which it pays no levy. The department agrees and therefore assesses Mushroom Exchange’s voting ‘weight’ to remain at around 30 percent of Australia’s total production.

You met with the AMGA on Friday 1 November 2013 and s. 11C(1)(b)
Background

The Australian Government has a long history of co-investing with industry in rural research and development. Continued government support recognises that rural industries mostly consist of a large number of small producers who, individually, may not have the capacity to invest in R&D. Industry-owned companies, such as HAL, provide a way for an industry to invest collectively through levy collections, and matching government funding provides an incentive for industries to do so. The government reiterated its support for the rural research and development system in the Coalition’s Policy for a Competitive Agriculture Sector, which committed an additional $100 million in funding over four years.

Primary industry levies facilitate collective industry investment in research and development, plant health management and marketing to improve competitiveness and enhance biosecurity preparedness.
s. 11C(1)(b)
s. 11C(1)(b)
s. 11C(1)(b)
7 August 2012

Senator the Hon. Joe Ludwig
Minister for Agriculture, Fisheries and Forestry
PO Box 6022
Parliament House
CANBERRA ACT 2600

Dear Minister

Changes to Agaricus Mushroom Statutory Levy Response to Costa Exchange Submission in Objection

The Australian Mushroom Growers’ Association (AMGA) welcomes the opportunity to respond to the Submission in Objection lodged by Costa Exchange and dated 18 May 2012. AMGA’s response document, plus appendices, is enclosed. In its response AMGA has provided further information and supporting documentation to address each of the issues raised by Costa Exchange.

Since the levy payer ballot that strongly supported the proposed levy increase (December 2011), and AMGA’s subsequent formal submission to you through Horticulture Australia Limited (April 2012), the production increases forecast in the industry’s Strategic Investment Plan have started to impact. Oversupply in the market is forcing retail discounting which, in turn, is driving down the returns to producers. There is a very real impact on Mushroom growers, right now.

This is exactly the situation the industry seeks to avoid. The proposed levy increase funds a proven new marketing and R&D program which will boost consumption and therefore take-up the increased production. A significant majority of levy payers participating in the ballot voted to increase their levy to address the looming threat to their businesses and livelihoods.

powerofmushrooms.com.au
AMGA once again urges your prompt consideration of the proposed levy increase.

Yours sincerely

s. 47F(1)

Greg Seymour
General Manager

CC: Peter Ottesen - DAFF
AGARICUS MUSHROOM LEVY

AMGA Response to Costa Exchange ‘Submission in Objection’
dated 18 May 2012

Introduction
The Australian Mushroom Growers’ Association (AMGA) appreciates the opportunity to provide a formal response to the ‘Submission in objection’, lodged by Costa Exchange in response to the AMGA’s Submission to the Minister for Agriculture, Fisheries and Forestry for an Increase in the rate of the Agaricus Mushroom Levy dated March 2012.

AMGA notes that since its receipt of the Costa Exchange submission, the AMGA’s Chairman has met with the Chairman and CEO of Costa Group; and AMGA’s General Manager, with Costa Group’s CEO. Both meetings were to further direct consultation regarding the proposal.

AMGA response to specific Costa Exchange objections
Following are the responses by Australian Mushroom Growers’ Association to the points raised in the Costa Exchange submission in objection to the proposed increase in the Levy, dated 18 May 2012. References directly from the Costa Exchange objection are numbered and included in italics, with AMGA’s response outlined below.

Costa Exchange Submission: pages 2 & 3
“Proposed new levy rate and impact on Costa Exchange and other growers”

1. “However, Costa Exchange strongly opposes any increase to the levy as Costa Exchange does not believe it would result in any identifiable benefit to its business and by definition the mushroom industry. This opposition is consistent with the position that Costa Exchange has communicated to both the AMGA and the Mushroom Industry Advisory Committee (MIAC) over an extended period of time”.

AMGA response
Benefit to Industry and Costa Exchange
The benefit to industry (and therefore Costa Exchange) from the increased investment in marketing and promotion (funded through an increased levy) is comprehensively detailed in the Industry’s Strategic Plan 2011-2016, the levy increase Discussion Paper produced for the levy consultation process and the independent report which evaluated the six month test market of the new promotion program.

The benefits are best summarized as follows:
- The Industry’s strategic plan predicts that if the increased levy is introduced, an increase of $0.20/kg at the first point of sale can be achieved for all mushrooms produced.
- This will benefit all growers, large and small, and far exceeds the additional levy cost required to achieve it. Levy payers would only need an additional $0.04/kg of mushrooms produced to pay for the levy increase. Anything above that is additional income. A company the size of Mushroom Exchange (approx. 11C(1)(b)kg/yr) could expect to increase their income by 11C(1)(b) for the additional levy cost of 11C(1)(b)
- The AMGA submission identifies a second and concurrent benefit of the increased levy in that the marketing and promotion and research and development (R&D) funds will mitigate the impact of over-supply situations. If the levy is not increased and the additional production occurs as planned, it is predicted that prices to growers will be reduced by $1.00/kg from 2010/11 levels.

- Recent experience has shown returns to growers have already been reduced by an average $0.25/kg with only 5000 tonnes of additional mushrooms on the market. If the levy is not increased then a company the size of Mushroom Exchange (approx. 5500 kg/yr) could expect their income to be negatively impacted by s. 11C(1)(b).

AMGA believes that the broad 'public' benefit (to the whole industry) is paramount and amply demonstrated in the:

- Tasmanian test project and the 'Alston Report' (detailed later);
- Industry consultation (documentation, meetings and website) prior to the ballot;
- Resoundingly positive vote in the ballot.

**Past experience and 'Market Failure'**

The mushroom industry has seen the challenge of limited promotion in the face of strong production growth. In the mid 1990's, at a time of increasing promotion, the industry faced an inability to adequately fund consumer promotion and thus stimulate demand.

The chart below shows the deep impact at that time and the pain that was felt throughout the industry. Just as now, retail prices were heavily discounted and with wholesale prices following suit the viability of many producers was seriously challenged.

As soon as promotional activities were increased greater consumption followed and grower returns improved.

![Graph showing market impact of increased marketing activity](image-url)
MIAC and AMGA are firmly of the view that the industry now faces a similar challenge to the one it faced in the mid 1990s. For this reason the Industry's Strategic Plan major objective is to increase the consumption of Mushrooms.

Current and projected production increases, without demand stimulation, will see a heavy cut in producer margins. There is a real possibility that some will be forced out of the industry; and it is very likely these would be smaller and primarily family owned and operated businesses.

AMGA believes that **without the proposed levy increase**, and the promotion it will fund, current forecast production growth will result in **market failure**, imposing financial damage to all growers through falling prices. AMGA further believes this an unnecessary and avoidable situation, given the strong vote by a majority of levy payer's to dedicate their own funds (via the increased levy) to significantly boost promotion.

**Mushroom Exchange involvement**

The IAC is the formal committee appointed by the Board of Horticulture Australia Limited (HAL) and has responsibility for developing and recommending the Strategic Investment Plan to the HAL Board. Mushroom Exchange (the Mushroom production division of Costa Exchange) has had two representatives as formal members of the Mushroom Industry Advisory Committee (MIAC) throughout this entire process. At the time of the development of the levy increase proposal, Mushroom Exchange was represented on MIAC by their Marketing Manager and Spawn Production Manager. Subsequently during the consultation stage, the company’s Marketing Manager was replaced as a Costa representative, by its General Manager.

Costa Group also had four representatives at the Strategic Planning Summit meeting (which provided input to the Strategic Investment Plan that underpins this levy increase proposal) - Mushroom Exchange General Manager and Spawn Production Manager as well as the Costa Exchange National Sales and Marketing Manager and another strategic planning specialist.

At no time at MIAC meetings, or at the Strategic Planning Summit have the representatives of Mushroom Exchange formally voiced their objection to the Strategic Plan, nor the supporting Investment Plan (Marketing and R&D), which clearly enunciate the proposed increase in the levy.

AMGA notes that Mushroom Exchange has raised the company’s objection to the proposed levy increase in other meetings between AMGA and Executives of Mushroom Exchange and Costa Group. However as far as AMGA is aware, neither Costa Group nor its subsidiaries has ever formally quantified the basis of their objection to the Levy Increase.

2. “The AMGA’s response is unequivocal in stating that all growers will benefit equally. However, the AMGA provides no empirical evidence to justify such a statement.

   It is our submission that in the absence of objective data supporting the AMGA’s position, it must be seriously questioned whether an increased levy (spent almost entirely on marketing and promotion) will actually help small growers.”

**AMGA response**

The marketing and promotion program that will be funded via the 75% of the levy increase is designed to lift demand for mushrooms across-the-board. As AMGA noted in its March 2012 submission, the new marketing and promotion program will address market failure in the mushroom industry, where individual businesses would not be inclined to invest in essential market-wide initiatives, including commodity-level marketing and promotion.
The market failure

The free rider problem is a primary cause of 'market failure', and occurs when individual members of a given grouping or industry do not contribute to initiatives that are funded by other entities, yet have a universal benefit to all industry members. Policy makers frequently cite market failure as a basis for their intervention in economic activity. The term refers to situations where the pursuit of self-interest by businesses and individuals within a free market leads to outcomes that are inefficient. This is usually marked by a level of provision of goods and services that is either above or below the optimal quantity.

Primary industries, such as horticulture industries like mushrooms, are an example of where markets will generally fail to achieve an efficient outcome on their own. Given the nature of retail sales channels, primary goods such as mushrooms are sold to the general public in a manner that generally does not distinguish between one producer and another. As such, individual producers that invest in marketing and promoting their product have no way to stop competitor producers from benefiting from a resulting increase in sales. As a result, other producers in the market can benefit from the marketing and promotional efforts of others at no cost. This leads to underinvestment in marketing and promotion across the industry and the result is referred to as the 'free rider' problem.

In the Mushroom Industry context, market failure can occur when the opportunity to increase mushroom consumption and grow the mushroom industry will be inhibited by individual businesses choosing not to invest in building the whole market. Furthermore, an industry can take actions to prevent an oversupply problem from occurring, which is evidenced in the Mushroom Levy Increase proposal. However, if individual levy payers choose not invest and this results in a shortfall of marketing and promotional funds to adequately increase consumption demand, the resultant oversupply in the market will be a market failure resulting from the free rider problem.

In both contexts, market failure can be averted through collective action via the levy — with costs and benefits are shared by all levy payers in an equitable manner.

All growers to benefit

The proposed levy-funded initiatives will promote increased mushroom consumption by all consumers, based on very specific health benefits. It is not gender, geographic or socio-economic specific. The advertising and promotion program will be exposed wherever mushrooms are available. Therefore growers will benefit no matter where their produce is sold (and many smaller growers sell only into their own geographic region).

Times of over-supply (as prices fall), intensely increases the pressure on smaller growers as they opitate on smaller turnover. Unless consumption demand can be stimulated to absorb the known current and future mushroom production increases, the commercial pressure on smaller growers will be acute and possibly result in the demise and exit of some businesses from the industry.

Smaller growers support

It is clear that smaller growers have voted in support of the levy increase. A simple calculation shows that:

- of 68 Potential levy payers:
  - 46 Participated in the ballot (68%)
  - 44 ballots were eligible
  - 33 voted in favour (75% of the 44)
- Of the 33 levy payers in favour, the 12 who are the next largest after Costa Exchange have specifically declared their support for the proposal (as detailed in the AMGA submission). These could all be classified as large and medium size production businesses.
Therefore, a further 21 smaller growers voted in favour of the proposal.

As a result, 21 of the 33 who voted in favour (or 64%) were smaller growers.

AMGA response

Costa Exchange Mushrooms are sold in many areas around Australia and to mushroom consumers across all demographics. They will benefit wherever their produce is sold, as the promotion and media will have national coverage.

AMGA re-iterates the points regarding the benefit to Costa Exchange detailed above on pages 1 and 2 in response to the Costa Exchange submission point 1.

