

## Tea Tree Levy – Q&A

1<sup>st</sup> March 2016

### What levies are proposed for the tea tree industry?

The tea tree industry is proposing two new statutory levies on all tea tree oil (TTO) produced and sold in Australia or exported. The total levy base will be 0.25c/kg. This includes:

- **0.25 c/Kg R&D levy** – to fund coordinated research, development and extension activities that will improve the productivity and profitability for all TTO producers in Australia.
- **0.00 c/Kg EPPR levy** – This levy allows ATTIA to sign the Emergency Plant Pest Response Deed (EPPRD). This levy will not be activated until a pest incursion with implications for TTO production occurs. It is industry's insurance policy. Most industries have a zero EPPRD levy and only use the levy if there is a need to contribute to an agreed national emergency response towards the cost of eradicating a pest and potentially compensating affected growers.

### How much will these levies raise per year?

The **0.25c/kg R&D** levy will raise between \$125,000 and \$150,000 per annum, depending on the season. In 2015, the Agricultural Competitiveness White Paper announced the Federal Government will allocate up to \$125,000.00 for each of the 2017/18 and 2018/19 financial years to match R&D levies raised by the tea tree industry, which will total around \$250,000 per annum for investment in research, development and extension for the tea tree industry.

The **0.00c/kg EPPR** levy will be the industry's 'insurance policy' and will only be activated, with the support and agreement of levy payers, in the event of an incursion.

### Why should I pay these levies?

While there are a number of issues that impact on the return to growers, the proposed levy of 0.25 c/Kg has been tested through the current voluntary administration which is paid by the vast majority of growers. The new levy will no longer be paid to ATTIA Ltd; rather they will be collected by the Department of Agriculture & Water - Levies Revenue Service and be directed RD&E activities to address the recent national changes to R&D arrangements.

Currently, the only model available for the industry to raise funds is through voluntary contributions. This is difficult to coordinate, inequitable, unreliable and not sustainable in the long term. It does not solve any of the biosecurity issues facing the industry, such as the need to sign the EPPRD so that we can be involved in future incursion responses.

These levies are critical to ensure the future viability, sustainability and profitability of the TTO industry in Australia. There will be benefits for all producers in Australia if these levies can be established.

### How are these activities currently being funded?

The tea tree industry currently relies on voluntary contributions from committed growers and some businesses to conduct R&D. This is inequitable and unreliable with all growers benefiting from funded research even if they made no contribution.

The voluntary contribution system that has worked so well for the past two decades is no longer available through RIRDC ([www.rirdc.gov.au](http://www.rirdc.gov.au)). In order to have long-term R&D projects that benefit all of industry, a secure and reliable source of matched funding is required to undertake both R&D activities and to provide an option to contribute equitably to biosecurity activities.

### These levies will raise a lot of money – how will the money be managed?

All research funding raised through the levy and the Australian Government's contributions will be under the direct control of RIRDC to ensure full transparency in the allocation of the funds. The tea tree industry

will be in the driving seat for any R&D or biosecurity levies through an R&D Advisory Committee made up of a RIRDC manager, the ATTIA Board of Directors and a panel of growers. The TTO industry has a good historical record of accomplishing a lot with very little funding; this will not change if these levies are established.

### **Who would pay and submit the returns for these new levies?**

The levy will be payable on all TTO produced in Australia destined for both domestic consumption and for export. When the tea tree oil is sold by the producer (i.e. first point of sale) the levy will be deducted from their payment by the first buyer (or exporter) and remitted twice yearly to the Department of Agriculture & Water - Levies Revenue Service using standard documentation.

If the producer sells their TTO through an intermediary (i.e. trader, agent or exporter), then the intermediary must pay the levy on behalf of the producer and submit all return forms. The intermediary can recover from the producer the amount of levy paid, by offset or otherwise.

If the producer sells their TTO by retail sale (eg a local market or roadside stall) then the producer must pay the levy and submit all required return forms to the Department of Agriculture & Water – Levies Revenue Service, directly. Please note however, that **total** annual sales of less than 100 Kg made in this manner will not be subject to the levy.

### **Are there exemptions in the levy payments?**

No, except for the exemption for small or micro operators (total annual sales of less than 100 Kg for local retail, market or roadside stalls as detailed above) no other exemptions will apply.

