FUNDING OPTIONS FOR THE AUSTRALIAN OYSTER INDUSTRY

Ewan Colquhoun, Ridge Partners

Project No. 2012/757

AUSTRALIAN SEAFOOD COOPERATIVE RESEARCH CENTRE

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This project was conducted by Ewan Colquhoun of Ridge Partners, Brisbane, in collaboration with Rachel King of Oysters Australia.

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Non-Technical Summary

2012/757 Funding Options for the Australian Oyster Industry.

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PROJECT OBJECTIVES:

1. Collate existing funding mechanisms used in the edible oyster industry and relationship to any relevant legislation
2. Review and document funding mechanisms that have worked / failed and related causes, including prior consultation with oyster industry on preferred levy mechanism
3. Document external stakeholder views re arrangements and options for funding mechanisms (particular focus on NSW legislation and arrangements)
4. Draft and release a Briefing Paper to Industry identifying funding options, collection mechanisms, impacts, cost effectiveness, pro's and con's of each, etc
5. Present at state industry meetings (August in SA, August in TAS, TBA in NSW) and document responses to Briefing Paper issues
6. Document the preferred funding option in detail, related mechanisms, rates and impacts, proposed adoption pathway, implementation process and time frame
7. Conduct a meeting with industry leaders / key stakeholders to confirm the recommended funding option and implementation pathway
8. Conduct a meeting with stakeholders in NSW to discuss recommended funding options and implementation pathway relevant to NSW
9. If national consensus is reached on a funding mechanism, conduct the necessary ballot process
10. Draft and submit a final report of the project process and recommended outcomes for Oysters Australia

These objectives represent the final project objectives implemented. They incorporate minor changes formalised under Deed of Amendment on 28March 2013.

OUTCOMES ACHIEVED
The report has detailed existing funding mechanisms, related state cost impacts, and leverage options. Presentations at regional and state meetings in NSW, SA & TAS have opened the debate and highlighted Oysters Australia's need to change its communication techniques so that growers are aware of its aims and achievements.

LIST OF OUTPUTS PRODUCED
State funding mechanisms have been analysed and the design of proposed replacement model described. Legislative amendments passed in late 2013 will expand the range of services statutory FRDC can deliver to industry payers in order to lift the productivity, especially for unmatched marketing and other services. These legislative changes have arisen after this report was commissioned.

ACKNOWLEDGEMENTS
Many regional and state oyster businesses and associations have assisted OA, and SCRC undertake this project. Their ongoing support continues to help OA build the precompetitive development platform the industry requires for efficient co-investment. Staff at the SCRC, the FRDC and state agencies have assisted by providing data.

1. Introduction and Background

1.1 Need

Funding for industry development, operations, promotion and other industry services is increasingly important in every modern food production sector.

In its first national ***Strategic Plan in 2007***, Oysters Australia (called the Oyster Consortium) confirmed industry's desire to fund projects in R&D, and in promotion and marketing based on an efficient funding mechanism to be developed.

In a ***Discussion Paper in 2009*** industry considered optional Governance Models as part of its move to become Oysters Australia. This paper identified four key issues:

a. Lack of R&D Investment - the industry collects and invests a relatively small 0.22% of turnover in R&D
b. Uncertainty over R&D Spend - there is uncertainty at a number of levels about ongoing R&D funding at current levels. These concerns arise from:
    1. the effectively 'voluntary' nature of R&D collections from SA and TAS; and potential legal risk regarding the collection in NSW;
    2. uncertainty regarding the long term retention of the current FRDC for funding gearing model;
    3. uncertainty about what will happen with R&D fund matching after the scheduled windup of the Seafood CRC in 2013-14; and
    4. industry feedback suggesting state based service models are not always meeting all growers' expectations.
c. Lack of Marketing & Promotion Spend - industry relies solely on other organisations (SCRC, SEA, and private) to promote oysters to consumers. Surveys highlight industry's desire to better promote the industry and its products. But there is no mechanism to enable growers to invest jointly.
d. Lack of Funds to support a national full-time Executive Officer for OA.

Oysters Australia (OA) brings together six existing state organisations under a national Board. Its vision for the industry is based on three goals:

- Sustainably increase in edible oyster production to 20 million dozen, with a GVP (Gross Value of Production) of $120 million,
- Increase consumer satisfaction, and in so doing increase edible oyster consumption by 13%,
- Build capacity, leadership and confidence in the industry among growers, supply chain partners, government and the community.

OA's Strategy will lead industry to achieve five core objectives by June 2015:

1. Identify, commission, manage and report key RD&E projects,
2. Liaise closely with states to articulate RD&E goals, and projects,
3. Lead industry to investigate marketing/promotion priorities,
4. Work with chain partners, regulators to replace functions of existing structures and improve industry outcomes.
5. Establish and implement appropriate, transparent and efficient national governance arrangements as national industry body.

This project seeks to confirm an agreed national funding mechanism for joint R&D, marketing and promotion and administrative support for OA.

Appendix 1 presents a national Oyster Industry Profile, and existing funding arrangements.

1.2 Objectives

Ten objectives were established as this project was developed jointly with OA and SCRC input during 2012-13:

1. Collate existing funding mechanisms used in the oyster industry and relationship to any relevant legislation
2. Review and document funding mechanisms that have worked / failed and related causes, including prior consultation with oyster industry on preferred levy mechanism
3. Document external stakeholder views re arrangements and options for funding mechanisms (particular focus on NSW legislation and arrangements)
4. Draft and release a Briefing Paper to Industry identifying funding options, collection mechanisms, impacts, cost effectiveness, pro's and con's of each, etc
5. Present at state industry meetings (August in SA, August in Tasmania, TBA in NSW) and document responses to Briefing Paper issues
6. Document the preferred funding option in detail, related mechanisms, rates and impacts, proposed adoption pathway, implementation process and time frame
7. Conduct a meeting with industry leaders/key stakeholders to confirm the recommended funding option and implementation pathway
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Objectives 1-4 were fulfilled via a workplan based on desk research and advice from the Oysters Australia Board and Executive. The primary output was the Briefing Paper (see Appendix 2) released to the OA Board and Executive in October 2012 and presented at meetings in Adelaide.

Objectives 5-8 were fulfilled via a national series of regional industry seminars (NSW 3, TAS, 3, SA 3, Qld 0) open to all growers and stakeholders. These seminars were led by an independent facilitator from Ridge Partners.

Objective 9 was tested, but a strong majority of oyster license holders did not support a common national funding mechanism. Therefore the ballot process did not proceed.

Objective 10 is fulfilled by submission of this report and related advice to OA and the SCRC.

2. Methods

The methods implemented to undertake this project were as follows:

1. Review existing data related to funding mechanisms that have worked, haven't worked and the reasoning behind their success

   The project leader:

   - Documented relevant material from OA, including goals, objectives, admin budgets and RD&E investments and trends,
   - Reviewed other relevant reports[1] available from OA, SCRC, etc,
   - Documented an industry profile (production, products, distribution, demand, legislation, etc)
   - Reviewed existing funding mechanisms (e.g. voluntary/license based /ACCC/Trade Practices Act) for all states (NSW, TAS, SA, QLD[2]),
   - Compiled an oyster industry data set and trend analysis of production by license holders, species, GVP, trade, licenses, leases, spat demand, prices, etc,
   - Reviewed and analysed comparable funding mechanisms across a other national industries (horticulture, sugar, cotton, selected seafood),
   - Modelled on spreadsheet the impacts of changes in funding rates and mechanisms in all states, the impacts on OA's forecast admin. and RD&E budgets, and related investment leverage and implications,
   - Consulted the OA Executive regarding OA's preference for preliminary meetings with NSW industry. It was decided NSW meetings would be conducted as part of the national industry workshop program that combined facilitated discussions regarding levies and industry benchmarking (benchmarking was not conducted in all workshops). This approach was considered most attractive as it would maximise grower attendance and reduce workshop costs.