AMGA response

AMGA agrees that increased efficiency within the industry will benefit both grower profitability and end consumers. However it is the view of AMGA and MIAC that the efficiency of production and distribution to retail and other markets is squarely the responsibility of individual production enterprises. It is MIAC’s view that no market failure exists at this level. Growers have access to information and resources to guide decisions that will enhance efficiency. Therefore R&D dedicated to production and distribution efficiency is not warranted and is not a part of the industry’s Strategic Investment Plan. Note again that Mushroom Exchange representatives were closely involved in the preparation of the Strategic Investment Plan.

On the other hand, marketing and promotion for demand stimulation is one significant aspect of the industry’s efficiency that can be addressed through the levy program. Combined, through levy funded promotion, the whole industry can undertake marketing activity that will benefit all growers. Such activity, designed to lift total demand for mushrooms, would and could never be funded by individual production enterprises. Market failure does exist in the area of stimulating overall consumer demand.

AMGA response

The value and importance of brand development and promotion is not questioned. It is an important element of most major food marketing and is actively exploited by growers in many kinds of produce, including mushrooms. Inherent to the principles of market failure, levy funds cannot and should not be used to promote individual brands.

Brand promotion is designed to win consumer loyalty to that specific brand (and away from the brand of another producer). While brand marketing may increase the ‘visibility’ of certain produce (in paid advertising or In-store, for example) it is generally not designed to grow the total market.

That is the role of well-designed industry-funded marketing programs such as has been employed in the past by the Mushroom industry and is proposed in AMGA’s submission.
Brand marketing and Industry funded category development (to increase overall demand and consumption) work hand-in-hand to maximise levy-payer benefit. Costa Exchange is free to develop and market its brand in whatever way it sees fit. Such activity by an individual producer will not be inhibited by the proposed whole-of-industry program to lift total consumption.

6. "The AMGA is not the only source of connection to mushroom consumers and cannot credibly claim that it has exclusive and direct relevance or recognition to consumers."

AMGA response

The AMGA agrees and has never claimed such exclusivity.

It is important to point out that the marketing and promotion and R&D programs are not the AMGA’s, nor the AMGA’s responsibility. They are developed and driven by the MIAC and approved by the Board of HAL; and not AMGA.

With regard to this submission and the marketing & promotion program proposed, the AMGA’s role has been to facilitate the formal process of consultation, ballot and submission.

Costa Exchange Submission: pages 3 & 4

“Claim by the AMGA that production will ‘strongly increase’"

7. "Costa Exchange considers the AMGA’s response to be totally unsatisfactory. Given that the AMGA has, and is, using the figure of 90,000 tonnes as a key justification for seeking approval to double the levy, it is incongruous that they would not be able to provide any data to support their claim, even data that was de-identified to protect confidentiality.

Based on our own industry research and market intelligence, Costa Exchange submits that production for the 2012/13 year is likely to only increase by up to 2,500 tonnes. This is well short of the AMGA’s projections."

AMGA response

The 90,000 tonnes is not an "AMGA claim". It is contained within the industry’s 5-year Strategic Investment Plan and was developed from industry discussions and consultation in preparing the Plan. The proposed figure was not questioned, by those involved in the planning, including Mushroom Exchange representatives. Indeed it was strongly endorsed by many.

Certain confidential information supporting the calculation of this figure was provided to AMGA and of course could not, at that stage, be divulged to other growers. Since then, some of the anticipated additional production has now become public knowledge. The table below summarises the current-year and projected production capacity increases known to AMGA."
s. 47(1)(b), s. 47G(1)(a)

<table>
<thead>
<tr>
<th>Year</th>
<th>Producer</th>
<th>Current or projected increase (tonne)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>21,580</td>
</tr>
</tbody>
</table>

Just this known data will result in increased production of 21,580 tonne by end 2015/2016, bringing total estimated production in 2015/2016 to 88,580 tonne (calculated on the known base year of 2010/11 at 67,000 tonne). This is very close to the 2015/16 Strategic Plan projection of 90,000 tonne.

In addition:

- It is reasonable to assume that other growers too, will increase production over the next 5 years.
- Productivity efficiencies are likely to continue, thus delivering their own increases on current production capacity. Industry average productivity has increased from 18kg/sq.m in 1990 to around $31kg/sq.m today.

Note also, that in recent discussions with Costa Group executives, they have indicated their own plans for increased annual production in the short and longer term.

AMGA can demonstrate that during 2011/12 production capacity increased by at least 4,500 tonnes. This is more than the 4,000 tonne forecast in the Strategic Plan. Further, AMGA confidently forecasts that the 2012/13 total production capacity will further increase over 2011/12 by at least 5,000 tonne (in line with the Strategic Plan forecast).

If, as suggested, Costa Exchange has other “research and market intelligence” (which has not been raised by them before) and is prepared to share it confidentially with the MIAC, that would be most helpful.
Current production increases are already impacting retail prices.

Strong production increases are flowing through and oversupply is already having a marked effect on retail prices (and returns to growers). Some examples of recent major retailer advertising of Mushrooms show deep and regular discounting from the usual price of $10/kg:

- Aldi (20-26 June Special) - $5.98/kg
- Coles (advertised 8 June and 14 June) - $6/kg
- Coles (200g for $1.20) - $6/kg
- Coles Qld ($4 per 500g pack) - $8/kg
- Franklins - $6.99/kg
- Harris Farm Markets (19 June to 24 June) - $4.99/kg
- IGA (NSW) - $6.99/kg
- Woolworths - $5.72/kg
- Foodland SA & Tasmania - $7.99/kg

Copies of relevant advertising are provided with this response as 'Appendix A – Retail discount advertising'.

Current production increases and their impact wholesale prices.

Given that the current normal retail price is around $10.00/kg, prices such as the $4.99/kg advertised by Harris Farm Markets have not been seen by the industry since 1998. Industry feedback indicates that these retail discounts are resulting in a wholesale price paid to producers at least 25 cents/kg less than the 2010/11 average for top quality mushrooms and around $1.00/kg less for those of lesser quality.

Independent wholesale price data from the 'Weekly Market Reporting Service' validates industry feedback. Analysis of the sales of Agaricus Mushrooms at the major wholesale markets in Sydney, Brisbane, Melbourne and Adelaide shows:

<table>
<thead>
<tr>
<th>Month</th>
<th>$/kg W'sale 2010/11</th>
<th>$/kg W'sale 2011/12</th>
<th>Difference</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>5.61</td>
<td>5.62</td>
<td>+0.01</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>5.61</td>
<td>5.62</td>
<td>+0.01</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>5.74</td>
<td>5.38</td>
<td>-0.36</td>
<td>s. 47(1)(b), s. 47G(1)(a)</td>
</tr>
<tr>
<td>June</td>
<td>6.05</td>
<td>5.38</td>
<td>-0.67</td>
<td></td>
</tr>
</tbody>
</table>

Source: Weekly Market Reporting Service

In analysing the above data AMGA makes the following comments:

- Until s. 47(1)(b), s. 47G(1)(a) the wholesale price was fairly comparable between the two years. Since then, the price to growers has dropped markedly. In June 2012 growers were being paid on average, $2.68 less per 4kg carton than the previous year. This is a more than 10% reduction in an industry with fairly slim margins.

- Past experience shows that prices usually rise in colder weather because consumption is higher due to many winter recipes containing mushrooms. This is evident in the figures for May and June 2010/11. But in 2011/12 prices actually fell in May and June. This is a strong indicator that the extra production s. 47(1)(b), s. 47G(1)(a) is causing the price decrease.
If the price is already under significant pressure at the normally best time of year to sell mushrooms, there is serious concern over what will happen as the warmer weather begins and (as forecast) if even more mushrooms come onto the market.

AMGA calculates that of the $0.67/kg loss is sustained for the whole year; Mushroom producers will have returns reduced by nearly $47 million in revenue in a 12 month period.

With this direct impact now being felt by growers, AMGA believes that the proposed marketing and promotion to stimulate increased consumption (and thus absorb the production growth) is urgently needed. AMGA believes delay in the levy increase and its subsequent investment in demand stimulating activities will cause unnecessary hardship for all mushroom growers in Australia.

8. "Given that Costa Exchange asked the above question of the AMGA in November 2011, which was well before the ballot was held, for the AMGA to answer this question by claiming that their production forecast has been validated by a vote in favour of the levy is confusing."

AMGA response

- The 90,000 tonne projection was comprehensively communicated in the levy consultation process. It was detailed and explained in the Discussion Paper mailed to all growers; and discussed at each of the State consultation meetings.

The large majority of growers would not have voted in support of the proposed levy increase if they thought the 90,000 tonne projection (and therefore the marketing and promotion program designed to address it) was unrealistic or unreasonable.

9. "If there is an industry oversupply of mushroom production, Costa Exchange is not responsible for this and should not be financially penalised via the proposed levy increase."

AMGA response

Industry oversupply is an industry problem, because it will impact the price all growers receive for their Mushrooms. Conversely, all growers will benefit from Industry Levy Investment to address oversupply by increasing consumption, and thus maintain grower returns.

As highlighted earlier, Cost Group executives have in fact advised that their company will be increasing production in the short term.
10. "As a participant in MIAC, Costa Exchange supported the Tasmanian Market Test Program, however Costa Exchange does not believe it is credible to use the results of the Tasmanian program as a marketing vehicle for increasing the level of mushroom consumption across the Australian mainland."

AMGA response

The MIAC commissioned an independent study to analyse the results of the Tasmanian market test program and the likely impact if the marketing program were to be extended nationally.

The study (the "Alston Study") was conducted by Prof. Julian M Alston and Dr. Joanna C Parks, of University of California, Davis. Prof Alston is a world-recognised expert in agricultural economics, particularly in the economics of generic commodity promotion. A ‘Statement of Qualifications and Relevant Experience’ for Prof. Alston is provided as Appendix B to this response.

A full copy of the Alston Study was provided as an appendix to the AMGA submission in March 2012.

Since then, a further paper prepared by Prof. Alston and Dr. Parks ("The returns to promotion of healthy choices in Tasmania: Are you in the dark about the power of mushrooms?") has been submitted, double blind peer-reviewed and accepted for publication in the Journal of the Australian Agricultural and Research Economics Society (AARES). It appears in the July 2012 edition.

Both papers clearly show that:

- The marketing and promotion campaign tested in Tasmania had a significantly positive benefit/cost for the industry and a marked impact on the consumption of Mushrooms in that State, and
- The results generated in that State can be replicated nationally.

The Abstract of the AARES paper is unequivocal:

"The Australian Mushroom Growers Association (AMGA) has recently developed a revised marketing strategy to promote mushrooms using messages based on scientific findings about the nutrition and health consequences of regularly incorporating mushrooms into meals. This article evaluates impacts based on a test-market experiment in Tasmania. We use a difference-in-differences econometric methodology to quantify the programme-induced shifts in demand, and we use the resulting estimates in a supply and demand modelling framework to quantify the effects of promotion-induced demand shifts on prices, quantities, and measures of economic well-being.

We estimate a conservative benefit-cost ratio for Tasmanian producers of 7.6:1 if they were to bear the entire cost and 11.4:1 if the programme were financed by a levy on production (or spawn). The aggregate benefit-cost ratio, including benefits to consumers is also 11.4:1"
Further, the MIAC and HAL considered the selection of Tasmania for the test market was sound. It largely replicated the national market with:

- Geographic Isolation from mainland Australia but with full infrastructure
  - A total population in excess of 500,000 including a capital city and large regional centres:
    - Hobart - population 210,000 (the 11th largest city pop in Australia)
    - Launceston – population 106,000 (the 18th largest)
    - Burnie-Devonport – population 83,000 (the 21st largest)
  - Is well serviced by a variety of mass and specialty retail operators:
    - Over 40 supermarkets owned by Coles (13) and Woolworths (28)
    - Hundreds of independent supermarkets under the IGA and other banners
    - Hundreds of independent greengrocers and specialty fresh food retailers
  - Has a full 'standalone' media network allowing for state and regional promotional options:
    - Free to air, digital and pay TV operators including SBS, WIN, Southern Cross and Austrac
    - Dozens of commercial AM & FM radio stations servicing Hobart and regions
    - One major state based newspaper (Mercury based in Hobart) and two large regional's (Examiner in Launceston and Advocate in Burnie), as well as a variety of local publications
  - Mushroom supply in the state is relatively easily monitored and communication channels with suppliers are straightforward

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11. “There does not appear to be data that demonstrates there would be a sustained uplift in mushroom consumption Australia wide and that such an uplift would be long term.”