### **Why don't you pay the levy if you sell at a roadside stall or market?**

Collecting the levy from very small producers would be impractical and expensive. Advice from the Department of Agriculture & Water - Levies Revenue Service is that collecting from small or micro operators may cost more in time and resources than the levy raised. Therefore ATTIA has recommended a threshold of 100 Kg total annual sales per small or micro operator for local sales will ensure that collection costs remain as low as possible, while still ensuring equity among levy payers.

### **Levies are expensive to collect - how much will this cost per year?**

All levies are collected nationally by the Department of Agriculture & Water - Levies Revenue Service. This section operates on a full cost recovery model and the establishment of the TTO levy will be handled the same way that all other agricultural levies are managed. This is why ATTIA has been working with the Department to ensure the most efficient and practical levy system to keep costs as low as possible. This is the only method available to industry to collect an agricultural levy.

### **Production varies from year to year - what happens if production drops?**

Current annual tea tree oil production is around 800,000 Kg per year with up to 90% of this exported, some directly by the producer and the rest through traders and agents. Levy estimates and the amount raised have been based on this figure which is expected to continue to grow. In the same way that the current voluntary levy is calculated, the new levy will only be paid on each Kg of TTO produced but with the new levy this will only be raised on TTO actually sold by the primary producer (first point of sale).

For the R&D levy, and for the first time ever, it will be possible to build a reserve to which will allow a portion (yet to be determined) of levy funds collected to be put away in the good years to ensure R&D activities can continue in years of low production. The ability to build a reserve will also make a real difference to R&D by allowing sufficient reserves to build which will allow major projects that pop up with monotonous regularity to be better managed and help pay for emergency projects that also appear from time to time.

### **How will the R&D levy be managed?**

The R&D levy will be collected directly from producers if they export their own TTO or from a trader, consumer or agent who is the first point of sale. Payment must be made to the Department of Agriculture

& Water - Levies Revenue Service. Once matched by the Australian government RIRDC will be notified and will then coordinate, invest and manage R&D, in consultation with, and on behalf of, the TTO industry. RIRDC and ATTIA Ltd have maintained a solid working relationship for more than 20 years and this is expected to continue for the foreseeable future. RIRDC also manages funds for several other Australia's levied industries.

### How will industry get a say on what the R&D levy will be spent on?

Current investments in the TTO R&D program are guided by a 5 Year R&D Plan which is developed by industry and RIRDC to address critical needs. This process will continue under a compulsory levy and growers will have an opportunity to determine research priorities through an ATTIA Ltd consultation process every three years. For each levied industry RIRDC forms an industry advisory panel which will consist of a RIRDC manager, a representative of the ATTIA Board and other growers from around Australia to determine how the funds should be allocated. This group will determine when and how RIRDC disburse funds and which R&D projects are prioritised and funded. This allows industry to have a real say. ATTIA Ltd will report on the research outcomes and outputs annually to ensure growers are aware of how their research funds are being spent.

### Why is coordinated, industry-wide R&D important?

Investment in R&D is critical to driving and maintaining the Australian tea tree industry's productivity, profitability, sustainability and international competitiveness into the future. Significant challenges exist for our industry: exotic and established pests and diseases, chemical registrations, regulatory barriers, environmental management, breeding selection and production practices are just a few. The establishment of an R&D levy will go a long way towards helping to solve some of the challenges that continue to face our industry.

### Why is there no Plant Health Australia (PHA) Levy?

The Board of ATTIA has determined that rather than collect another levy, PHA annual membership fees will be paid from ATTIA membership income. PHA membership, currently \$1,500.00 per annum, is a prerequisite for the establishment of an EPPR and allows ATTIA to become a signatory to the EPPRD.

### How will industry get a say on both the activation of and expenditure of the EPPR?

To manage the funds received from this levy and to ensure that industry has a say in how these funds are collected and spent, a Memorandum of Understanding (MoU) will be established between ATTIA and PHA. This MoU will allow for the establishment of a program management committee which will have both ATTIA and PHA representatives. This committee will be convened if the activation of the EPPR is considered necessary; it will review the expected expenses to be incurred and manage the proposed expenditure. This will ensure that any funds are being spent as according to the PHA Act, PHA Constitution and the Levies Principles and Guidelines.

This arrangement works very well and allows for industry management and oversight through every step. PHA has similar arrangements in place with numerous other industry organisations, such as grains, chickens, bananas, horticulture and the honey bee industry.

