

A Proposed Tea Tree R&D Levy

1st March 2016

Introduction

The Australian Tea Tree Industry Association (ATTIA Ltd) is seeking the introduction of a Tea Tree Research and Development (R&D) Levy to support the industry's research effort. This document summarises the submission currently being prepared for the Australian Government Department of Agriculture and Water Resources for approval by the federal Minister. If approved by the tea tree industry as a whole the submission will be used to prepare and eventually enact legislation in both Houses of Federal Parliament to implement the levy. ATTIA hopes to have this legislation in place on or before 1 July 2017.

Since 1993, the Rural Industries Research and Development Corporation (RIRDC, www.rirdc.gov.au) has funded the tea tree R&D program from its core budget with matched contributions in the early years from individual contributions and later using the voluntary industry levy introduced in 2009. Over the past 20+ years the program has delivered significant benefits including highly improved tea tree varieties, research and data on the toxicity and efficacy of tea tree oil and weed management & agronomy as well as a website and a comprehensive literature database of all research conducted on tea tree oil since its discovery in 1924.

While the tea tree R&D program continues to deliver to industry and has high levels of support, recent changes to RIRDC core funding means research funding for the industry is insecure and will cease except for competitive grants from 1 July 2017. An R&D levy would ensure long term funding is available for industry research.

The Australian government has allocated funds from July 2017 towards supporting an R&D levy for the tea tree industry, subject to industry support for a compulsory levy.

ATTIA's proposal for a Tea Tree R&D Levy is summarised in the table below. The maximum levy rate of \$0.60/Kg has been proposed to allow for an increase, should this be deemed necessary and voted for by stakeholders, without the need for Parliamentary approval – a lengthy and expensive process.

Leviable sector	Tea Tree Industry
Leviable product	Tea Tree Oil
Levy Rate	Up to \$0.60c per Kg
Levy Rate 2017-19	\$0.25c per Kg
Levy Collection Point	First point of sale

Levy Principles

ATTIA Ltd has commenced the development of a submission to the Australian government for the establishment of an R&D levy.

To be successful, industries must comply with a series of Levy Guidelines and Principles and demonstrate support for the levy. ATTIA Ltd is currently working with producers to address the guidelines, which are as follows:

The levy must be related to market failure

The scale of the tea tree industry is too small to facilitate effective R&D without collective action.

Market failure exists on two levels. Firstly, ATTIA members who pay a membership subscription but choose not to pay the voluntary levy are able to access most research outcomes. Secondly, any producers who are not ATTIA members and therefore make no contribution to industry are able to access and benefit from more than 20 years of research outcomes.

A compulsory levy would ensure all producers are paying for and supporting industry R&D.

The levy must be supported by industry bodies who consult with producers

ATTIA Ltd supports the establishment of a levy to fund industry R&D. Consultation about a compulsory levy has been taking place since 2007. Information is available on the ATTIA website, in our newsletters and at public forums and meetings. ATTIA will continue to seek the views of producers as the submission to government is developed. This will include a formal consultation period from 1st March 2016 to 30th June 2016 followed by postal ballot of all producers in August 2016. If the ballot results are positive this will demonstrate majority support and also provide an opportunity for anyone to object and have their point of view heard.

ATTIA Ltd must provide the extent and analysis of any opposition to the levy

To date, ATTIA Ltd is not aware of any opposition to an R&D levy, but will seek producer views in more detail during the formal consultation period. All producers are strongly encouraged to contact ATTIA Ltd to discuss any questions or raise any concerns they may have.

ATTIA Ltd must provide an estimate of the levy collected and how it will be invested

The levy rate is proposed at \$0.25c for 2017 – 2019, with a second producer ballot after that date to set the rate for the following three years, which could be higher or lower than \$0.25c per kg pending industry priorities (up to a maximum of \$0.60c per Kg).

Based on an annual production of around 800,000 Kg, industry could expect to raise up to \$200,000. If a levy is successful, the Australian government will make a contribution to industry R&D, currently allocated at \$125,000 in 2017 and 2018. In later years this contribution would be based on a calculation capped at 0.5% of Gross Value of Production (ie total farm gate value) with ABARES independently assessing and setting the GVP figure.

ATTIA and RIRDC are currently implementing a 5 Year R&D Plan, which concludes in 2018. If the levy is supported, a new 5 year investment plan will be developed in consultation with industry for 2018 – 2023. Producers have determined current R&D objectives to be:

1. Market access through regulatory response, product efficacy and safety research and its communication
2. Production systems that lower cost and increase productivity including the tea tree breeding program
3. Proof of concept for innovative uses for tea tree oil
4. Communication and industry capacity building

RIRDC have agreed to continue to manage the program to ensure accountability to both levy payers and the Commonwealth. Industry will continue to direct research funding with an industry advisory panel made up of tea tree producers, technical experts and a RIRDC appointed project manager who will, in close liaison with ATTIA's Board of Directors, guide all future investments.

There must be support for the levy collection mechanism which must be efficient and practical

There are three potentially viable options for the collection of a tea tree R&D levy:

1. At the point of distillation, based on actual production in Kg
2. At point of first sale, based on either tax invoice or export Bill of Lading (BoL)
3. Area based where the levy is calculated on the area under production regardless of actual yield

ATTIA Ltd proposes that the levy is applied at the first point sale. When a Tax Invoice (or export Bill of Lading [BoL] and Export Invoice) is generated, which will be deducted from the negotiated price (excluding GST) paid to the producer. The levy applied will be calculated on the kilograms of oil sold as stated on either the Tax Invoice or Export Invoice and BoL.