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AMGA response

Data demonstrating increased sales in response to the promotion is contained in the Independent Alston Study referred to above. It was provided to all levy payers in:

- The consultation process document, ‘National Agaricus Mushroom Levy Discussion Paper’, which was provided to all levy payers as part of the consultation process.
- At the series of State consultation meetings
- The papers provided for download from the Levy Payers Website.

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12. “The AMGA does provide statistics that purport to show Tasmanian sales increased considerably more than the national average. However, it is difficult to ascertain the validity of such a claim as there is no reference to what the actual baseline consumption per head amount was prior to the test market program for Tasmania in comparison to the Australian mainland.”

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AMGA response

The aforementioned Alston Report demonstrates the difference between base growth in the Tasmanian loose Agaricus mushroom market, and the growth during the test market.

Data for Tasmania shows the volume of wholesale purchases of 'loose' Agaricus mushrooms increased by a factor of 3.5 times the base growth rate of the Tasmanian Test Market. Whilst the base growth rate was +4.4 per cent, the growth rate lifted to +15.3% during the test market period.
13. "The AMGA also fails to explain how they will measure the worth of marketing activity versus the operation of day to day market forces. For example, if consumption does increase, just how much of it will be as a direct result of the levy being increased by 100% and how much will occur as a result of market forces? Once again the AMGA provides no such detail and appears to have discounted such a legitimate variable as being a factor."

AMGA response

All levy-funded programs (marketing or R&D) are required by HAL to be measured against the outcomes or objectives originally set. This has always been the case and will continue for programs implemented under the new Strategic Investment Plan. The MIAC takes this task very seriously and always ensures programs are appropriately measured and the results reported.

14. "In direct discussions with Mr. Greg Seymour, Costa Exchange was informed that social media (Facebook, Twitter) and the Internet in general have been effectively used to promote and increase mushroom consumption. Data to support this assertion was requested from Mr. Seymour, however it has never been provided to Costa Exchange. Without such information on current activities, it is difficult for Costa Exchange and others to assess whether such activity should be continued and whether it is deserving of having increased levy funds expended on it."

AMGA response

The use of social media is part of a significant overall marketing program. As with each element of the program, it is carefully considered by MIAC before implementation and appropriate performance measurement is carried out.

Costa Exchange's queries about this part of the program should properly be addressed through its representatives on MIAC.

AMGA does not believe this is a substantive matter related to the current levy proposal, consultation, ballot and submission.

15. "It is our view that mushroom producers and the retailers themselves should assume primary responsibility for spending funds on marketing and promotion activities as they see fit and depending on prevailing market conditions at any given point in time."

AMGA response

AMGA agrees that mushroom producers should have responsibility for the promotion of their own produce and brands. However, promotion and marketing to develop the whole category and lift total mushroom consumption, is correctly an industry (or all levy payers) responsibility.

Producers (like Mushroom Exchange) can and do conduct marketing activities with particular retail chains and outlets. These activities are primarily designed to secure trade for the individual producer and are often in the form of discounts or incentives.

They are not targeted to stimulate increased consumption and do not serve to increase the total mushroom market (with the possible exception of short-term price discounting which we have shown, is detrimental to producer returns across the whole market). As outlined earlier, whilst mutual investment by mushroom growers on their own accord is welcome, the free rider principle generally results in a shortfall of critical funds required to adequately market and promote the industry as a whole. Increased mushroom consumption across the board is the only way to ensure that consumption demand meets the growing supply of mushrooms in the market.
Levy payers have very considerable responsibility and influence over the whole-of-industry national category development and marketing program through their HAL-appointed MIAC representative committee. Levy growers have the ongoing opportunity for comment at the Industry’s Annual Levy Payers’ Meeting.

**Costa Exchange Submission: page 5 – “Measuring the success (or otherwise) of doubling the levy”**

16. “Between the time that the doubling of the levy is proposed to take effect (1 July 2012) and the completion of the AMGA Strategic Plan in 2016, there is no formal review mechanism, nor have any KPI's been nominated in order to measure whether levy funds are being expended effectively and efficiently and they are achieving the stated purpose.

Even the proposal by the AMGA that it and MIAC conduct a thorough review of the plan and levy (including expenditure, performance, the ongoing need for the levy and the adequacy of the rate and mechanism) at the completion of the current plan in 2016 is accompanied by no detail.

**AMGA response**

MIAC and HAL will carry out an annual review of the Strategic Investment Plan and each of the five Annual Operating Plans. This is done in close consultation with HAL and in accordance with guidelines provided by that organisation.

Key Performance Indicators (KPI’s) have been established for each year of the Strategic Investment Plan and these are detailed in the Plan document and the levy proposal ‘Discussion Paper’, copies of which have been provided to all Levy Payers.

The 2016 review of the current Plan and adequacy of the levy is a requirement of the Levy Principles and Guidelines. It will be conducted by MIAC in conjunction with HAL and in consultation with DAFF; and incorporating an element of independent analysis.

**Costa Exchange Submission: page 6 – “Impact of an increased levy on capital investment - research & development/marketing”**

17. “Nowhere is any of the arguments put forward by the AMGA for a doubling of the levy do they recognise that value and innovation is also a key driver in selling more mushrooms.

   Considerable faith is being placed in the projected success of a marketing campaign at the expense of the real benefits that would be derived from a greater focus on research and development to drive product value and innovation.”

**AMGA response**

Value and innovation have always been, and will continue to be, important factors in the marketing of Mushrooms. It can be argued that the many innovations introduced in the marketing of Mushrooms in the ten years since the levy was introduced have had a significant impact in sales growth and grower profitability. The new proposed marketing theme and program is a strong example of this innovation.

Value and innovation in Mushroom production and distribution is the responsibility of each producer. It is their business and the amount they wish to invest in those areas is their own commercial decision.

AMGA does not believe that levy-funded investment in marketing must be at the expense of investment in any other area of a levy-payer’s business.
18. "If the AMGA considers it to be a "more operational matter" than why should the increased levy be used to facilitate such activity?".

AMGA response

The decision to review packaging formats is not an AMGA matter; rather it is a need identified by MIAC in the Strategic Investment Plan and was discussed at the Strategic Planning Summit and other State meetings. Costa Exchange had representatives at these meetings and is represented on MIAC.

To put this in context, the aim is to review packaging and presentation in-store and the extent to which it can enhance the national marketing program. There is no intention to require individual producers to change or adopt certain packaging. The packaging they use is their commercial decision, in the light of findings provided to them from this review.

At no time during the preparation of the Strategic Investment Plan did Mushroom Exchange indicate that this work was unnecessary.

19. "Costa Exchange already expends its own funds in order to satisfy the market and product development requirements of its retail customers. This activity includes market research, product development and consumer insight studies.

Increasing the levy to expend funds on television and radio advertising campaigns will not be accepted as a substitute for such retailer requirements, but Costa Exchange will incur an additional cost without a guaranteed benefit.

In addition, any increased levy will also restrict the capital that Costa Exchange can expend through increasing production in order to meet the forecast increase in consumption which will supposedly come about through a doubling of the levy.

AMGA response

Market research and similar activities conducted by any producer in order to advance their brand or meet retailer needs are their own responsibility and business decision.

That is quite separate from the whole-of-market research conducted under the levy program, which is of a type and extent unlikely to be funded by any one producer, large or small. It benefits all levy payers and is a critical part of any national marketing strategy.

Furthermore, although not related to this market research area, AMGA believes the capital requirements of all producers is a commercial matter of their own responsibility. This applies to all producers, large or small.
20. Despite the AMGA’s claim that “Growers voted resoundingly to support the proposal”, of the 68 levy payers (i.e. eligible voters), only 46 cast a ballot, meaning that nearly one third of those eligible to vote did not vote.

Of the 68 eligible levy payers, less than half (48.5%) formally voted in favour of an Increase.

This is inconsistent with Levy Principle 7, which requires that the levy imposition must be equitable between levy payers.

AMGA response
Clause 3.2 (6) of the Draft Revised Levy Principles and Guidelines says:

“At present the government interprets ‘demonstrated industry support’ as majority support from those who choose to participate in a ballot and/or consultation process” (AMGA emphasis).

This current proposal meets that requirement with 33 of 46 that voted (or 71%) supporting the proposal.

AMGA is very confident that those levy payers that chose not to vote were comprehensively covered in the consultation process:

- Every levy payer was mailed the levy proposal discussion paper;
- All were invited to participate in the State consultation meetings;
- All could access comprehensive information about the levy proposal on the dedicated levy payers website; and
- Almost all were personally contacted to discuss the levy proposal and give them the opportunity to ask questions or seek more information.

Levy Principle 7 calls for equity in the imposition of the Levy, and this principle is enshrined in both the current and proposed Agaricus Mushroom Levy rates. All Levy payers are levied at the same rate.

Conclusion
The Australian Mushroom Growers’ Association (AMGA) appreciates the opportunity to provide a formal response to the ‘submission in objection’, lodged by Costa Exchange in response to the AMGA’s Submission to the Minister for Agriculture, Fisheries and Forestry for an Increase in the rate of the Agaricus Mushroom Levy dated March 2012.

In summary, we highlight:

- The challenge of increasing production (and its impact on grower returns and profitability) was identified by MIAC as far back as November 2005.
- MIAC determined that a new and appropriately resourced marketing campaign was required to increase consumption to meet the projected production increase.
- The new campaign was developed and comprehensively tested over 6 months in Tasmania with the results measured and an independent analysis carried out.
- AMGA then developed a detailed proposal to double the Agaricus mushroom levy.
- That proposal was presented to levy payers via a thorough consultation process including direct mail, State meetings, a dedicated website and personal contact.
The proposal was put to levy payers in a ballot conducted by the Australian Electoral Commission and 68% of levy payers participated.

Of the 44 eligible ballots, a significant majority (33 or 75%) supported the proposal.

AMGA hereby once again submits that this Levy increase proposal is essential in ensuring the immediate and ongoing financial viability of the Australian Mushroom Industry. AMGA stresses the Importance of the Minister for Agriculture, Fisheries and Forestry formally approving this increase.

6 August 2012
Coles

Mushroom Cup loose approx. 200g
Weight may vary between 150g - 250g, Assorted by 10 Average sized Mushrooms per pack
$1.20

Ingredients: Fungus
APPENDIX A

There's no freshness like fresh freshness!

- $2.00: Australian Pink Lady Apples
- $3.00: Queensland Field Tomatoes
- $1.50: Australian Navett Oranges

- $4.00: Australian Cup Mushrooms
- $2.00: Australian Green Kiwifruit
- $3.10: Australian Hass Avocado

Fresh Range!

200% Freshness Guarantee
Replace or Refund

6.99 kg

Mushroom Cups

Franklins
Woolworths

Advantage Buy

Foodland supporting local growers and producers

Foodland SA and Tasmania
STATEMENT OF QUALIFICATIONS
Jullan M. ALSJON

I am currently a professor in the Department of Agricultural and Resource Economics of the University of California at Davis, where I teach graduate and undergraduate classes in microeconomic theory and the analysis of agricultural markets and policies. I earned a Bachelor's degree in Agricultural Science from the University of Melbourne, a Master's degree in Agricultural Economics from La Trobe University, and a PhD in Economics from North Carolina State University, all with the support of the Victorian Department of Agriculture. Prior to beginning in my current position in 1988, I was the Chief Economist in the Department of Agriculture and Rural Affairs in Victoria, Australia, where I had been employed in various capacities since 1975.

My research falls primarily into three broad areas of agricultural economics: (a) demand analysis, (b) economics of agricultural research and technical change, and (c) agricultural policy. I have spent a considerable amount of my career studying the effects of levy-funded research and generic promotion programs. This statement emphasizes my work on promotion.