### How will the proposed levies benefit levy payers?

The establishment of the R&D and Biosecurity (EPPR) levies will bring great benefit to all TTO producers. Some of the benefits include:

#### R&D levy

1. Allows for coordinated, long-term and strategic R&D investment to improve the productivity and profitability of the TTO industry.
2. Provides funding for crucial R&D such as for pests, diseases and their management, safety, quality assurance, nutrition and irrigation as well as other agronomic activities. Research projects will be based on the RIRDC sponsored **Tea Tree Oil Five Year RD&E Plan 2013-2018**

(<https://rirdc.infoservices.com.au/items/13-085>) which will be reviewed, in consultation with all potential levy payers, prior to implementation of any new levy model.

3. Allows the TTO industry to access Australian government matching for R&D investment. The tea tree levy will raise around \$125,000 per annum and the Australian government will match this up to a maximum of \$125,000 per year for the first two years and thereafter revert to a maximum of 0.5% of farm gate value (referred to as the GVP or Gross Value of Product). This will create an annual funding pool of up to \$250,000 some of which will be held as a strategic reserve.

### **Biosecurity levy**

1. The EPPRD will only be activated when an incursion of national importance is identified. Being a PHA member will allow ATTIA to become a signatory to the EPPRD.
2. On-farm biosecurity education, communication and representation (eg EPPRD meetings) for the TTO industry. PHA will assist ATTIA to develop a comprehensive Biosecurity protocol for TTO plantations as set out in the PHA Act.

### **If the levy is set at 0.25 c/Kg, how much will this cost me?**

The levy proposal is based on production. This means the more TTO you produce and sell the more levy you will pay. Thus a larger producer who has a larger stake in the industry than a smaller producer will pay equitably. Every producer will pay a different levy value determined solely by the amount of TTO produced and sold in any given 6 month period. Importantly, a statutory levy means that there are no 'free riders'. All growers contribute equitably and the Australian Government matches collected funds to a maximum of 0.5% of GVP. This is the most efficient way of collecting funds for R&D efforts.

### **What happens if I vote no?**

Voting 'No' to the **R&D levy** will have a severe impact on the ability of the industry to access research and development for projects such as understanding Myrtle Rust, managing regulatory challenges, registering minor use permits, understanding pesticide chemistry and controlling pests & diseases as well as funding industry activities such as Field Days and a dedicated CEO. These types of projects are outside the ability of the industry to fund through any other mechanism. Industry communications and the website may no longer exist and there will be little representation of industry interests at both State and Federal Governments. All of these activities may be severely curtailed in mid-2017 when RIRDC funding for the tea tree industry ceases completely with the exception of small, competitive grants which will be hotly contested by other industries seeking a share of the ever decreasing RIRDC core funds. **Critically, our industry will no longer receive any matched funding from the Australian Government.**

If the **EPPR levy** is voted down, our industry cannot sign the EPPRD or become part of the decision making progress for Biosecurity incursions. This will mean that our industry will have no say in how, when and where any future incursions such as Myrtle Rust will be managed. Further, our industry cannot be involved in any decision making and there will be no representation for tea tree growers in the development of response plans and potential reimbursement of costs to affected growers.

### **As a large grower, I will be paying a lot of levy which I could use to fund my own research. How will I benefit from these levies?**

Every grower will benefit from the establishment of these levies. Specifically, large growers will benefit in a number of ways. Research can be expensive and is often not within the scope of any single grower, no matter how large, to successfully fund. **Critically, privately funded research is not eligible for matched funding from the Australian Government** meaning leverage opportunities are lost.

Large growers will have a proportionate say in how the levy funds are allocated. This means that you will be able to access research that could not be funded individually.

The larger the production area, the greater the benefit: for example a solution for pest or quarantine management for a farm due to a Biosecurity incursion has a bigger impact on a large production area.

## Growers receive the same information, will we have an oversupply?

All growers will have the same information available to them but as is always the case with new practices and innovations in an industry, some growers will use new ideas or management techniques to better advantage. Levy funded R&D outcomes will help good growers become better while ensuring our industry can continue to improve productivity, market opportunities and profitability for all producers.

## Why should the ATTIA be a Member of PHA and a signatory to the EPPRD?

Plant Health Australia is the national coordinator for the government-industry partnership for plant biosecurity in Australia. In order to sign the Emergency Plant Pest Response Deed (EPPRD), an industry organisation must first be a Member of PHA. PHA membership also provides benefits to industry organisations such as access to expert technical advice on biosecurity issues, assistance in the event of an incursion, development of biosecurity plans and strategies, as well as independent advice on biosecurity investment.