2. Drafting and release of a Briefing Paper regarding options, pro's and con's, etc to industry

   A Briefing Paper was compiled and released to OA and SCRC in October 2012. The Paper documented the trends and outcomes of research and initial consultation regarding the various funding mechanisms and options.

3. Documentation and advice to industry leaders and SCRC re a preferred funding collection mechanism, adoption and implementation process.

   The Project Leader met with the OA Board and Executive (Adel. 9Nov.2012) to:

   - Discuss the Briefing Paper,
   - Consider the optional national funding mechanisms for the industry and related project risks,

- Consider impacts and possible refinements flowing from related funding initiatives underway at the DOA/FRDC, and

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[1] *Industry Governance Model Discussion Paper,* CDIP, Sept 2009; and *Review of Australian breeding programs for Pacific Oysters, Sydney Rock Oysters, Barramundi and prawns*, Rye M., Akvaforsk Genetics Center A/S, Norway October 2012.
[2] Industry advice suggests that Oysters are also cultivated in WA on a small scale. This jurisdiction has not been included in this project.

- Consider and refine the proposed project pathway rollout across the various industry jurisdictions.

The meeting confirmed acceptance of the Briefing Paper, requested changes to the proposed rollout program to align with seasonal availability and ensure greater jurisdictional engagement, and confirmed (subject to appropriate changes to be managed by the Executive) the recommended project rollout pathway.

4. Presentation and workshop of Briefing Paper matters with relevant industry meetings and forums regarding the different funding mechanisms, equity, collection, etc.

   The presentation and workshopping of the Briefing Paper across industry was undertaken as part of a broader national rollout plan. This rollout was informed and guided by specific advice from OA noted in item 5 below.

5. Submission of a report on the process, recommendations, and implementation plan to industry and the Seafood CRC.

   This report provides the final summary of the project.

   Milestone reports have been progressively submitted to the SCRC.

   A substantial level of reporting of the project has been progressively achieved through emails and phone conversations with OA Board members and Executives, fishery leaders, agency staff, and stakeholders.

3. Results

a. Existing Oyster Funding Mechanisms

ABARE statistics[3] confirm that edible oysters are produced in four Australian jurisdictions, across two main commercial species. In 2012-13 the industry harvested 15,745 tonnes (4th largest commercial species) with a Gross Value of Production (GVP) of $107 million. Approximately 870 grower licenses were current in the year equal to approximately 500 active businesses.

In mid-2013 the industry operated a number of jurisdictional mechanisms to raise funds for investment in RD&E, state programs and administration. A summary of these mechanisms, collection rates, funds use, and review procedures is as follows:

Figure 1. Summary of Funding Mechanisms

State	Current Funding Arrangement at mid-2013 (figures in brackets refer to 2011-12 records)
NSW	• Mechanism – statutory compulsory state lease area levy, • Collection & Use - $38/ha/year + GST collected ($105,817) by statutory authority with license. Approximately 16% ($17,165) retained to fund state industry admin costs, and balance ($88,652) transferred to FRDC for RD&E. • Review - annually to ~0.25% of Avg GVP.
SA	Levy 1: Mechanism – statutory compulsory state area levy, • Collection & Use - $58.76/ha collected ($58,760) by PIRSA, paid to SAORC, for transfer to FRDC for RD&E, • Review – periodically to ~0.25% of Avg GVP, Levy 2: Mechanism – voluntary industry Heads-of-Agreement spat levy - ACCC compliant, • Collection & Use - $1.00/1000 spat purchased by growers and paid ($117,000) to SAORC. Approximately 30-50% ($81,260) retained to fund state industry admin costs, and balance ($35,740) transferred to FRDC for RD&E.
TAS	Levy 1: Mechanism – statutory compulsory state area levy, • Collection & Use - $67.32/ha collected ($47,124) by DPIWE and paid to TORC. Approximately 8% ($4,241) retained to fund state industry admin costs, and 40% ($26,500) transferred to FRDC for RD&E. Balance ($16,383) retained and matched by state government for coinvestment in state health programs. • Review – periodically to ~0.25% of Avg GVP, Levy 2: Mechanism – voluntary (2 Parts) Heads-of-Agreement industry spat levy – Trade Practices Act Section 90, • Part A Collection & Use - $1.00/1000 spat purchased by grower and paid ($72,400) to TORC. Funds variously allocated to state industry admin costs ($29,500), state health programs ($23,500), ASI breeding program support (nil), and transfer ($19,400) to FRDC for RD&E. • Part B Collection - $0.25/1000 spat purchased by grower and paid ($18,100) to TORC and transferred ($18,100) to FRDC for RD&E. • Review – periodic review as required by the ACT.
QLD	• Mechanism – voluntary Heads-of-Agreement - membership of QOGA, • Collection & Use – $50/year membership, collected ($5,000) by QOGA and 100% retained for state industry admin costs. No funds transferred to FRDC for RD&E in 2011-12. • Review - by agreement of QOIA.

Ad hoc industry advice regarding some edible oyster production in WA is not supported by the WA records for 2012-13. The WA State of the Fisheries Report carries no reference to production of edible oysters.

The following figure identifies the relevant legislation and agencies responsible for management of the industry.

[3] ABARES Fish Stats 2012. These statistics may not reconcile with detailed data provided by Oysters Australia (OA) elsewhere in this report. Appendix 1 presents a more complete profile of the industry based on detailed data available in 2010.