More recently, I have written an article, "The Returns to Promotion of Healthy Choices—Implications from a Market Experiment in Tasmania: Are You In the Dark about the Power of Mushrooms?" (with J.C. Parks), Australian Journal of Agricultural and Resource Economics 56 (2012): 347-365. My coauthor, Joanna Parks, won the Australian Agricultural and Resource Economics Society (AARES) "Heading South" prize, based on this work, which she presented at the ARES conference in Fremantle in February 2012 (the prize covered her expenses for traveling from California to Australia and participating in the conference). (See http://www.aares.org.au/AARES/Honours_and_Awards/Travel_Awards/Heading_South.aspx)
RELEVANT EXPERIENCE

I have conducted market studies for various statutory bodies, corporations, and government agencies mainly in the United States. A partial list of clients served in these ways on a consulting basis includes:

- Australian Wheat Board
- Australian Wool Corporation
- Almond Growers Council (California)
- Canadian Wheat Board
- California Table Grape Commission
- California Prune Board
- Dairy Council of California
- Dairy Research and Development Corporation
- Australian Dairy Industry Council
- Dairy Australia
- Oxfam, America

Of greatest relevance to the current context is my more recent work on studies of specific commodity markets and policies, including promotion. The most-relevant examples include:

1. California Almond Board

Study of effects of supply management reported in Giannini Monograph.


2. California Table Grape Commission

Study of effects of promotion, reported in a Giannini Monograph (and updated more recently, but not re-published) and summarized in a book chapter.


3. California Prune Board

Study of effects of promotion, reported in a Giannini Research Report and summarized in a book chapter


4. Dairy Council of California

Study of effects of nutrition education programs, published in a journal article and republished as a book chapter


5. California Pistachio Marketing Order

Study of effects of quality control and certification, reported in a Giannini Monograph and summarized in a book chapter and a journal article


6. Dairy Australia

Study of effects of a U.S.-Australia Free Trade Agreement on the U.S. dairy industry, summarized in a journal article.


7. Oxfam, America

Study of effects of the U.S. farm program for cotton on world market prices for cotton and on West African cotton producers, published on the Oxfam web site.


8. Other

I have published many other technical papers about modeling commodity markets and about the economics of commodity promotion programs, as shown on my list of publications. A particular relevant example is the book we produced, synthesizing the results from studies of commodity promotion in California, and the summary journal article.


### SUMMARY OF THE PROCESS TO AMEND OR ESTABLISH HORTICULTURE LEVIES

*(Minister's role is bolded)*

<table>
<thead>
<tr>
<th>No.</th>
<th>Step</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The industry organisation initiates a levy proposal by consulting all sectors of their industry and as many levy payers as possible. Its final submission must demonstrate there is majority support from potential levy payers for a new or amended levy (usually by a ballot). Majority support is defined as 50 per cent plus one (on a one vote per producer or an allocation of votes based on the amount of levy paid) though in the past, the government has often required a stronger majority than this.</td>
<td>Driven by initiator. Generally at least 6 months.</td>
</tr>
<tr>
<td>2</td>
<td>The industry organisation submits its proposal to Horticulture Australia Limited (HAL) <em>[in exceptional cases, such as very small industries, this may be the Rural Industries Research and Development Corporation]</em> as the industry services body that will receive the levy monies. HAL has this role under its establishing legislation, the <em>Horticultural Marketing and Research and Development Services Act 2000</em> and the relevant levies legislation. The HAL Board considers the industry levy proposal and, if it is assessed to meet the government's <em>Levy Principles and Guidelines</em>, forwards the proposal to the Minister for his consideration.</td>
<td>Depends on scheduling of board meetings and complexity of proposal.</td>
</tr>
<tr>
<td>3</td>
<td>The department assesses the levy proposal against the government's <em>Levy Principles and Guidelines</em>, including triggering a six week period in which potential levy payers can write to the Minister or department and object to the levy proposal.</td>
<td>At least six weeks.</td>
</tr>
</tbody>
</table>
| 4   | The department seeks agreement from the Treasury and the Department of Finance (Finance) on the cost of the proposal. The current protocol is that:  
  a. If there is no budget impact on the government a costing pro forma will be approved by Finance and signed off by Treasury.  
  b. If it is determined that the proposed levy amendment has a *Budget impact up to $5 million* (over the forward estimates period) the proposal can be settled through correspondence from the Minister to the Prime Minister, the Treasurer and the Minister for Finance.  
  c. If it is determined that the proposed levy amendment has a *Budget impact greater than $5 million* (over the forward estimates period) a submission must be prepared for consideration by the Cabinet. To date, no horticulture levy proposal has exceeded this threshold. | Minimum of two weeks (for proposals with no budget impact). Proposals with budget impact will take much longer. |
| 5   | The department drafts a *Regulation Impact Statement (RIS)* for approval by the Office of Best Practice Regulation (OBPR) in the Department of Finance. | At least six weeks.                                                                               |
| 6   | The department provides its assessment of the proposal to the Minister for consideration and recommends whether policy approval should be given. | Allow minimum of two weeks for consideration by Minister.                                         |
| 7   | If approved the Minister writes to the Treasurer seeking his agreement and if agreed then writes to the Prime Minister seeking his support for the proposal. | Allow minimum of three weeks for consideration by Treasurer and a further three weeks for        |
| PM | 8 | The department engages the Office of Parliamentary Counsel to draft the amending legislation. The department drafts the associated supporting documentation for consideration by the Federal Executive Council (ExCo), noting that the majority of levy amendments are made through subordinate legislation. (Amending primary industry levies through primary legislation (i.e. Bills/Acts) is different to that described here). | Depends on work load of OPC. Can take up to three months but often undertaken earlier in anticipation of policy approval being granted. |
| 9 | The department seeks the Minister’s approval for the amending legislation and explanatory documents, for ExCo. | Allow two weeks for clearance by Minister. Cut-off for cleared papers to ExCo is one week before ExCo meeting. |
| 10 | ExCo considers the amending legislation. If approved, the amending legislation is registered on the Federal Register of Legislative Instruments. | 2014 ExCo meeting dates not yet available. Typically two meetings/month. |
| 11 | By convention, the department must notify levy payers one month prior to the commencement date of the new/amended levy. | Four weeks before commencement date of levy. |
| 12 | The amending subordinate legislation takes effect on the stipulated commencement date. | Usually the start of a collection period. 1 July for levies with an annual return or 1 July, 1 October, 1 January, 1 April for those with quarterly returns. |
| 13 | The amending subordinate legislation is tabled in both houses of Parliament and considered as a disallowable instrument/s. If a motion to disallow is made and agreed to within 15 sitting days after tabling, the instrument is disallowed and ceases to have effect. | 15 sitting days. |
OBPR'S ASSESSMENT, A ONE PAGE SUMMARY AND THE RIS
Reference: 14183
Contact: s. 22(1)(a)(ii)
Telephone s. 22(1)(a)(ii)
e-mail s. 22(1)(a)(ii)@pmc.gov.au

Mr Mark Tucker
Deputy Secretary
Department of Agriculture

Dear Mr Tucker

**Regulation Impact Statement – Mushroom Levy Increase**

Thank you for your letter dated 12 November 2013 regarding the draft Regulation Impact Statement (RIS) for Mushroom Levy Increase.

The RIS contains an adequate level of analysis and meets the Government’s best practice regulation requirements. I note that the RIS has been formally certified as required by the best practice regulation requirements. I also confirm that the Office of Best Practice Regulation (OBPR) agrees with your assessment that the compliance costs for this proposal are likely to be zero.

The degree of detail and depth of analysis in the RIS is considered commensurate with the magnitude of the problem and the size of the potential impact of the proposal. The OBPR considered that this RIS was a ‘D’ category RIS, reflecting that the issue was of relatively minor significance in the economy with not material competition impacts.

I note the problem outlined in the RIS relates to the potential for underinvestment in industry-wide research and development (R&D) and for marketing as well as capturing collective benefits for the mushroom industry.

The preferred option is to increase the rate of the levy from $0.54 per kilogram of mushroom spawn to $1.08 per kilogram. The main benefit is that the levy increase provides funds towards R&D and marketing priorities as identified in the Australian Mushroom Growers Association strategic plan.

The RIS also included an appropriate range of options comprising the status quo, voluntary contributions, indexation levies, ad valorem levies and staged increases in levies. The OBPR considers that, given the impacts, the options were adequately assessed and that the RIS’s conclusion recommending increases in the levy rate was supported by analysis in the RIS.

The OBPR maintains a RIS website and the Government requires that RISs be posted within 5 business days of a regulatory decision being publicly announced. Accordingly, we would appreciate you advising us when a decision on this proposal is announced. The website
provides a public comment facility on RISs posted on the site. The OBPR moderates this facility for offensive content but does not moderate debate. We note that the RIS is in a form meeting the Australian Government's Web Content Accessibility Guidelines.

Please retain this letter as a record of the OBPR's advice. If you have any further queries, please do not hesitate to contact me.

Yours sincerely

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

s. 22(1)(a)(ii)
Executive Director
Office of Best Practice Regulation

November 2013
BETTER REGULATION ASSESSMENT

Mushroom industry levies

<table>
<thead>
<tr>
<th>Productivity impact:</th>
<th>+ve</th>
<th>Compliance costs</th>
<th>No change</th>
<th>RIS:</th>
<th>Pass</th>
</tr>
</thead>
</table>

- This industry has a low level of regulation.

RIS preferred option

- Increase the levy rate for research and development (R&D) (from $0.54 per kilogram of mushroom spawn to $1.08 per kg); and increase the levy rate for marketing (from $1.62 per kg to $3.24 per kg). The levies would apply to mushroom spawn produced or purchased for use in the production of Agaricus mushrooms.

Key Points from the RIS

- The proposed levy rate increases overcome the free-rider problem associated with voluntary contributions and raise more funds to invest in work that will collectively benefit the industry. Mushroom producers would be the major beneficiaries of the outcomes achieved by the R&D and marketing work.

Benefits

- Investing in R&D and marketing is a sustainable way of ensuring the long-term viability of the Australian mushroom industry. Without an increase in the levy rates for R&D and for marketing, the industry would be unable to implement the R&D and marketing priorities identified in its 2011-2016 Strategic Plan.

- It is estimated the increased levy rates will raise approximately $5.444 million in the first year, (an additional $2.722m compared to existing collection rates).

Costs

- The cost recovery charges by the Department of Agriculture for the existing levies are around $14,346 for 2012-13. The collection costs should not vary under the proposed amendments as the same levy payers and process will be utilised.

- All mushroom producers will be liable to pay the levies. The total levy will increase from $2.16 per kg of mushroom spawn to $4.32 per kg.

Stakeholder views on preferred option

- A thorough consultation campaign was conducted with all known mushroom levy payers. A ballot conducted by the Australian Electoral Commission resulted in a positive outcome (75% of votes in favour).

- Five dissenting levy payer submissions were received in a 6 week objections period and two were subsequently withdrawn. The peak industry body’s (AMGA) detailed response to the objections raised was considered to sufficiently address the objections.

- Based on commercially confidential data from AMGA, at least 53.7% of the industry’s levy collections were received from growers who have declared their support for the levy rate increases.

Other options in the RIS

- Status quo/voluntary financial contributions – both options would provide inadequate funds for the targeted level of mushroom industry R&D and marketing, and would not address the ‘free rider’ problem.

- Indexation levies – this option has significant practical difficulties associated with implementing it.

- Ad valorem levies (i.e. levies set at a percentage of the sale price of mushrooms) – this was considered to entail practical difficulties and significant collection costs associated with implementing levies on the output product (rather than the input, i.e. mushroom spawn).

- Staged increases of the levy rates – this was considered to entail risks in the timing/adequacy of industry investment in R&D and marketing.
REGULATION FOR MUSHROOM LEVY INCREASE

REGULATION IMPACT STATEMENT

OFFICE OF BEST PRACTICE REGULATION ID NO. 14183

NOVEMBER 2013
Section 1: Background

The Australian Mushroom Growers Association (AMGA), the peak industry body for Agaricus mushrooms, has made a submission to the Australian Government to increase the current rates for levy collected on mushroom spawn produced or purchased for use in the production of Agaricus mushrooms as follows:

- increase the marketing and promotion rate from $1.62 per kilogram of mushroom spawn to $3.24/kg; and
- increase the research and development (R&D) rate from $0.54/kg to $1.08/kg.