The purchaser (or exporter where their own stock is exported) will be responsible for collecting and remitting the levy. ATTIA is recommending that remittance occurs twice per year - on 30 June and 31 December. Payment must be made to the Department of Agriculture and Water Resources - Levies Revenue Service who conduct regular compliance audits.

ATTIA believes that imposing a levy on distillation will be difficult to administer and audit due to the number of smaller, remote distilleries. The first point of sale, with collection and remittance being managed by a relatively small number of organisations with existing accounting records, should ensure high levels of compliance without excessive audit costs.

ATTIA believes that an area based levy may not be seen as equitable, further there are no other levies based on this model.

The levy must be equitable between levy payers and related to inputs or units of production

The proposed production based levy paid twice per year on actual sales volume in the relevant period represents a fair and equitable system because it is based on Kilograms of oil produced, a transparent and accountable measure of the size and capacity of the business.

The body managing the funds must be accountable to the Commonwealth

RIRDC is a Commonwealth agency and has managed tea tree R&D funding since 1993. RIRDC has agreed to continue supporting industry and managing research funds should the levy be successful.

The levy must be reviewed by industry after a specified time

ATTIA Ltd proposes that the levy and levy rate be reviewed by industry every three years to ensure it continues to drive industry innovation to the satisfaction of all stake holders.

Next Steps

ATTIA Ltd has commenced a formal four month period of consultation from 1st March 2016 through to 30th June 2016. During this period all known producers (not just ATTIA members) will be sent information about the proposed levy, including fact sheets on the levy process and a Questions & Answers style fact sheet answering all questions that have been raised to date.

Newspaper advertisements and the ATTIA website will also be used to ensure that all potential levy payers are aware of the proposal and will have ample opportunity to ask questions, participate in a survey ahead of the formal ballot and lodge any objections to the proposal.

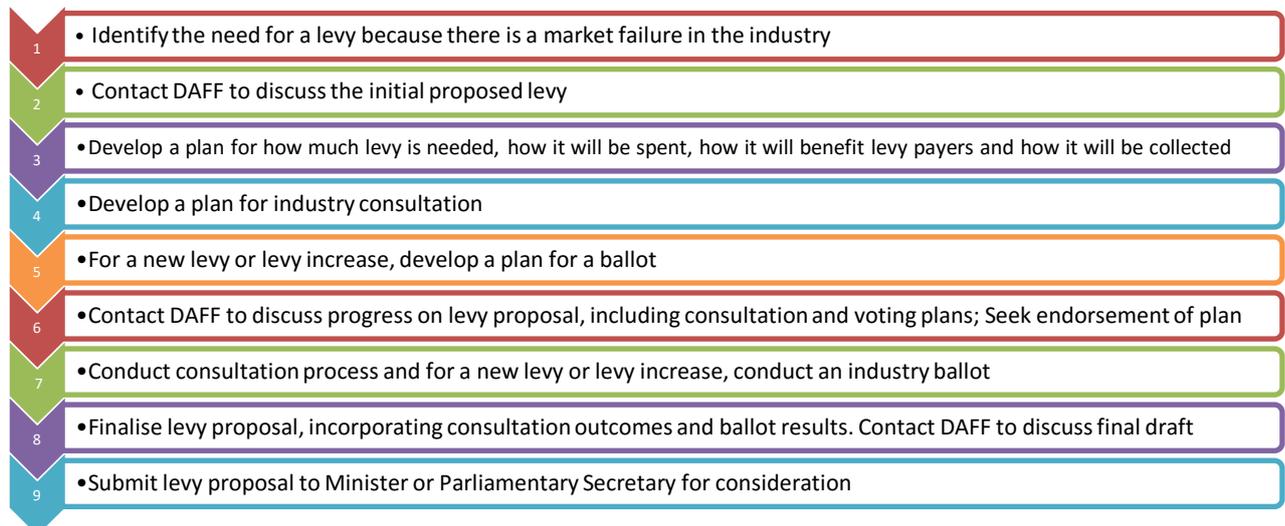
Immediately after the consultation period all feedback received will be collected, collated and analysed for inclusion in a submission to the Department of Agriculture and Water. Following the consultation period, a postal ballot will be conducted by an independent 3rd party allowing growers to vote on the introduction of a compulsory levy. All ballot forms will be returned to the independent ballot provider (to be advised).

To demonstrate support for the levy, the ballot will require the support of a majority of growers and/or a majority on a production basis. The results of the ballot will be published on the ATTIA website: http://www.teatree.org.au/compulsory_dpi_levy.php.

Timeline

Responses times from the various Government departments, the Minister and eventually Treasury and the Parliament in preparing and enacting any legislation are impossible to determine. An indication of this is given in the **Levy Principles & Guidelines** which states: *"If the [levy] proposal is approved, the Government drafts the legislation to implement the levy. It can be a lengthy process"*.

A flowchart summarising the processes required for an industry to submit a levy proposal to the Government for approval is shown below. ATTIA is currently working through point 7 in the flowchart below.



A survey has been developed and a link to this is available from the ATTIA website at http://www.teatree.org.au/compulsory_dpi_levy.php. You are strongly encouraged to participate in this survey as it will ask questions similar to those in the formal ballot and gives you an opportunity to raise any objections or concerns you may have to the levy so these can be addressed.

For more information about any aspect of the proposed levies, contact ATTIA's CEO:

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If you want to talk to another TTO grower, feel free to contact any of the Directors of ATTIA Ltd:

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Alternatively please contact other growers you know in your area.