Figure 2. Summary of State Oyster Industry Funding Mechanisms and Legislation

State	Funding Source	Funding Mechanism	Linkages and Relevant Legislation	Agencies	Priority Issues Impacting Business Performance (OA advice 2012)
NSW	• Compulsory Lease Area levy • NSW Aquaculture Research Advisory Committee (ARAC) Levy Annual Research Contribution • ARAC is established under Section 157 of the Fisheries Management Act 1994.	• NSW Gov't levy of $38 /ha +GST • 2010-11 Funds - $136,000. Funds to FRDC $95,000 • Funds matched at FRDC, then to SCRC • Billing on financial year; permit holders option to pay by 30 Sept or quarterly. • Money held in the NSW Primary Industries Crown Trust Account - no interest.	• S 143 of the Fisheries Management Act 1994 • State Environmental Planning Policy 62 • Aquaculture lease security Bond introduced in 2001 - $1000 per ha or annual contribution of $40/ha • NSW Shellfish Program, administered by the NSW Food Authority, under the NSW Food Act 2003	1. Premiers - manage projects/issues of significance 2. I&I/DPI – key agency; leases, production, policy 3. Planning - integration into state land use planning 4. Natural Resources – estuary/ coastal management 5. NSW Food Authority - safe food regulator 6. Environment & Conservation - protects wildlife 7. Lands - Crown land tenure & applications for leases 8. Maritime Authority - maritime regulator 9. Marine Parks Authority – conservation/zoning 10. Local Gov't – oyster water quality and conflicts 11. Catchment Management Authorities - NRM matters	1. Local development impacts and water quality management 2. Developing new markets and customers 3. Genetics / breeding program 4. Supply chain management 5. Reducing costs of farming 6. Tenure security and capital access 7. Labour availability & training
SA	• Compulsory Lease Area Levy at State level • Voluntary (ACCC) spat levy collected by hatcheries	• PIRSA levy $58.76 /ha – $59,000 p. a. paid to SAORC • $1 per 1000 spat levy. Funds raised (2008-09) ~$120,000	• Aquaculture Act 2001 • Aquaculture Regulations 2005 – under the 2001 Act • Fisheries Management Act 2007 • Aquaculture Zones Policies - 2006 onwards • S 91C of Comm'th Trade Practices Act 1991	1. Primary Industries and Resources SA – key agency 2. SA Environmental Protection Authority – Code of Practice for Oyster Farming 2005 3. SA Food Act 2001 – administered by the state department of health	1. Developing new markets and customers 2. Genetics / breeding program 3. Labour availability & training 4. Reducing costs of farming 5. Tenure security and capital access 6. Local development impacts and water quality management
TAS	• Compulsory Lease Area Levy at State level • Voluntary (Trade Practices Act S90) Spat Levy collected by hatcheries	• Tas. Gov't levy $67.32 /ha – $47,000 p. a. paid to TORC • $1.25 /1,000 spat = $79,000 • Tas. Gov't matching contribution of ~$20,000	• Living Marine Resources Management Act 1995 • Fishing Registration Act 2001 • Marine Farming Planning Act 1995 • Fisheries (Shellfish) Rules 2007 • Marine Farming Planning Regulations 2006 • Food Act 2003	1. Primary Industries, Parks, Water and Environment - industry matters and regulation 2. Health and Human Services – manager of shellfish food quality and public health risks through the Australian Shellfish Quality Assurance Program	1. Reducing costs of farming 2. Local development impacts - water 3. Developing new markets and customers 4. Tenure security, and capital access 5. Labour availability & training 6. Production optimisation 7. Genetics / breeding program 8. Supply chain management
QLD	• Voluntary contribution of an annual membership fee of $50 determined by the Qld Oysters Growers Ass'n	• Total Funds raised per year = $5,000	• Oyster Industry Management Plan • Fisheries Act 1994 • Fisheries Regulations 2008 • Sustainable Planning Act 2009 • Food Act 2006 • Environmental Protection Act 1994 • Integrated Planning Act 1997 • Coastal Planning and Manage't Act 1995 • Marine Parks Act 2004	1. Agriculture, Fisheries & Forestry- key agency 2. Qld EPA - annual resource access approvals 3. Health –shellfish food quality and public health risks	1. Genetic supply 2. Economic survival of regional industry

b. Industry Funding Mechanisms that Work

What is Working

The following are examples (current in late 2013) of existing Australian rural industry funding mechanisms that work. Each industry is funded by various combinations of compulsory levies, voluntary contributions and government matching funds. These funding and financial leverage mechanisms are managed by dedicated industry Research and Development Corporations (RDCs).

Figure 3. Examples of Current RDC Levies that Work

Industry / Sector RDC	Structure	Who Pays	Payment Rate (FGV = farm gate value)	Collection Mechanism
Meat and Livestock Australia *- Compulsory transaction levy on cattle*	Industry owned company	Livestock owner	• cattle (grass or lot-fed): $5.00/head • bobby calves: $0.90/head	• livestock owner - 60 days in arrears
Meat and Livestock Australia *- Compulsory livestock export levy*	Industry owned company	Livestock owner	• cattle (grass or lot-fed): $5.00/head • bobby calves: $0.90/head • sheep and lamb: 2% of saleyard price	• agent/exporter - 28 days
Aust. Meat Processor Corp. - *Compulsory Livestock Slaughter Levy*	Industry owned company	Carcase owner/ abattoir	• $0.006/kg of the carcase of each head at Hot Standard Carcase Weight	• abattoir - 28 days
Cotton RDC *- Compulsory levy*	Statutory corporation	Grower	$2.25 per bale of 227kg	• grower/crop owner at harvest - monthly
Rural Industries RDC *– e.g. compulsory levies for Queen Bees*	Statutory corporation	Bee breeder	• queen bees sold @ or <$20: 0.5% of sale price • queen bees sold >$20: 10 c/bee	• breeder – quarterly return
Grains RDC *– Compulsory Levy*	Statutory corporation	Grower	• wheat/barley//oats/etc 1.02% of FGV • rye 1.005% of FGV • maize 0.72% of FGV • millet/canary seed 1.005% of FGV	• grower or chain storage or bulk handler - quarterly return
Australian Egg Corporation - *3 compulsory levies: RD&E, promotion, emergency*	Industry owned company	Egg producer	• RD&E -7.8 c/laying hen • promotion -32.5 c/laying hen • emergency – varies	• collect as 1 amount • farm or hatchery – 21 days in arrears
Forrest and Wood Products Australia *- Compulsory levy*	Industry owned company	Log producer / exporter / importer	• hard/softwood 29 c/m^3 • cypress 22 c/m^3 • ply 15 c/m^3 • woodchip 3.5c/m^3	• miller / exporter / importer – 28 days in arrears
Fisheries RDC *- Various compulsory levies and voluntary contributions*	Statutory corporation	Fisher or farmer	• farmed prawns – 3.64 c/kg • range of Industry Partnership Agreements and voluntary contributions matched for sectors	• prawn farmer – quarterly returns • collection varies by sector
Atlantic Salmon *- Voluntary contribution*		Fish farmer	• variable c/kg of feed, based on need	• fish producer
Proposed National Prawn Promotion *- Voluntary contribution*		Fisher / Farmer	• proposed marketing contribution of 0.22% of beach price (average of ~2.6 c/kg of harvest tonnes)	• flexible to suit fishery/enterprise needs

It is evident from the table that producers in many of these mature rural industries have for many years worked closely together to develop very sophisticated, focussed and equitable funding and leverage mechanism to fund their collective national investment in RD&E and industry services. These industries are exemplars of funding structures that deserve consideration by Australia’s oyster and seafood industry.

In late 2013 there were 15 RDCs (6 statutory, and 9 industry owned companies or IOCs) providing investment services to a diverse range of rural industries. RDCs provide a mechanism for industry to invest collectively in eligible research, development and extension (RD&E) and, in the case of industry-owned RDCs, other services including marketing. The Australian Government assists these industries by establishing a levy if an industry so requests, by collecting that levy (and any agreed voluntary contributions) and by returning the eligible RD&E component to the relevant RDC, and the voluntary contribution component to the RDC or an approved industry body. The costs of collection and related compliance management are deducted before any funds are returned. In addition, the government matches the RDCs eligible RD&E spending up to legislated limits (typically 0.25% of 3 year average GVP of the industry).

The Levies Revenue Service (LRS), an agency of the Commonwealth Dept of Agriculture (DoA), Canberra, is the body that manages these and many other national rural industry levies (and any related voluntary contributions) on behalf of growers/producers.