If implemented the total levy would be $4.32/kg of mushroom spawn, an increase of 100 percent on the existing levy.

Both industry marketing and R&D is undertaken through Horticulture Australia Limited (HAL). HAL is an industry-owned company that provides marketing and R&D services for the benefit of the horticulture industry and has been declared the industry services body under the Horticulture Marketing and Research and Development Services Act 2000.

HAL receives funds raised by statutory levies and voluntary contributions from 41 horticultural industries. The company also receives matching government payments for eligible R&D expenditure up to 0.5 percent of horticulture industry’s gross value of production [GVP] (wine grapes excluded). Currently, HAL administers funds from statutory levies for 28 horticultural industries (funds from the remaining 13 industries are provided as voluntary contributions).

HAL’s revenue in 2011-2012 was $101.7 million, with its expenditure on R&D programs $76.7 million (including Australian Government matching payments) and expenditure on its marketing programs $17.0 million (source: HAL Annual Report). Australian Government matching payments to HAL for R&D in 2011-12 totalled $42.0 million.

Statutory levy collections for horticulture for 2011-12 totalled $37.0 million (marketing $15.2m and R&D $21.8m). Department of Agriculture collection costs and HAL’s administrative fee are deducted from levy collections (both statutory and voluntary contributions).

1.1 Industry background

The AMGA is a non-profit, member-based organisation and has represented the interests of the mushroom industry for over 50 years. The AMGA funds its operation and activities via membership fees and a separate voluntary levy paid by its mushroom grower members. Sixty seven of the industry’s 68 commercial mushroom growers contribute to the voluntary levy. The largest grower, Mushroom Exchange, which accounts for approximately 30 percent of Australia’s Agaricus mushroom production, is not a member of the AMGA. The majority of the 67,000 tonnes of Agaricus mushrooms produced in 2011 came from the top one third (by production) of AMGA member growers (AMGA, personal communication).

1.2 Levy history

Since 1 January 2002 Agaricus mushroom growers have paid a statutory marketing and R&D levy of $2.16 per kilogram of mushroom spawn produced or purchased for use in the production of Agaricus mushrooms, of which 75 percent is for marketing and 25 percent for R&D. There is an upper threshold of 370,000 kilograms of spawn upon which levy is paid by any one grower in a financial year (only the largest grower reaches this threshold level). There is no proposal to change the upper threshold.
In 2010-11 levy collections were $2.402 million, $1.801 million for marketing and $0.601 million for R&D. In that year the government provided $0.635 million matching payments for eligible R&D levy expenditure.

1.3 Mushroom production and trade

In terms of value of production, mushrooms are Australia’s third largest vegetable crop after potatoes and tomatoes.

In 2010-11 the GVP for mushrooms was $293 million, with the value in New South Wales being $100 million, in Victoria $96 million, in Queensland $41 million and in South Australia $19 million. The remaining $37 million can be attributed to Western Australia and Tasmania but the breakdown for these two states is not shown on confidentiality grounds (ABS 2012). Mushroom production facilities are predominantly located on the urban fringe of major metropolitan cities.

Australia only exports small quantities of mushrooms. In 2011-12 Australia’s exports of fresh, dried and prepared mushrooms were valued at $1.360 million.

However, imports of fresh, dried and prepared mushrooms are more substantial ($17.8 million). In 2011-12 Australia imported $3.6 million worth of fresh mushrooms, $5.5 million worth of dried mushrooms and $8.7 million worth of prepared mushrooms. South Korea was the dominant supplier of fresh mushrooms and China the dominant supplier of dried and prepared mushrooms.

![Figure 1: Forecast production and potential demand shortfall – 2001-02 to 2015-16 (AMGA 2011)](image)

The Australian mushroom industry has experienced considerable pressure in the domestic market. With little product exported, rapid growth in local production over the last few years has led to oversupply, price discounting and trading difficulties for all growers. However, the AMGA indicates that the impact is more pronounced for smaller growers. The industry estimates production will reach 90,000 tonnes by 2015-16, which

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1 AMGA’s calculations of the industry GVP are different (see Table 2).
represents a significant 38 percent increase on the 2009-10 estimated production of 65,000 tonnes.

This situation is not dissimilar to the industry’s 1995-98 experience (refer to figure 2) when production was growing strongly at the same time as marketing (and promotion) activity was reduced sharply due to a lack of levy funds. Without a stimulation of consumer demand the industry found itself in oversupply. Retail prices were heavily discounted and wholesale prices suffered accordingly in spite of rapidly rising production costs. As a result, the viability of many growers was seriously challenged and some were forced out of the industry.

Increasing mushroom production is again impacting prices and, as a result, industry profitability. Price data collected by Ausmarket Pty Ltd indicates that average mushroom prices fell by over $1 per kilogram in Sydney, Brisbane and Adelaide over six months from July 2011 to January 2012 (refer to table 1 for average mushroom prices over the last decade).

The industry’s current level of marketing is expected to increase demand for mushrooms to only around 75,000 tonnes by 2015-16, leaving a projected shortfall of approximately 15,000 tonnes.

Figure 2: The marked impact of a reduction in marketing activity – 1990-91 to 2008-09 (AMGA 2011)²

Section 2: Assessing the Problem

The structure of the mushroom industry means that the benefits obtained from investments in R&D and marketing/promotion in the mushroom industry are largely non-excludable. If a group of individuals voluntarily fund R&D and

² Mushrooms are grown indoors under controlled environmental conditions and, therefore, less exposed to poor weather or adverse seasonal conditions (e.g. drought). Consequently production is subject to less year-to-year variability than other (field-grown) crops.
marketing/promotion activities then the benefits obtained from these activities create positive spill-overs for other producers – the individuals funding the activities are not able to exclude others from the benefits obtained by the increased R&D and marketing. This ‘free-rider’ effect creates disincentive for investment in R&D and marketing and results in sub-optimal investment.

The introduction of a statutory levy, in 2002, was an attempt to address the free-rider problem and ensure the adequate investment in R&D and marketing.

However, the AMGA believes that the current levy provides insufficient funds to implement its 2011-2016 Strategic Plan, including boosting marketing activities to drive demand and increase industry profitability.

Table 1. Mushroom wholesale prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation rate (%)</th>
<th>Nominal ($/kg)</th>
<th>Real ($/kg)³</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>2.8</td>
<td>4.75</td>
<td>6.08</td>
</tr>
<tr>
<td>2003-04</td>
<td>2.8</td>
<td>4.76</td>
<td>5.95</td>
</tr>
<tr>
<td>2004-05</td>
<td>2.9</td>
<td>4.78</td>
<td>5.82</td>
</tr>
<tr>
<td>2005-06</td>
<td>2.7</td>
<td>4.80</td>
<td>5.64</td>
</tr>
<tr>
<td>2006-07</td>
<td>2.8</td>
<td>5.32</td>
<td>6.11</td>
</tr>
<tr>
<td>2007-08</td>
<td>2.4</td>
<td>5.45</td>
<td>6.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>2.7</td>
<td>5.82</td>
<td>6.30</td>
</tr>
<tr>
<td>2009-10</td>
<td>2.5</td>
<td>5.90</td>
<td>6.20</td>
</tr>
<tr>
<td>2010-11</td>
<td>1.8</td>
<td>6.05</td>
<td>6.16</td>
</tr>
<tr>
<td>2011-12</td>
<td></td>
<td>5.92</td>
<td>5.92</td>
</tr>
</tbody>
</table>


In addition the AMGA submission notes that the capacity of the current rate of the marketing and R&D levy to fund priority industry projects has been significantly eroded over the last decade. Over a ten year period the industry’s GVP has continually increased (see Table 2 below and/or Appendix C) but this has been a result of growth in production and sales, and relatively constant real prices (refer to Table 1 and/or Appendix B).

Table 2. Mushroom GVPs and levy collections

<table>
<thead>
<tr>
<th>Year</th>
<th>GVP (Sm)</th>
<th>Levy/GVP (%)</th>
<th>Levy (Sm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>224</td>
<td>0.89</td>
<td>1.992</td>
</tr>
<tr>
<td>2003-04</td>
<td>240</td>
<td>0.74</td>
<td>1.785</td>
</tr>
<tr>
<td>2004-05</td>
<td>249</td>
<td>0.82</td>
<td>2.054</td>
</tr>
<tr>
<td>2005-06</td>
<td>266</td>
<td>0.79</td>
<td>2.1</td>
</tr>
<tr>
<td>2006-07</td>
<td>301</td>
<td>0.75</td>
<td>2.265</td>
</tr>
<tr>
<td>2007-08</td>
<td>316</td>
<td>0.67</td>
<td>2.109</td>
</tr>
<tr>
<td>2008-09</td>
<td>355</td>
<td>0.64</td>
<td>2.259</td>
</tr>
<tr>
<td>2009-10</td>
<td>383</td>
<td>0.64</td>
<td>2.448</td>
</tr>
<tr>
<td>2010-11</td>
<td>366</td>
<td>0.66</td>
<td>2.402</td>
</tr>
<tr>
<td>2011-12</td>
<td>376</td>
<td>0.69</td>
<td>2.588</td>
</tr>
</tbody>
</table>

Source: (GVP) AMGA 2013 pers advice, (levy) HAL various &, AMGA 2009

The AMGA also recognises there are significant opportunities for demand stimulation. Market research and a comprehensive six-month test-market program in Tasmania have shown that strong health-benefit messages can drive a change in consumer behaviour and lead to increased consumption. But this will only be possible on a larger scale with increased investment in marketing. The current rate of the marketing levy is insufficient to expand the test market program on a larger scale.

The report on the test-market experiment in Tasmania (Alston & Parks 2011) commissioned by AMGA found:

“The test-market experiment in Tasmania resulted in a significant increase in consumer demand for mushrooms, reflected in both an increase in the number of units sold and an increase in the average unit value. These changes were substantial and statistically significant.

Qualitative and quantitative market research suggests that this change in consumer behaviour was in response to a change in consumer perceptions of the health consequences of eating mushrooms, which was the message communicated in the program. The results from this work also indicate areas in which the program may be fine-tuned to make it even more effective when applied at scale to mainland Australia.

The implied benefits for producers, consumers, and the State as a whole are substantial and several times greater than the cost of the test-market experiment. We estimated a conservative benefit-cost ratio for Tasmanian producers of 7.6:1 if they were to bear the entire cost and 11.4:1 if the program were financed by a levy on production (or spawn). The aggregate benefit-cost ratio, including benefits to consumers was also 11.4:1. This benefit-cost ratio charges all of the expenditure in Tasmania against the measured benefits. A less conservative estimate would charge only the additional expenditure associated with the experiment against the measured benefits, implying benefit-cost ratios to producers of 15:1 if they

\footnote{Figures for 2001-02 have not been included as mushroom levies were not collected over a full year.}
bear the entire cost and 22:1 if they bear costs in proportion to their share of benefits.

These estimated benefit-cost ratios are within the typical range for generic commodity promotion programs, as reviewed by Alston et al. (2007) and in more detail by Kaiser et al. (2005). Most previous studies did not have the advantage of a controlled experiment, as in the present study, which adds to the relative credibility of the present findings. Our estimates do not count any benefits from implied savings in public health-care costs.”

The AMGA also notes that rising costs have reduced the “purchasing power” of the levy. The AMGA believes the “purchasing power” of the current levy rate is approximately half of what it was upon commencement in 2002.

The levy rate has not changed since its introduction in January 2002. The costs for advertising, promotion and R&D have increased markedly over the last ten years. While not directly comparable, similar cost increases on farmers are shown at the Appendix. Between 2001-02 and 2011-12, the electricity index increased by 76 percent, fertiliser by 59 percent and fuel by 78 percent. Over the same period, the labour index was up 37 percent and overheads index (insurance, interest rates, rates and taxes etc) was 33 percent.