There are numerous benefits for our industry to be a signatory to the EPPRD. The EPPRD will be a legally binding agreement between ATTIA, the Australian Government, all state and territory governments and national plant industry body signatories. It includes the management and funding of responses to Emergency Plant Pest (EPP) incidents such as Myrtle Rust or any other pest or disease if it were to enter Australia. The EPPRD also formalises the role of plant industries' participation in decision making as well as their contribution towards the costs related to EPP responses. These arrangements would help ATTIA act on industry's behalf at a national level.

Unfortunately, the incursion of Myrtle Rust in 2010/11 demonstrated the risks that the industry faces by not having PHA membership or an EPPR levy in place. ATTIA and the TTO industry as a whole were largely excluded from all decision making processes developed for the Myrtle Rust emergency response. Decisions were made on behalf of our industry by other signatories to the EPPRD.

In order for ATTIA to become a signatory to the EPPRD, it must have a mechanism in place to repay costs during an emergency response. For this reason, the ATTIA is proposing to establish an EPPR levy. ATTIA is not proposing to establish a PHA levy to pay annual subscription fees because the ATTIA Board has determined that this can be paid from membership fees. Membership of PHA and establishment of the EPPRD is critical for future biosecurity activities for our industry.

## What will the proposed EPPR (0.0c/kg) biosecurity levy be used for?

The **0.0c/kg EPPR** Biosecurity levy will allow the industry to raise funds in the event of an exotic pest outbreak. This is to ensure that the industry is prepared to contribute funding in the event of an incursion of an exotic plant pest, many of which occur on our doorstep in NZ and PNG as well as more exotic locations.

Unfortunately, this was not in place during the Myrtle Rust incursion; this affected industry's ability to respond to the incursion and for affected growers to potentially receive reimbursement. The amount that the levy would be raised to at the time of an incursion would be determined by industry's contribution towards eradication of the pest. The usual process is for the Australian government to contribute all of the funds and for the industry to put in place a positive EPPR levy and repay their contribution over a ten year period.

This levy is only agreeing to put in place this mechanism in the event of an incursion. The tea tree industry needs to have this in place so that the ATTIA can sign the EPPRD. This is NOT a blank cheque – as an affected industry, the tea tree industry are just one of the Members that can sign off on an agreed emergency response plan and cost-sharing model.

## Isn't it government's role to fund research and biosecurity?

Biosecurity is a shared responsibility between governments, industry, producers and the general public.

The vast majority of agricultural industries have research and biosecurity levies in place to contribute to industry-driven needs, national programs, education and training for growers, as well as to assist with on-farm biosecurity preparedness and implementation.

Industries that have these levies in place are not only able to help in the direction of their research and biosecurity capacity, but it also leverages more support from governments to contribute extra funding. For this reason industry must have the ability to raise funds to contribute to important and urgently needed research and biosecurity initiatives which will help coordinate governments' effort in surveillance for established and exotic pests.

### What other industries have these levies in place and what benefits have they provided?

Most other agricultural and horticultural industries have some or all of these levies in place. This includes the honey bee, chicken, meat, dairy, banana, grain and horticultural industries as well as smaller industries such as ginger.

### How is consultation being carried out?

Consultation with the TTO will be carried out during March to June 2016. This will include an information pack mailed out to all potential levy payers as well as an on-line survey, information in newspapers and on the ATTIA website ([http://www.teatree.org.au/compulsory\\_dpi\\_levy.php](http://www.teatree.org.au/compulsory_dpi_levy.php)). The consultation is inclusive of all producers who will be impacted by the proposed levy changes.

### Who is eligible to vote?

All current TTO producers in Australia are eligible to vote. Voting will be collated on a yes/no basis, as well as on a production volume basis.

### How can I vote and have my say?

Considering the distribution of the TTO industry, all voting will take place via postal ballot. The postal ballot period will be open from the 1<sup>st</sup> August 2016 to the 1<sup>st</sup> September 2016. This will allow time for all potential levy players and other participants to familiarise themselves with the proposal, allow for any objections to be collected, collated and analysed and so ensure that everyone makes an informed decision.

The vote will be tallied on both a yes/no basis, as well as on a production basis.

Ballot forms will be mailed out to all TTO growers registered with ATTIA and all other non-ATTIA member growers that can be identified during the consultation period. A link in the ATTIA website will also allow potential levy payers who have been missed to download and submit a ballot paper. All ballot forms must be returned to the independent ballot provider (to be advised) as they will, as required by the Levies Principles and Guidelines, be acting as the independent voting scrutineer for the TTO levy ballot.

### How do I get more information about the proposed levies?

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

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Or 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.