Some industries (like dairy) are relatively straightforward with initial supply chains based on a single farm gate product – milk. Others (like horticulture) comprise hundreds of commercial species and are highly complex at the farm gate, with diverse geography, both fresh and processed product, and multiple product chains (domestic, export and import). Horticulture at the farm gate is similar in complexity to the fisheries and aquaculture industry at the beach/pond. Horticulture Australia Ltd (the industry IOC) has established a framework of statutory national *ad valorem* (ie. at market value) RD&E levies which are overlaid and leveraged by related sectoral voluntary contributions where, for example, growers in the almond subsector can readily collaborate to co-invest and promote their product to targeted consumers here and overseas. This mix of statutory RD&E levies with selected voluntary contributions piggy backed onto the compulsory levy collection mechanism is very efficient (ie. low transaction costs, high compliance and minimal funds leakage) for large national industries across multiple states. The national oyster industry is an example of exactly where such a national funding mechanism would work very equitably and at a unit cost well below current state based funding arrangements.

Levy Failures and Learnings

It is very difficult to access information about rural levies that have "failed". Few levy administrators or proponents are willing to openly discuss poor performance, let alone failure. However the media cites many examples of industries vigorously reviewing, debating and changing their existing levies, and/or the related mechanism and settings.

<u>On the positive side</u> the Australian Macadamia Society states[4] that "their ….research, marketing and industry development levy…. has arguably been the single most important driver of the growth of the Australian macadamia industry. The industry is now worth around $150 million and is Australia's third largest horticultural export. There would not be a grower or other participant in the Australian industry who has not benefited - and continues to benefit - from research, marketing and industry development made possible by the levy."

<u>On the negative side</u> in late 2013 there was quite a lot of heat being generated by some beef and dairy producers regarding the efficiency of and need for national levies in those sectors (via the respective IOCs - Meat & Livestock Australia, and Dairy Australia).

[4] http://www.australian-macadamias.org/for-growers/industry-levy homepage 5 February 2014

Have these levies failed? In November 2013 Minister Joyce requested the Senate Rural and Regional Affairs Legislation Committee consider conducting an inquiry into the collection and disbursement of levies in the beef cattle industry. The Minister said "it was difficult to establish a system that satisfied every producer and acknowledged some producers would always want more control over the statutory levies." The government is a major player in rural levies as it matches producer funds for eligible RD&E on a dollar-for-dollar basis.

Another important, often forgotten aspect is that the industry bodies can not "set and forget" their compulsory levies. As per Item 11 in the adjacent *Levy Principles & Guidelines*, they must receive a review of the effectiveness of levy expenditure, prior to a mandatory periodic industry membership vote on whether to continue or modify the levy. So levy payers are not locked in forever, and there is a formal, legislated review process.

The relevant issue is whether a levy has failed, or is simply continuing on its way to improvement. Levies are financial tools designed to operate in complex and dynamic social, technical and market environments. In a globally open and democratic economy like Australia, levies must constantly be reviewed and refocussed to meet the changing needs of their industry sponsors, investors, consumers and regulators. For example a national poll of sugar growers in 2013 confirmed the SRDC's transition from a statutory corporation to an IOC model, and the Grains RDC is currently undertaking a review of its national governance framework as a basis for potential strategic changes, including realignment of levies. The bottom line is levies have failed if and when they no longer efficiently advance and leverage the development opportunities and returns to industry members and tax payer investors.

In 2011 the Productivity Commission[5] reported to government on levy arrangements for RDCs. This 300 page report highlighted seven key points to improve the performance of rural industry levies (either compulsory levies or voluntary contributions):

- Statutory maximum levy rates serve little purpose, and removing many of

[5] Rural Research and Development Corporations – PC Inquiry Report, No.52 10 February 2011, Chapter 10

them would make it easier for industries to increase their investment in R&D.

- In industries where an RDC is responsible for undertaking both research and marketing functions, it should be up to the levy payers concerned to decide on whether there should be separate levies or a combined levy, and on how much scope there should be for the RDC Board to reallocate funding between research and marketing without seeking formal approval from levy payers.
- Preparing proposals for new levies or changed levy rates is unnecessarily time consuming and costly for industries. The DoA/DAFF current review of the Levy Principles and Guidelines document should look at all avenues that could help to ensure that the burden of complying with the Levy Principles is commensurate with the nature of the proposed levy changes.
- DoA/DAFF should, in future, seek to implement new or changed levies within six months of receipt of a properly prepared and documented proposal.
- The LRS should continue to monitor its performance and the costs of collecting levies, and communicate to stakeholders the results of that monitoring.
- Although some processors pay statutory R&D levies, there is no strong basis for extending such processor levies to other industries.
- New restrictions should be placed on the eligibility of voluntary contributions for the matching government contribution, to prevent subsidisation of research designed specifically or primarily to benefit an individual entity.
- While it would be counterproductive for RDCs to try to precisely calibrate their research portfolios with the regional distribution of levy payments, if those research portfolios do not deliver benefits for all levy payers over time, ongoing support for the levy system and the RDC model could be put at risk.

There is limited evidence of levy/voluntary contribution failure in the seafood industry largely because seafood is the last large national industry yet to use the available levy framework to capture and leverage precompetitive investment in its future. A number of leading seafood sectors (e.g. farmed prawns, farmed tuna, farmed salmon, SA/TAS oyster growers) continue to support and refine their respective levy or voluntary contribution funding mechanisms, some using legislation beyond primary industries.

The growth of aquaculture is a major driver for levy uptake. Compared to wild catch operators, aquaculture farmers are able to exert far more control over productivity, harvest seasonality, supply chain metrics, and market outcomes, and are therefore far better positioned to capture the full benefits of collaborative joint investment in innovation, productivity and markets, via a levy/voluntary contribution. This is a key reason why aquaculture will continue to slowly displace wild catch products in most consumer markets, by offering better products at cheaper prices every day of the year.

c. Adopt a National Funding Framework

This study finds and recommends that the oyster industry move to a national funding framework as soon as possible, as the most efficient and equitable funding mechanism.

A national funding framework will be the most cost effective approach for OA and the existing state industry bodies to invest in industry's stated national industry goals for the benefit of all growers and hatcheries.

Within this national framework approach, two collection mechanism options exist:

1. Existing state arrangements with formal back-to-back investment agreements with levy collectors and the national FRDC. States would manage compliance and charge a fee.
2. A single collection and compliance service (ie. LRS) managed nationally for a fee (typically ~8% of collected funds). This is the funding model used in all large national rural industries.

A key element here is the method and point of collection, and how and over what time frame any change is introduced. In the short term it will be cheaper and more effective for state agencies to continue to collect agreed industry levies/voluntary contributions.

Both options have merit, and a transition from Option 1 to Option 2 must be over an appropriate timeframe agreed by all stakeholders. The oyster industry could start with Option 1 housed in a simple national Industry Partnership Agreement (IPA) between all state industries and the FRDC (with its new legislative powers). Over 2-3 years and within the IPA, the industry could progress to a national compulsory RD&E levy with additional voluntary contributions as agreed by stakeholders. The transition would therefore flexibly evolve and deliver a funding mechanism endorsed by stakeholders with maximum precompetitive investment efficiency.

Decisions regarding options and possible transition must be endorsed by a strong majority of national grower license holders (>80%), a strong majority (>80%) of harvested oyster tonnage, and all the state bodies jointly with the national body Oysters Australia. While these percentages vary from industry to industry (depending of percentage of license holders active, maturity and diversity of levy structures, and the Minister in office at the time, etc), it is important that new levy structures attract strong majority support to ensure their efficiency and compliance, and to underpin the related coinvestment goals.