Although the amount of levy collected has increased (as the market has grown) it has not been sufficient to keep pace with increased costs. At inception of the levy, the amount of money raised represented approximately 0.9 percent of industry Gross Value of Production (GVP) [refer to Table 2]. By 2011-12 the levy collection expressed as a proportion of industry GVP fell to around 0.7 percent. The AMGA expects it to fall to around 0.5 percent of GVP by the end of 2012.

The AMGA believes that the amount of levy collected at the current levy rate is insufficient to generate the required revenue to fund the required marketing and R&D activities as outlined in the industry’s Strategic Plan. The AMGA believes that to leave levy rates at the existing level will impact the financial viability of the industry and the livelihoods of those it employs.

Previous research has demonstrated considerable human health benefits from consumption of *Agaricus* mushrooms. The industry wishes to expand R&D to discover and validate the health and nutritional benefits of mushroom consumption. This information is to be communicated to the public through an expanded marketing program.

**Section 3: Objective of Government action**

The objective is to help maintain and strengthen the viability of the Australian mushroom industry.

3.1 - Options that may achieve the objective

3.1.1 – Option 1 - Status Quo

Under this option mushroom growers would continue to pay levy at the existing rates.

3.1.2 – Option 2 – Implement a Voluntary Contribution System for the proposed levy increase

Under this option mushroom growers would be asked to pay a voluntary contribution on top of the existing statutory levy sufficient to double the funding.
3.1.3 – Option 3 - Implement the proposed increase to the Statutory Levy

Under this option the rates of statutory levy for marketing and R&D would be doubled from $2.16 to $4.32, retaining the current exemption rate (threshold) which is capped at 370,000 kilograms of mushroom spawn produced or purchased, with:

- the marketing rate increasing from $1.62 per kilogram of mushroom spawn to $3.24/kg; and
- the R&D rate increasing from $0.54/kg to $1.08/kg.

3.1.4 – Option 4 - Implement ad valorem statutory levies

Under this option levies could be enacted based on a set percentage of the price of mushrooms at the point of sale rather than on levies based on the weight of the leviable input to the product with:

- the marketing rate set at 0.75 percent of the price of mushrooms at the first point of sale; and
- the R&D rate set at 0.25 percent of the price of mushrooms at the first point of sale.

3.1.5 – Option 5 - Implement the proposed increase to the Statutory Levy in two stages

Under this option the rates of statutory levy for marketing and R&D would be doubled from $2.16 to $4.32 in two stages, retaining the current exemption rate (threshold) which is capped at 370,000 kilograms of mushroom spawn produced or purchased, with:

- the marketing rate increasing from $1.62 per kilogram of mushroom spawn to $2.43/kg in the first year, and from $2.43/kg to $3.24/kg in the second year; and
- the R&D rate increasing from $0.54/kg to $0.81/kg in the first year, and from $0.81/kg to $1.08/kg in the second year.

3.1.6 – Option 6 – Implement indexing of the levy

Under this option the rates of statutory levy for marketing and R&D would be indexed against a relevant measure of inflation (i.e. Consumer Price Index (CPI) Source: ABS 2013). This could buffer the funds raised over time against loss of purchasing power, with:

- the marketing rate increasing from $1.62 per kilogram of mushroom spawn to $1.95/kg in the first year, changing the rate from $1.95/kg by the annual measure percentage change in the CPI as reported by ABS (2013) in each of the next five years; and
- the R&D rate increasing from $0.54/kg to $0.65/kg in the first year, and from $0.65/kg by the annual measure percentage change in the CPI as reported by ABS (2013) in each of the next five years.

Section 4 – Impact Analysis – Cost, Benefit and Risk

4.1.1 – Option 1 – Status Quo

Benefits

The existing statutory levy arrangements, collection system and operative rates are in place and are operating effectively. The statutory levies help overcome the ‘free-rider’ problem in the industry associated with securing funds for marketing and R&D that is otherwise non-rivalrous and non-excludable.

Maintaining the status quo provides a reliable source of funds available for industry marketing and R&D which helps undertake baseline priority project work and will see similar amounts of funding raised in the future for industry marketing.
Past R&D has produced evidence of the health benefits of mushroom consumption. Marketing is believed to increase mushroom consumption and also prices. This can result in health benefits to consumers and increase the profitability of the mushroom industry.

Health care professionals recognise the proven health and nutritional benefits of mushrooms. Research already funded by the existing levy and matching payments has played an important role in identifying the therapeutic benefits of mushroom consumption (e.g. as a dietary component, mushrooms can help offset preventable health conditions and diseases). The industry's enhanced R&D, to be funded by the levy rate increase and government matching payments, should enable new discoveries and continue to validate the known health and nutritional benefits.

HAL carried-out an economic study under the “human health and nutrition” R&D program for mushrooms (levy-funded). The study found that:

“The present value (PV) of investment in Human Health and Nutrition cluster was estimated at $5.27 million which generated revenue with PV of $52.99 million with a net present value (NPV) of $47.73 million and a benefit cost ratio of 10.1 to 1 at 5% discount rate. The major benefits of this investment will be in terms of increased health of mushroom consumers, increased consumer demand for mushrooms and increased efficiencies in R&D and marketing investments”.

Building on the R&D findings, the marketing program would promote the health benefits of mushrooms with the aim of increasing demand. This would assist the industry to market the forecast production increase, support prices and work to maintain the profitability and sustainability of the industry.

Based on figures provided by AMGA, it is estimated that over the following three years from 1 July 2013 the unadjusted levy rate would result in $8.646 million in levy revenue. Further detail is provided in Table 8.

Costs

The current levy rates are not sufficient for the industry to implement its strategic plan. The capacity of the levy to support marketing and R&D into industry priorities has been significantly eroded by increased costs. For example, between 2001-02 and 2011-12, on-farm costs increased significantly (the electricity index increased by 76 percent, fertiliser by 59 percent, fuel by 78 percent, labour by 37 percent and overheads by 33 percent). The AMGA submission estimates this shortfall of what is needed in 2012-13 will be more than $3 million. It is unlikely that an individual or group of growers would invest adequately to make up this shortfall.

Any research conducted privately is unlikely to provide industry wide benefits in the short to medium term with the financier attempting to capture the benefits privately. In addition, private researchers would also be less likely to pursue research of an industry-wide or public-good nature as it would deny them a competitive advantage.

Without more investment in marketing industry will be unable to extend the test market program work despite this program having demonstrated the potential benefits of increased marketing (and promotion) activity. The free-rider effect means that growers will be disinclined to meet the shortfall voluntarily. Any private investment would focus on brand, rather than collective or generic marketing of mushrooms.

The AMGA believes the demand for *Agaricus* mushrooms would not keep pace with forecast production, leading to falling prices which would directly affect the financial viability of the industry and the livelihoods of small to medium growers. This, in turn, would affect suppliers and employees, particularly if growers cease operating.
Employees of mushroom growers would be impacted if rising production leads to a fall in prices and some businesses become unviable. A change to, or no change to, the levy rate may also indirectly affect other businesses dependent on the mushroom industry (for example, machinery and materials suppliers and transport providers).

A downside of industry levies is the cost is typically passed on in-part or in full to consumers. Increased prices as a result of marketing can lead to many consumers paying an increased price for a good they were already purchasing regularly. In essence a wealth transfer from consumers to growers.

Assessment

The test market experiment by the mushroom industry showed significant scope to increase demand for mushrooms through an expanded national industry marketing effort. Without more funding the industry can not increase its marketing effort to take advantage of those opportunities.

On balance, "doing nothing" (maintaining a status quo) option represents a foregone opportunity for the industry.

4.1.2 – Option 2 – Implement a Voluntary Contribution System for the proposed levy increase

Benefits

A voluntary contribution system to supplement the existing statutory levy could provide sufficient funds to conduct priority industry marketing and R&D projects.

Voluntary contributions would attract Australian Government matching payments for eligible R&D expenditure.5

Based on figures provided by AMGA and past behaviour in the industry with voluntary funding, it is estimated that over the three years from 1 July 2013 a voluntary contribution system to supplement the existing marketing and R&D levy rates could result in a figure between $8.646 million (0% voluntary contributions) and $12.104 million (40% voluntary contributions) in levy revenue. Further detail is provided in Table 8.

A further benefit of this option is that voluntary nature of the payments will mean that growers will not experience undue financial hardship as a result of levy payments.

Costs

The Agaricus mushroom industry does not have a good track record for attracting widespread voluntary contributions from across the industry. Prior to the Agaricus mushroom statutory levy being introduced on 1 January 2002, the mushroom industry funded all marketing and R&D activities through a voluntary scheme. This voluntary mechanism proved inefficient as it allowed for a number of growers to opt-out and ‘free-ride’ on the contribution of other industry participants. The statutory levy was implemented to address this ‘free-rider’ problem.

A voluntary system for the proposed levy rate increase is likely to result in a considerable shortfall in (and uncertainty of) the level of funds collected.

5 Australian Government matching payments are made on eligible R&D expenditure that uses statutory R&D levy funds and voluntary contributions up to 0.5 percent of GVP. However the statutory levy matching payments have priority with the result that all payments for statutory levies will be made before funds are matched on voluntary contributions. No further government matching payments will occur once eligible R&D expenditure reaches the 0.5 percent GVP limit for the horticultural sector.
The AMGA marketing program is generic as *Agaricus* mushrooms are, essentially, a commodity. Therefore, non-contributors to a voluntary scheme would be able to obtain benefits from any marketing activities without contributing to meet the cost. A voluntary system would also provide a commercial advantage in terms of lower costs for those growers that decide not to contribute. A statutory levy rate increase does not preclude any grower from undertaking promotion of its own branded mushroom product.

The free-rider problem and the generic and collective advertising approach agreed on by the mushroom industry have prompted the AMGA to reject the option of a voluntary contribution system for the proposed levy rate increase. It considers the objectives of the industry's Strategic Plan would not be achieved under this system.

Based upon estimates voluntary levy payments by small mushroom growing businesses on average per business would increase in the first year by $0-$5,200 per annum; levy payments by medium mushroom growing businesses would increase by $0-$16,000 per annum; and the largest grower’s levy payments would increase around 0-$365,000. The median annual increase on average per business would increase by around 0-$36,000.6

<table>
<thead>
<tr>
<th></th>
<th>Increase (per annum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>average</td>
<td></td>
</tr>
<tr>
<td>small growers</td>
<td>$0-$5,200</td>
</tr>
<tr>
<td>medium growers</td>
<td>$0-$16,000</td>
</tr>
<tr>
<td>largest grower</td>
<td>$0-$365,000</td>
</tr>
<tr>
<td>median</td>
<td>$0-$36,000</td>
</tr>
</tbody>
</table>

Under this option collection arrangements would be more complex and consequently more costly to administer.

**Assessment**

A key risk posed by this option is that, while there is a considerable degree of uncertainty surrounding the level of voluntary contributions likely to be attracted, industry would opt out, resulting in no voluntary contributions. This would make it very difficult for the industry to achieve its strategic aims.

On balance, it is unlikely that this option will raise the funding required to address the problem. It will also incur more administration costs than options 1 and 3. The industry has not been consulted on this option.

**4.1.3 – Option 3 – Implement the AMGA’s proposed increase**

**Benefits**

The industry already has the statutory levy in place. As such the recurrent annual costs of the levy are already being met. The cost associated with increased operative rates would be expected to be less than establishing a new levy, reflecting efficiencies in the cost of collection.

Benefits of statutory levies identified under option 1 above also apply for this option.

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6 It is anticipated that the largest grower would opt out and this would result in the small and medium grower’s contributions being towards the higher end of the estimate.
The statutory levy would overcome the free-rider problem associated with a voluntary levy.

Using AMGA figures, it is estimated that over the three years from 1 July 2013 the proposed increased levy rate would result in $17.292 million in levy revenue. Further detail is provided in Table 8.

Under this option funding would be provided for priority marketing and R&D activities to sustain the viability of the industry. Australian Government matching payments for eligible R&D would further assist the industry to achieve its potential.

A statutory levy increase would ensure that all mushroom growers are able to benefit from marketing and R&D.