A joint unanimous decision will deliver significant communications, financial and governance advantages to all growers. Any change to the funding framework that does not involve all oyster growing states will weaken and fragment the industry's strategic investment agenda[6] and create substantial longterm complications for all parties in driving RD&E and industry development projects. A transition from current state arrangements to a national mechanism over an agreed timeframe (say 2-3 years) will enable growers to adjust, and agencies to prepare.

Oysters Australia cannot currently determine the future funds that may flow to it from state industries – it depends on local issues and legislation. It is therefore risky for OA to implement future national projects that rely on national funding from growers. A compulsory national statutory mechanism is the only pathway that will ensure OA receives the secure ongoing funding streams it requires to deliver national projects for industry benefit.

A National Industry Funding Framework offers the following key advantages that are currently not evident in or available to the oyster industry:

1. Better, active and appropriately funded communications between growers and state and national industry bodies,
2. Viable national and state industry bodies,
3. Predictable and adequate stream of funds to invest in key long-term strategic RD&E that increase growers' sustainability, productivity and viability,

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1. [6] Oysters Australia has identified three key areas where it intends to enhance industry performance: 1. Increase annual production to 20 million dozen with a GVP of $120 mill., 2. Increase consumer satisfaction and oyster consumption by 13%, and 3. Build capacity, leadership and confidence in industry among growers, supply chain partners, government and community.

4. Equity across all Australia growers,
5. Industry direct control of collection rate, collection mechanism and funds pool,
6. Flexibility in management of funds invested,
7. Low set-up and running costs[7] per unit,
8. Low funds leakage and project risks.

d. Industry Engaged on Broad Issues

Nearly 100 growers/stakeholders attended the regional engagement workshops, listed below. The workshops were independently facilitated by the Project Leader following preliminary engagement and flyers released by OA (see Appendix 3).

Figure 4. Stakeholder Engagement Workshops

Location	Date	Venue	Attendance	Meeting Scope
NSW				
Port Macquarie	16 April, 12.30 – 2pm	Shed 7, Sandfly Alley	16	RD&E levy only
Port Stephens	17 April, 12:30 – 4.30 pm	Lemon Tree Passage Club	5	RD&E levy + benchmarking
Batemans Bay	18 April, 12:30 – 2pm	Sid Paschilidis' shed	15	RD&E levy only
Pambula	19 April, 12:30 - 4:30pm	Idlewilde MotorInn	18	RD&E levy + benchmarking
SA				
Smoky Bay	22 April, 12:30 – 4:30pm	Smoky Bay Community Club	6	RD&E levy + benchmarking
Coffin Bay	23 April, 3 - 7pm	Yacht Club	6	RD&E levy + benchmarking
Cowell	24 April, 3 – 4:30pm	BST Oyster Supplies	8	RD&E levy only
TAS				
Smithton	30 April, 12:30 – 4:30pm	Tall Timbers Resort	5	RD&E levy + benchmarking
East Coast	30 April, 8.30- 10pm	Swansea Bark Mill	5	RD&E levy only
Hobart	1 May, 12:30 – 4:30pm	The Old Woolstore Hotel	13	RD&E levy + benchmarking
Total			97	

Following these meetings additional state meetings and follow up regional meetings were also attended by Rachel King representing OA. In NSW these were follow-up meetings were with growers (Hastings and Merimbula) who had a negative response or had questions. Clyde River (Batemans Bay) attendees refused to discuss the matter further. Meetings in Wallis Lake, Manning and Camden were held to table to the national concept with those who hadn't been to the independently facilitated meeting.

A presentation at each state conference provided a recap for those who had attended a regional meeting, or were hearing the concept for the first time (ie. the majority):

Location	Date	Venue	Attendance	Meeting Scope
NSW				
Merimbula (by phone meeting)	end May	by phone	6	RD&E levy
Wallis Lake	13 June	Boat shed	6	RD&E levy
Manning River	13 June	Shed	1	RD&E levy
Camden Haven	14 June	Shed	5	RD&E levy
Hastings River	14 June	Shed	15	RD&E levy
Port Stephens	31July-1August	NSW conference	*150* growers	RD&E levy in broader OA summary
SA				
Smoky Bay	8-9August	Smoky Bay Community Club	40 growers	RD&E levy in broader OA summary
TAS				
Bruny Island	11-12 October	Bruny Island	80 growers	RD&E levy in broader OA summary

[7] The Productivity Commission Report (No 52), 2011 found that LRS levy costs are generally higher for small industries, ranging from 0.1 per cent of levy revenue (wheat and cattle transaction levies) to an outlier of 38 per cent of levy revenue (queen bees) in 2008-09.

The first-round workshop program included two separate projects – this RD&E Funding Mechanism Project, and a separate Industry Benchmarking Project. Each project was facilitated independently by the respective Project Leaders on the same day at many of the common venues. This joint approach enabled better use of stakeholders' time and more cost effective engagement across all regions.

The first result evident from these workshops is that they were poorly attended. While many growers hold multiple licences, for an industry with ~870 licences an attendance of less than 100 stakeholders is quite a low attendance. Industry responses from these workshops is summarise as follows with additional detail in Appendix 4.:

Figure 5. Summary of Stakeholder Responses from Regional Workshops (April – May)

State	Summary of Key Workshop Issues Raised and Industry Responses
NSW	• In northern NSW many growers are very fearful of Pacific Oysters being introduced. But many growers particularly in the south of NSW "are going broke with Sydney Rocks" and voiced support for introduction of Sydney Rocks in existing SRO estuaries (e.g. Clyde Estuary at Batemans Bay) • Water quality is main issue in North – it is "not being addressed at all by OA"! • POMS is not considered to be an issue for many who grow SRO. New unknown diseases appear to be a real problem. License holders are poorly informed about (and many try to ignore) the overall biosecurity risk (QX etc and POMS in Pacific Oysters) to the national industry. The odd positive individual commented re a national spat levy at ASI to fund POMS, and the joint benefits of a national generic market approach from informed individuals. • Many do not want levy changes or to join SA & TAS growers in levy investments – "they will try to put us out of business". These growers' fear a). loss of control at state & OA Board, b). push for national marketing levy, and c). Pacific Oyster incursion in their region. Opinions were quite polarised – a few loud voices against any levy realignment/increase/marketing/national approach, and a few in support of these. Many were in a silent majority. • Views about OA are quite polarised – many were very negative and want OA to fail. But a silent majority (larger in southern NSW) broadly supports OA, want the changes it proposes, and communication it offers. Many knew little about OA - it is "run by the other states (TAS & SA) for their private advantage", and OA is "a tool of the CRC which is SA based". Some wanted OA/SCRC to get out of their business and "let us manage our own NSW associations and levies". Few attendees were aware of the industry risks (viability, biosecurity, market margin) and opportunities. • Many attendees barely tolerate their state regulator and are overly focussed on compliance matters – most have limited perspective on the opportunities for regional and national industry development, joint investment or growth. • In the south, the Pambula regional association appears to be very well organised - meeting was well attended. Many attendees had relatively good awareness of and engagement with issues and the presentation brought out a lot of comment – positive and negative. There was very minimal anger/unhappiness with OA, with recognition that it is a new body with a short track record to date. Most attendees thought more communication from OA was desirable and beneficial. Broadly the meeting was supportive of OA, of its proposed initiatives, and national levy realignment. • NOTE that NSW has a high proportion of disengaged growers relative to other states ~30% of growers are not members. NSW has no association or Exec. Officer – communication with growers is very difficult, and inefficient.
SA	• Great majority of growers were well informed re strategic risks and choices. • Strong support received for OA proposed direction and levy proposal. But OA role and direction is not well understood by all – there is clearly a communication problem. Meeting attendees were well engaged in the presentation and levy/investment options material - a good level of informed questions and strategic discussion. • The workshops had a strong flavour of industry requiring commercial outcomes re the effectiveness of national levy mechanisms and investments. Any realignment needs to be sensitive to existing industry and PIRSA arrangements
TAS	• Meeting attendees were well engaged in the presentation and levy/investment options material - a good level of informed questions and strategic level discussion. • Attendees were all broadly in support of the national OA approach, but want to see more detail in coming weeks. • Biosecurity risk is large and growing – now key priority is POMS. ASI may have a possible role but this is evolving in separate discussions between hatcheries and industry. • Existing state based funding arrangements are inadequate to meet national risks. National levy has been a problem for too long – need to resolve now. Emphasis on equitable (GVP/ beach price seems best) • Marketing initiatives have failed todate – any new OA approach needs to be carefully planned before it is launched • Governance arrangement between OA and the state associations need to very well defined in a national agreement and governance framework. The states should not have the power to get in the way of an effective national investment/levy mechanism that a strong majority of the national industry wants. States (via state associations) should be close partners with OA but not have a veto to limit national management of risks. MAJORITY • States and OA should maximise all financial leverage opportunities. Equity arrangements between growers/between states should be clear and states should get funds back from OA to make additional unmatched contributions (eg to run their local association) on a case by case basis. • OA should be given the right by the national industry to propose /implement non RDE investments/levies and to make the business case to all license holders accordingly.