The industry's Strategic Plan predicts that if the increased levy is introduced, an average increase of 20 cents per kilogram at the first point of sale can be achieved for all *Agaricus* mushrooms produced.

**Costs**

Establishing an adequate amount of funding with which to undertake essential marketing and R&D would principally affect mushroom growers, who would pay the increased levy rates.

AMGA claims that levy payers would only need an additional four cents per kilogram of mushrooms produced to cover the levy rate increase. Taking this and the wholesale price of $5-6 per kilogram into account, the proposed increase represents less than one percent of the price growers receive.

The majority of mushroom growers support the imposition of a doubling of the levy rates and see it as an investment in their own and their industry's future.

However, it is likely that some or all of the levy increase will be passed onto the consumer by growers and/or wholesalers through increased prices for their product. As noted above, the additional cost of the doubling of the levy is expected to be around four cents per kilogram of mushrooms – which is relatively insignificant relative to the retail price per kilogram. In addition, as mentioned in option 1 a marketing related price increase can result in a wealth transfer from some consumers to growers.

Industry should fund mushroom marketing and R&D as mushroom growers are the major beneficiaries of the outcomes achieved. The AMGA believes increased marketing and R&D is necessary to maintain the viability of growers and protect the jobs of their employees.

A downside of this option is that over time the real value of the levy will decline. This may result in future further increases in the levy being required.

Small mushroom growing businesses would not be disproportionately affected by the levy change compared with larger businesses, except that any growers whose contributions are limited by the cap on the levy will be effectively contributing less to the levy per kilogram of spawn than other businesses. Only one business has its contribution limited by the cap, but it would still however contribute a great deal more in total levy payments than each of these small businesses (both individually and collectively).

Levy payments by small mushroom growing businesses on average per business would increase by $12,000 per annum; levy payments by medium mushroom growing businesses would increase by $38,000 per annum; and the single largest grower’s levy payments would increase around $800,000. The median annual increase on average per business would increase by around $81,000.
Table 4. Estimated levy payments by mushroom growing businesses

<table>
<thead>
<tr>
<th></th>
<th>Increase (per annum)</th>
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</thead>
<tbody>
<tr>
<td>average</td>
<td></td>
</tr>
<tr>
<td>small growers</td>
<td>$12,000</td>
</tr>
<tr>
<td>medium growers</td>
<td>$38,000</td>
</tr>
<tr>
<td>largest grower</td>
<td>$800,000</td>
</tr>
<tr>
<td>median</td>
<td>$81,000</td>
</tr>
</tbody>
</table>

In 2010-11 levy collections were $2.402 million, $1.801 million for marketing and $0.601 million for R&D. Additional levy monies were raised in 2011-12 as a result of an increase in the upper threshold from 1 July 2011. If the current levy rates are doubled, the AMGA forecasts levy receipts in 2012-13 will be $5.444 million rising to $6.404 million in 2015-16.

If looked at in isolation there would be an extra annual cost to the Australian Government of $900,000 in 2015-16 through providing matching payments for the proposed doubling of eligible R&D expenditure. However, no new government matching payments will be required, as HAL already receives matching government payments for eligible R&D expenditure up to the full 0.5 percent gross value of production limit for the horticultural sector.

In 2010-11 levy collections were $2.402 million, $1.801 million for marketing and $0.601 million for R&D. Additional levy monies were raised in 2011-12 as a result of an increase in the upper threshold from 1 July 2011. If the current levy rates are doubled, the AMGA forecasts levy receipts in 2012-13 will be $5.444 million rising to $6.404 million in 2015-16. If looked at in isolation there would be an extra annual cost to the Australian Government of $900,000 in 2015-16 through providing matching payments for the proposed doubling of eligible R&D expenditure. However, no new government matching payments will be required, as HAL already receives matching government payments for eligible R&D expenditure up to the full 0.5 percent gross value of production limit for the horticultural sector.

There would be no administrative costs for the government in collecting or remitting the levy as the Department of Agriculture operates under full cost recovery. There would be a small one-off cost to spawn producers as they adjust their records to allow for an increased levy payment.

Assessment

This option is expected to produce sufficient funding to address the problem, though the erosion in the real value of the levy will continue. The ongoing administration costs are expected to be the same as option 1.

4.1.4 – Option 4 – Implement ad valorem statutory levies

Benefits

Ad valorem levies could apply to all mushroom growers for marketing and R&D and, if at a rate comparable with the AMGA’s levy proposal, could ensure adequate investment in marketing and R&D and meet the priorities outlined in the industry’s Strategic Plan into the future.

Changing levies to ad valorem measures could work to counter erosion of the levies purchasing power. Converting the rate to a percentage of the price of mushrooms at the point of sale would be easy (e.g. one percent of the price of mushrooms at the first point of sale).

Benefits of statutory levies identified under option 1 above also apply for this option.

Based on figures provided by AMGA, it is estimated that over the following three years from 1 July 2013 the ad valorem levy rates would result in $17.292 million in levy revenue. Further detail is provided in Table 8.

Costs

The costs of statutory levies identified under option 1, apart from insufficient funding and cost erosion, also apply for this option.
Changing an industry levy rate's measures involves more administrative effort and resources than changing the operative levy rate. Accordingly, it involves a higher setup and collection cost, which would have to be recovered from industry by the Government, resulting in less funds for projects.

The nature of the levy (which is collected on spawn, an input rather than a final product) presents difficulties in applying ad valorem, rather than production-based, levies. Using the collection points of spawn producers – there are only two-three spawn producers – is more economically efficient than collecting the levy from mushroom growers (there are 68 of these). Administering the much larger number of collection points for an ad valorem levy would lead to prohibitive levy collection costs.

Levy payments by small mushroom-growing businesses would increase on average in the first year by $12,154 per annum; levy payments by medium mushroom-growing businesses would increase by $37,875 per annum; and the largest grower’s levy payments would increase around $853,944. The median annual increase would increase by around $84,034 on average.

<table>
<thead>
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<th>Increase (per annum)</th>
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</tr>
</thead>
<tbody>
<tr>
<td>average</td>
<td></td>
</tr>
<tr>
<td>small growers</td>
<td>$12,154</td>
</tr>
<tr>
<td>medium growers</td>
<td>$37,875</td>
</tr>
<tr>
<td>largest grower</td>
<td>$853,944</td>
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<tr>
<td>median</td>
<td>$84,034</td>
</tr>
</tbody>
</table>

**Assessment**

While this option is expected to produce sufficient funding to address the problem and stop further erosion of the real value of levy funds, the costs of administering this option are significantly more than the other options (aside from option 6). Industry has not been consulted on this option.

**4.1.5 – Option 5 – Implement the proposed increase to the Statutory Levy in two stages**

**Benefits**

Under this option the operative rates of the marketing and R&D levy could be increased over time. Rather than mushroom growers facing a large increase to the R&D and marketing levy rates, a two step process would offer a more gradual implementation of the proposed levy increase. Not having to pay as much upfront on levies would allow growers the opportunity to utilise this money on-farm to derive flexibilities and leeway which would benefit their businesses (e.g. better cashflow and planning).

Benefits of statutory levies identified under option 1 above also apply for this option. Based on figures provided by AMGA, over the three years from 1 July 2013, a staged increase in the levy rate would result in $15.224 million in levy revenue. Further detail is provided in Table 8.
**Costs**

The costs of statutory levies identified under option 1, apart from insufficient funding, also apply for this option.

Changing an industry operative levy rate twice involves more administrative effort and resources than doing a change just once. Accordingly, it involves a higher cost, which would be cost recovered from industry and reduce the levy funds available for industry projects.

Not receiving the full proposed increase of levy funds from day one will delay some priority marketing and R&D projects at a time the industry is signalling a clear urgency for such projects.

Levy payments by small mushroom-growing businesses would increase on average in the first year by $6,077 per annum; levy payments by medium mushroom-growing businesses would increase by $19,000 per annum; and the largest grower’s levy payments would increase around $427,000. The median annual increase would increase by around $42,017 on average.

<table>
<thead>
<tr>
<th>Average</th>
<th>Increase (per annum)</th>
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<tbody>
<tr>
<td>Small growers</td>
<td>$6,077</td>
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<tr>
<td>Medium growers</td>
<td>$19,000</td>
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<tr>
<td>Largest grower</td>
<td>$427,000</td>
</tr>
<tr>
<td>Median</td>
<td>$42,017</td>
</tr>
</tbody>
</table>

**Assessment**

A risk posed by this option is that the delaying of increased funds generated by the levies will stymie the start and progress of priority marketing and research work.

Individual growers will be able to expend the money retained by the delay in payment of higher levy rates on activities which improve their business (e.g. planning, on-farm assets or infrastructure).

On balance, the benefits outweigh the costs of implementing a two stage phasing of the proposed levy rates, but the benefits are less and the cost more than other options considered in this document.

**4.1.6 – Option 6 – Implement indexing of the levy**

**Benefits**

Based upon figures provided by AMGA, it is estimated that in the first year a 20 percent increase in the levy rates (to bring the levy purchasing power back into line with the 2002-03 level - near to one percent of GVP) would result in $3.276 million in levy revenue.

Benefits of statutory levies identified under option 1 above also apply for this option.

---

7 The estimated increase in levy payments in the second year would be the same as those listed here.
With indexation linked to the CPI (assuming the CPI stays at its March 2012-March 2013 rate of 2.5 percent) over the three years from 1 July 2013 the rate could result in $10.366 million in levy revenue. Further detail is provided in Table 8.

Costs
The costs of statutory levies identified under option 1, apart from insufficient funding and cost erosion, also apply for this option.

The Australian Government requires industry to demonstrate support for the proposed levy rate. Indexation of the levy would mean levy payers would not know the quantum of annual changes to the levy rate.

Linking the indexation to the general CPI may not reflect inflationary changes specific to the mushroom industry. The government would incur administrative costs for implementing each change. Ensuring levy agents comply with annual changes would increase the Department of Agriculture’s compliance activities. The additional cost of these administration and compliance activities would be recovered from industry in line with the Department of Agriculture’s levy cost recovery arrangements.

Levy agents are likely to incur additional costs associated with making system and procedural changes to manage an annual rate increase.

There are considerable practical difficulties associated with implementing such an option (e.g. delays in the availability of each annual CPI figure – the July-June CPI figure is available around July/August the following year). As annual changes to the levy rate would need to be set out in a legislative instrument (e.g. regulations or a declaration) to provide transparency to levy payers, this may not occur for 15 months after the start of a levy year.

Levy payments by small mushroom-growing businesses would increase on average in the first year by $2,928 per annum; levy payments by medium mushroom-growing businesses would increase by $9,124 per annum; and the largest grower’s levy payments would increase around $205,712. The median annual increase would increase by around $20,243 on average.

<table>
<thead>
<tr>
<th>Table 7. Estimated levy payments by mushroom growing businesses</th>
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<tbody>
<tr>
<td><strong>average</strong></td>
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<tr>
<td>medium growers</td>
</tr>
<tr>
<td>largest grower</td>
</tr>
<tr>
<td>median</td>
</tr>
</tbody>
</table>

Assessment
A key risk posed by this option is the uncertainty surrounding the inflation rate until official annual figures are released (generally thirteen months after the start of the year) and associated practical difficulties in implementing the option.

Additionally there are considerable practical difficulties associated with implementing such an option.
Section 5 - Competition Policy

The *Agaricus* mushroom levy increase would be applied equitably to all Australian *Agaricus* mushroom growers. The additional monies raised would be utilised solely for marketing and R&D activities focussed on assisting the industry as a whole. Therefore, the additional marketing and R&D should be competition-neutral by not favouring or disadvantaging one individual producer in the industry over another. Over time, continued funding for marketing and R&D activities are expected to enhance the viability and profitability of the industry.

The upper threshold of 370,000 kilograms of spawn upon which levy is paid by any one grower in a levy year provides a measure of protection to the largest grower (the only one that reaches this threshold level).