In summary it is clear that there were five broader industry issues emerging from the first round of meeting in April-May:

1. Re OA's Role: Many growers (especially in NSW) are poorly informed and negative about OA. TAS and SA are far more positive about OA, and have moved on to consider how best to make OA's governance clear and funding strong. Growers in all states need better/more effective communications to build their understanding and trust in the new organisation.

   During presentations at each regional workshop, the facilitator noted that: on 9th November 2012, the Board of OA resolved to pursue a compulsory levy where:

   • OA sets the value to be billed to each state, in consultation with states,

   • each state bills growers with whatever mechanism it agrees,

   • amounts are payable back to the states (eg where state leverage is required).

2. Re National Levy: Northern NSW growers are very negative and fearful of loss of control of OA and being put out of business by more efficient growers in TAS, SA and southern NSW. Southern NSW is split ~50/50 regarding status quo or new national funding options. Growers in SA and TAS are quite positive about a national levy and what it can achieve with targeted investment and financial RD&E leverage. SA and TAS are in a position to support a move to a Heads of Agreement for a national OA levy, but this will be difficult without stronger engagement from the NSW industry.

3. Re Collective Marketing: Marketing is not strongly supported in any region – some in NSW (re SRO) are positive but generally little is known about the options or benefits. Tasmanian growers cite failed collaborative marketing initiatives in the past and need to be convinced of the benefits from collective marketing.

4. Re Biosecurity: SA and TAS (Pacific Oysters) are very focussed on biosecurity risk management and targeted RD&E to address emerging issues. Many NSW SRO growers want to believe that ongoing exclusion of Pacific Oysters will effectively resolve their biosecurity risks, but they also recognise that SRO is not viable. However, larger central NSW growers recognise that SRO will face new biosecurity issues and a national strategy to manage this risk is urgently required.

5. Re the need to take action Now: The timing of this project has been prompted by the OA Board's recognition (via strategic planning) that the industry faces a number of seemingly intractable issues (biosecurity, breeding, market growth) with limited resources. Recent international and Australian evidence clearly indicates that a poor industry response to these issues, individually or collectively, could seriously impact the viability of many growers.

   Two things have happened, independently and recently:

   - Industry has established OA (in 2011) as a national Industry body to address national risks and opportunities – OA is now prosecuting its charter and pursuing these issues on behalf of all oyster growers.
   - DoA has confirmed to FRDC that the PIERD Act will be changed to enable Seafood to do what all other large food industries have been doing for some years – industry services, image, training, biosecurity, capacity.

   The coincidental timing of the PIERD Act changes offers the oyster Industry a far more efficient way to respond to and invest in solutions regarding its POMS problems that have arisen in the last 2 years.

   Based on these two items industry is now faced with the opportunity to consider larger changes that will potentially deliver strategic benefits across all growers. A key issue is the opportunity to fund OA equitably - it is currently funded largely by voluntary investments from growers in SA and TAS. OA will surely fail in the near future without sustained funding and endorsement from all growers.

The issues arising from small meetings in May-June and large state meetings in August-October were similar to above:

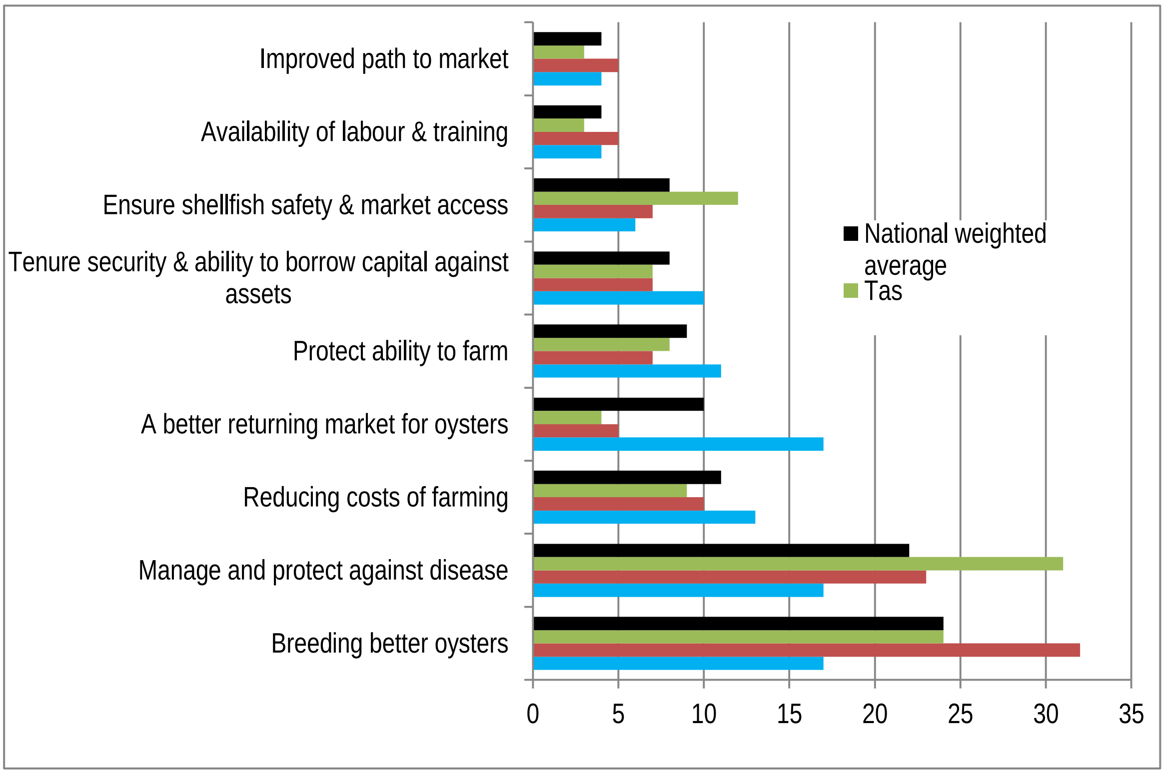
1. A small informed minority were supportive of the national levy concept with NSW more in favour of marketing as a non R&D spend and TAS/SA in favour of biosecurity as a non R&D spend.
2. The vast majority;
    a. had issues with the who, what and why of Oysters Australia and allocation of R&D funds by species and state,
    b. felt the concept contained too big an aim while missing details, and
    c. declined to actively make their preferences known on levy mechanics.

e. Strategic RD&E Investments Prioritised

The regional workshops also documented growers' strategic (next 5 years) RD&E priorities. Eighty growers (83% of attendees) completed and returned a proforma sheet (prepared and distributed by OA) recording how they would individually spend an "imaginary $100" of RD&E funds investing in areas to improve the oyster industry's profitability.

The following figure summarises the quantitative responses as at 25th June 2013.

Figure 6. Stakeholder Response re $100 RD&E Spend



The figure confirms common ground across states, species and growers but some differences are also evident.

- The bulk of growers nationally, and in each state, want two high priority investment outcomes: breeding of better oysters, and management and protection against diseases. In NSW the immediate disease risk is QX and in SA and TAS it is POMS, but all diseases are of concern.
- NSW growers (in particular) want to improve farm viability and believe a larger investment in marketing is a means to achieve this. Viability is a difficult issue in NSW because there are very low barriers to grower entry and therefore low sales margins with the "natural settlement" SRO fishery.
- All growers want to reduce the cost of farming with main focus on operating costs (handling, labour, etc)
- All growers, especially in NSW, want to protect the ability to farm (ie water quality, urban impacts, etc). And closely associated with this is the priority to ensure shellfish safety & market access, especially in Tasmania.

Oysters Australia has used these responses to draft a new Strategic Plan to guide future R&D investment and policy focus.

f. Lack of Support for National OA Funding Initiatives

Among the relatively positive results discussed above, the key output from this project is a negative result.

The following is the major conclusion from this report.

The project has confirmed that industry is not yet collectively willing to establish a single national industry funding framework managed by OA. While it appears from independent review that there is a growing number of growers and a majority of state bodies (SA, TAS and also QLD) ready for more information on the mechanics of a national funding framework, there is a significant number of growers (especially in NSW) who need much more information provided over a period of time, on the benefits and the mechanisms of a national funding initiative as currently proposed, before they will be supportive.

The problem is not the growers who do not support the national approach – the problem is that the national body (OA) and the national funding value proposition have not yet been sufficiently developed, presented and explained on trusted and compelling terms.

In response to this impasse, the report has developed the logic, elements and likely metrics for the recommended national funding framework. The approach to the design of this framework is intentionally flexible and transitional, to ensure OA refines and takes the process forward to achieve maximum traction and support from "believers" and "doubters" as it progresses its funding model.

4. Discussion

a. Funding Options

Understanding of the regional and historical context is very important to developing and interpreting viable funding options for the future national oyster industry.

It is very important that a chosen funding option is equitable for all growers and achieves an appropriate financial return to industry investors.

The industry has evolved to date under state based legislations. Localised funding and investment leverage mechanism have developed to meet state needs. These are quite efficient and effective at the state level, but very inefficient in responding to national risks.

Over time, state mechanisms have been fostered by genetic predispositions and dominant market influences. On one hand there is the prolific natural “low cost” settlement of the Sydney Rock Oyster as the basis for much of the NSW and Qld industry and on the other hand there is a national seafood consumer urging a growers’ preference for culturing Pacific Oysters in Tasmania and SA especially.

The following figure is based on 2012 data compiled by the Project Leader from state and OA sources. This table and data presented in Appendix 1, clearly demonstrates the more intensive (GVP/ha) and larger scale of oyster enterprises operated by Pacific Oyster growers.

Figure 7. Range of State Industries and Enterprises 2012

State 2012 Data	Dominant Species	Lease area ha	Harvest Tonnes 3Yr Avg.	GVP $million	$GVP per ha	Est. Beach Price $/kg
NSW	SRO (91% of tonnes)	2,897	4,511 (4.56 m. doz.)	$41	$14,152	$9.02
QLD	SRO	60	60	$0.5	$14,735	$8.33
SA	Pacific Oyster	1,000	6,042	$35	$35,000	$5.74
TAS	Pacific Oyster	1,529	3,820	$22	$14,388	$5.73
Total		5,486	14,433	$98.5	$17,955	$6.83

The comparable 3 year average oyster trade figures for 2012 are:

- Exports – 351 tonnes valued at $3.4million, 76% coming from SA,
- Imports – 737 tonnes valued at $8 million, 95% coming from New Zealand.

Australian domestic consumption of oysters has not kept pace with rising seafood consumption. According to ABARES data, in 2001 oyster consumption was 0.67 kg/head, almost the same figure it was at in 2009. However over that 8 year period domestic seafood consumption increased from 21 kg/head to 25 kg/head. So oysters’ share of seafood consumption volume has fallen from 3.2% to 2.7%. Reversing this declining trend is one of the three strategic challenges OA has identified in its current Strategic Plan.

Each state industry has progressively refined its respective legislation and source/use of industry funds[8] in response to local risk and opportunity, to suit it local needs. The fact is that these variations in risk and funding mechanism have resulted in a wide range of enterprise returns, divergent investment capacities and fragmented grower motivations from state to state.

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[8] One state uses spat sales data from hatcheries as its proxy base for grower levy payments, others use area of lease water. This is compounded by the fact that differing species of oyster deliver differing production gross margins. As these proxy bases are often decoupled from and wildly variable across growers in the same region and from season to season, it is very difficult to align them to arrive at a single equitable investment mechanism that is fair across all growers who may face a common national problem, such as a biosecurity risk.

The investment base selected must closely reflect the actual financial return from the use of the RD&E funds invested. It must reflect output returns, not input costs. This is complex as there are differing species, with differing yields per ha of water, at differing beach prices, and a wide productivity range across grower enterprises.

So which collection basis (ie. proxy unit of investment) is the most equitable and financially efficient for a national funding program – lease area, harvest weight, or harvest value? Is spat sales a potential equitable and efficient funding base?

The following data confirms that growers contributed a total of $484,195, of which $247,152 was leveraged by the FRDC/SCRC based on 2011-12 data[9]. The table compares the 3 options for harmonised national contribution in RD&E.