Section 6 – Consultation

Once the industry's Strategic Plan was launched at the 2011 Annual Mushroom Industry Conference, the AMGA prepared a detailed Discussion Paper outlining the levy proposal and rationale. The AMGA conducted a thorough consultation campaign with all known levy payers, in-line with the Australian Government *Levy principles and guidelines* (LPGs). A series of grower forums were run to detail the levy proposal. Efforts were made to personally speak to every levy payer, encouraging them to read the Discussion Paper and participate in the ballot – 90 percent of all levy payers were contacted by the AMGA.

A postal ballot of registered mushroom growers was undertaken on the proposed levy increase by the Australian Electoral Commission (AEC) over a four week period from 18 November 2011 to 9 December 2011. On 12 December 2011 the AEC declared the results for the ballot. Of 68 potential levy payers, 46 returned a ballot paper for scrutiny (67.6 percent participation). Two ballot papers were rejected, leaving 44 ballot papers to be counted. Thirty three voted in favour of the AMGA proposal (75 percent support) and 11 against.

The LPGs state that it is a requirement for industry to achieve a majority of those that vote for a levy increase. Thus with 75 percent of valid votes in favour (allocated on a one vote per producer basis) the AMGA considers it has achieved a strong mandate. The AMGA cites written declarations of support from 12 of the 13 largest mushroom growing businesses in favour of the levy increase – the exception being the single largest grower.

After a formal submission of a levy increase proposal, the LPGs provide for a 6 week period in which dissenting objections can be lodged. The Department of Agriculture activated a 6 week objection period which ended on 22 May 2012. Five dissenting submissions were received including a detailed submission from Mushroom Exchange.

The principal objections were: doubts that the increase in the marketing levy would result in any identifiable benefit to the wider mushroom industry, insufficient evidence provided by the AMGA to support its claims of increased production and future market oversupply, the affordability of the levy increase for small to medium growers, the difficulties faced by growers in passing on the cost of the levy increase to consumers, and claims that growers opposing the levy increase represent more than half of all mushroom production.

It is not possible to verify the claim that growers opposing the levy increase represent more than half of all mushroom production. As a secret ballot was undertaken this claim is speculative. Examining commercially confidential data from the AMGA it would appear that at least 55 percent of the industry's levy collections are received from growers who have declared their support for the AMGA's levy proposal.
The LPGs only require a positive vote from those growers that choose to participate in the ballot. The proposed levy changes were declared by the AEC to have garnered 75 percent of the votes.

Two objectors suggest the increase should be phased in over a number of years. A staged introduction could be done but would delay some funds for priority projects. Additionally, the overwhelming majority of growers do not support this, this is not the proposal that was voted on in the ballot and a new ballot would be required if this was to be considered further.

The issue of whether growers can pass on the cost of the proposed levy is not relevant in considering the levy proposal against the LPGs. This issue is discussed further on page 10 (4.1.3 under “costs”).

The Department of Agriculture is satisfied the ballot was conducted fairly and that the positive vote in favour of the proposed levy increase is reliable.

If the AMGA’s proposal is approved, the largest grower’s levy payments would double to $1.591 million. This grower does not wish to be compelled to contribute to statutory levy-funded collective generic marketing and promotion activities. At the heart of its objection is that it already has the capacity as a large and influential mushroom producer to invest in marketing its mushrooms to buyers to obtain a reasonable return.

The selection and allocation of mushroom levy funding is currently determined by the HAL Board on advice from the Mushroom Industry Advisory Committee (MIAC). Membership of the MIAC is recommended to HAL by the AMGA. Two members of the MIAC are from the AMGA, three are employees of Mushroom Exchange and three are neither directors nor staff from AMGA or Mushroom Exchange.

The AMGA estimates that the mushroom industry will achieve an annual production level of 90,000 tonnes by 2015-16, which is well above the Australian Bureau of Statistics (ABS) figure of 49,700 tonnes in 2010-11. While the AMGA’s figure is an estimate, the AMGA has provided the Department of Agriculture with reasonable evidence in support of its claim as well as evidence of the expected adverse impact on wholesale and retail prices.

The Department of Agriculture considers the AMGA’s proposal is consistent with the LPGs. The submission provides evidence of wide industry consultation and provides a detailed assessment of points raised in opposition to its proposal and the consequences of not increasing the levy. The Department of Agriculture has not been provided with information to counteract AMGA’s claims that the present levy receipts are insufficient to grow consumer demand for mushrooms in line with the industry strategic plan and that a voluntary levy would not deliver an equitable contribution from all growers.

While some growers are in opposition to the proposal, the positive vote in the ballot provides evidence of a comfortable margin of the industry being in favour of the proposed levy increase.

The AMGA provided a formal response to the issues raised by the largest grower’s objection submission dated 18 May 2012.

The AMGA states that since its formal submission to the government on 10 April 2012, production increases forecast in the Strategic Plan have started to have an impact, leading to oversupply, retail discounting and reduced returns to producers.

**Section 7 – Conclusion and recommended option**

There are some relative merits for each of the six options considered. However, option 3 is superior to all the other options, and therefore best meets the stated objective of Government action.
Option 3 is practical to implement, will override growers free-riding or opting out, provides the funds needed to invest in priority marketing and research and development projects in a timely manner, reinstates the eroded purchasing power of the mushroom levy, and has the overwhelming support of the industry (both by grower numbers and level of production). The additional cost of the doubling of the levy is expected to be around four cents per kilogram of mushrooms – which is relatively insignificant relative to the retail price per kilogram.

From a perspective of maximising estimated levy collections on mushrooms options 3 and 4 are the preferred ones. Both provide the greatest amount both upfront in 2013-14 and over the three years commencing 1 July 2013. However, option 4 would have significant costs associated with collection costs, with a move from 3-4 collection points to more than 68. Option 5 would be the next preferred in terms of raising revenue (Table 8 summarises the expected levy revenue to be generated from each of the options considered).

There are practical difficulties associated with implementing option 6, and to a lesser degree option 4. There are significant doubts that option 2 will generate much additional revenue for mushroom marketing and research and development.

<table>
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</thead>
<tbody>
<tr>
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<td>2.722</td>
<td>2.882</td>
<td>3.042</td>
<td>8.646</td>
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<td>3. AMGA's proposed levy increase</td>
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<td>5.764</td>
<td>6.084</td>
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<td>4. Ad valorem levies</td>
<td>5.444</td>
<td>5.764</td>
<td>6.084</td>
<td>17.292</td>
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<tr>
<td>5. Two stage increase</td>
<td>4.016</td>
<td>5.444</td>
<td>5.764</td>
<td>15.224</td>
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</table>

The recommended option is to implement the Agaricus mushroom levy increase under the Primary Industries (Excise) Levies Act 1999. The proposed levy rate increase is regarded as the only effective means of raising the funds required to undertake the industry's marketing and R&D priorities set out in the Strategic Plan.

The AMGA proposal to double the Agaricus mushroom levy (option 3):

- conforms to the LPGs;
- would 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.

**Section 8 – Implementation and review**

The AMGA wishes the Agaricus mushroom levy increase be implemented as soon as practicable, depending on the legislative process.

Amendments to the Primary Industries (Excise) Levies Regulations 1999 made under the Primary Industries (Excise) Levies Act 1999 will be required.
The implementation of the Mushroom industry Strategic Plan, which guides levy expenditure, will be reviewed by HAL and MIAC on a yearly basis. The AMGA and HAL, through the MIAC, propose to conduct a thorough review of the Strategic Plan and the levy arrangements in 2016.

Also, levy issues can be raised and reviewed at the HAL’s Annual Levy Payers Meeting and at AMGA meetings held throughout the year.

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

8.1 - Compliance costs

The average annual change in compliance costs of the recommended option compared to business as usual is estimated to be zero. Currently the levy is collected via a standard online or hard copy return form (either quarterly or annual). The levy payer populates the quantity of mushroom spawn. The online form automatically calculates the levy/charge payable. On the hard copy form the levy payer populates the levy/charge rate and calculates the levy/charge payable. Under the recommended option the form would remain the same and the levy payer would insert $4.32 rather than $2.16 for the levy/charge rate. There would be no increase in regulatory burden.

Table 9. Regulatory Burden and Cost Offset

<table>
<thead>
<tr>
<th>Average Annual Change in Compliance Costs (from Business As Usual)</th>
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</thead>
<tbody>
<tr>
<td>Sector/Cost Categories</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>Administrative Costs</td>
</tr>
<tr>
<td>Substantive Compliance Costs</td>
</tr>
<tr>
<td>Delay Costs</td>
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<tr>
<td>Total by Sector</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual Cost Offset</th>
<th>Agency</th>
<th>Within portfolio</th>
<th>Outside portfolio</th>
<th>Total</th>
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<tbody>
<tr>
<td>Business</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Not-for-profit</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<td>Individuals</td>
<td>$0</td>
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<tr>
<td>Total</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

Proposal is cost neutral?  ☒ yes  ☐ no
Proposal is deregulatory?  ☐ yes  ☒ no
Balance of cost offsets $0.00

Horticulture Policy Section
Agricultural Productivity Division
Australian Government Department of Agriculture
References


ABS 2009: Value of Agricultural Commodities Produced 2007-08, Cat no. 7503.0, Table 2, released 29 July 2009.

ABS 2010: Value of Agricultural Commodities Produced 2008-09, Cat no. 7503.0, Table 2, released 18 June 2010.

ABS 2012, Value of Agricultural Commodities Produced in 2010-11, Cat no. 7503.0, released 29 June 2012.

ABS 2013, CPI Australia March 2013, Cat. No. 6401.0, released 24 April 2013.


AMGA (Australian Mushroom Growers’ Association) 2009: Levy cap increase submission 2009.


DAFF (Department of Agriculture, Fisheries and Forestry) 2007, Levy principles and guidelines, Canberra, April 2007.


# Appendix A

## Indexes of prices paid by farmers, and terms of trade Australia

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<th></th>
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<td>Seed, fodder and livestock</td>
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<td>store and breeding stock</td>
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<td>123.0</td>
<td>122.8</td>
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<td>Capital items</td>
<td>111.5</td>
<td>115.2</td>
<td>113.3</td>
<td>121.3</td>
<td>124.4</td>
<td>128.4</td>
<td>132.3</td>
<td>136.3</td>
<td>141.2</td>
<td>144.8</td>
<td>149.3</td>
<td>153.2</td>
<td>157.3</td>
<td>161.5</td>
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<tr>
<td>Total prices paid</td>
<td>110.1</td>
<td>112.9</td>
<td>121.5</td>
<td>123.0</td>
<td>126.3</td>
<td>129.4</td>
<td>135.9</td>
<td>155.1</td>
<td>148.9</td>
<td>140.8</td>
<td>144.8</td>
<td>147.5</td>
<td>148.6</td>
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<tr>
<td>Excluding capital items</td>
<td>109.7</td>
<td>112.4</td>
<td>121.8</td>
<td>123.1</td>
<td>126.5</td>
<td>136.2</td>
<td>136.2</td>
<td>149.9</td>
<td>149.4</td>
<td>144.4</td>
<td>146.9</td>
<td>146.5</td>
<td>147.3</td>
<td></td>
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<tr>
<td>Excluding capital and overheads</td>
<td>109.4</td>
<td>112.0</td>
<td>123.3</td>
<td>127.2</td>
<td>129.9</td>
<td>137.6</td>
<td>161.7</td>
<td>156.7</td>
<td>144.9</td>
<td>147.1</td>
<td>151.7</td>
<td>153.5</td>
<td>154.6</td>
<td></td>
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</tr>
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</table>

Note: ABAE revised the method for calculating these indexes in October 1999. The indexes for commodity groups are calculated on a chained weight basis using Fisher’s ideal index with a reference year of 1997-98 = 100. Prices used in these calculations exclude GST.

Source: ABAE (compiled from various market sources); Australian Bureau of Statistics
Appendix B

Figure 4. *Australian Wholesale Mushroom Prices, 1990-2010*

- Nominal Price
- Real Price (2010$)

*Note:* Prices deflated using ABS food price indices.

Alston & Parks (2011)
Appendix C

Figure 2. Australian Mushroom Industry Trends, 1974-2010

Alston & Parks (2011)