Figure 8. Comparison of Proxy Funding Base Options

	2012 Funds paid by growers	Option 1. By Lease Area				Option 2. By ~$0.017/kg Harvested			Option 3. By ~$0.0024/$GVP dollar		
		Lease Area ha	Levy Rate $/ha	Grower RD&E Funds Pool	% of Total Pool	Harvest kg	Grower RD&E Funds Pool	% of Total Pool	Harvest GVP $mil.	Grower RD&E Funds Pool	% of Total Pool
NSW	$110,002	2,900	$37.00	$88,652	36%	4,960	$82,462	33%	$44	$107,000	43%
SA	$175,760	1,000	$58.76	$94,500	38%	6,123	$101,797	41%	$39	$94,260	38%
TAS	$193,432	700	$67.32	$64,000	26%	3,724	$61,913	25%	$18	$44,649	18%
QLD	$5,000	34	$37.00	$0	0%	59	$981	0.4%	$0.5	$1,240	0.5%
Total	$484,195	4,634		$247,152	100	14,866	$247,152	100	$102	$247,152	100

Note that this table does not detail the state cost/co-funding/leverage arrangements that are currently in place. Compulsory levies (net of state collection costs, together with state matching in Tasmania's case), are largely used by each jurisdiction as matchable contributions to FRDC/SCRC. Net matched funds from FRDC are then passed to the CRC's investment pool for use in RD&E projects. These state arrangements can and should continue locally, but they must not preclude or distort the equity and efficiency of the national oyster levy/voluntary contribution mechanism.

Looking at the table above, assuming each funding option is designed to collect the same annual total funding pool from growers (ie $247,152 p.a.), the table demonstrates that:

- The choice of levy base has a significant impact on the percentage share of funds contributed by each state and therefore investment equity between growers,
- The current NSW industry will favour an input based lease area basis as this will save ~$20,000 per year compared to an output based GVP basis,
- The SA industry will not want to use a kilogram harvested basis, as this will increase its contribution by around $7000 per year above alternative options,
- The TAS industry will favour a value of GVP as the basis for any contribution, as this will save ~$20,000 per year compared to the lease area or harvest volume bases.

The hectare option is currently adopted in all states for all or part of the respective levies and voluntary contributions. It has the benefit of using a proxy funding base (ie. lease

[9] Note that rounding of key figures estimated for tonnage, GVP and rates have resulted in minor impacts. For example the optimum *ad valorem* RD&E rate is 0.25% which equates to $0.0025 / per kilo. The table uses an estimate of $0.0024 / kilo as an approximation.

area hectares) that is defined and available in a state statutory license. The major limitations of lease area as the funding base are that it:

- unfairly penalises grower enterprises that are not currently using their whole lease area, due to temporary disease constraints, lease development, shortage of capital, or other management issues,
- unfairly favours growers who have species or production systems that are intensively managed to yield a higher GVP per ha,
- is an input based approach that does not appropriately transmit economic signals regarding beach prices back up the chain into grower investment decisions.

The fairest, most equitable approach to national precompetitive RD&E investment across all oyster growers is to use the investment basis that most accurately relates to the direct return on investment (an output) received by each investing oyster enterprise. This ensures that both the investment signals to each grower and the resulting sales returns, are direct and accurate. Growers will therefore be able to allocate their private capital more efficiently to best advantage for their businesses. The major limitation with this approach is the lack of data integrity - each state collects productivity information from growers but there is no audit on actual volumes and prices.

A change in oyster beach price is the best indicator of the long term return from an RD&E investment. Therefore the most equitable and financially effective (ie. sends the correct signals to growers) investment basis is the GVP proxy. GVP (harvest kilograms x beach price) most closely aligns to beach price received by the grower, regardless of species, yield, or enterprise productivity issues.

The long term effectiveness of funding sources in any industry must be assessed against current and future strategic risks and investment opportunities. As OA's latest Strategic Plan confirms, the dominant future risks and development opportunities for the industry are national in scope and scale (biosecurity, genetic enhancement, import competition, domestic marketing). Impacts will often be localised and regional in scale (e.g. QX or POMS disease outbreak), but the management of risk mitigation and related solutions will be most cost effective if managed and coordinated nationally and delivered locally, by a national industry organisation working with state bodies.

There is a real risk that OA will not continue to secure adequate funds to remain viable as a modest national industry body leading growers on the big issues. It could fail as a national organisation and disappear with significant adverse implications (both immediate and long term) for growers in all states.

b. Using Funds to Flexibly Target Risks

It is a fact that oyster growers must manage their enterprise risks in a dynamic environment. Over time, the best management of risk will reduce industry and enterprise costs and improve returns on invested financial and human capital.

But the split of risk priorities across the four issues (identified in the industry workshops) creates a real barrier to the collection of a national funds, under OA's hand or elsewhere.

This multiple risk conundrum is the perfect justification as to why the national oyster industry needs a national strategic leader. Every other rural and seafood industry faces multiple risks (national and regional) that are most effectively resolved by a suite of targeted investment mechanisms that address and fix most problems, and are equitable and attractive for all stakeholders. While there are some historic/legacy legislative and species based issues in the oyster industry, these are certainly not unique and in no way justifies retention of the inadequate and poorly financed risk management program currently operated by the oyster industry. Lack of action to address risks is not an option - it hurts every stakeholder including seafood consumers.

A well supported OA can drive strategy to resolve national industry risks, as well as to establish a very effective levy platform at a national level to support state industry needs. The recommended approach is for a share of funds collected nationally to be directed (under a formal agreement) back to each state body. The most efficient and cost effective solution is for all states to support OA to collect a national levy that has two parts:

1. ***A compulsory National RD&E Levy* which is the current arrangement in each state with a few simple modifications - this will be up to the optimum rate of 0.25% of the GVP of ~$100million = $250,000, which is then *matched* by FRDC/SCRC. This charge is currently effectively paid by all registered growers equally based on 0.25% of beach/farm gate price. It will average ~1.7cents/kg of sales.**
2. ***A voluntary National Industry Services contribution* which will comprise *unmatched* funds that OA and all states (by formal Heads of Agreement) want to invest in other annual services and projects that are not within the DoA's definition of "eligible RD&E". These services may include, for example Pacific Oyster Breeding, Biosecurity for POMS, NSW SRO Marketing, and OA Governance and Admin. Figure 8 illustrates an example as to how these funding streams can coexist in an equitable national funding framework.**

   Each of these charges is contributed according to the needs of growers in each state industry. The agreement around who pays what and how funds are subsequently allocated and returned to states would be contained in an IPA between OA, FRDC and State bodies.

   Importantly these "service" funds could be collected at the same time on the back of the compulsory National RD&E Levy so there is no additional charge from DoA for collection (DoA charges are based on compliance work required, not amount collected). This is how the horticulture and other industries' voluntary contributions are arranged and cost effectively collected.

   OA will also need to keep a fee to cover its costs of fund management.

The following figure illustrates the potential sources and uses of funds of the proposed national RD&E Funding framework, based on 2012 data.

Figure 9. Illustrative Flexible National Oyster Funding Streams

State 2012 Data	ILLUSTRATIVE Grower Funding Streams collected via National Funding Mechanism					Total Funds invested
	1. Statutory RD&E Levy @ 0.25% (equivalent to ~1.7c/kg landed)	2. Voluntary Pacific Oyster Breeding Contribution @ 0.25% (equivalent to ~1.7c/kg)	3. Voluntary Biosecurity Contribution @ 0.10% (equivalent to ~0.4c/kg)	4. Voluntary Sydney Rock Oyster Marketing Contribution @ 0.10% (equivalent to ~0.4c/kg)	5. Voluntary Oysters Australia Admin Contribution @ 0.10% (equivalent to ~0.4c/kg)	
NSW						
4,511 tonnes; GVP $41m	$102,500	0	$41,000	$41,000	$41,000	$225,500
Rate: $0.225/41 = 0.55%						
SA						
6,042 tonnes; GVP $35m	$87,500	$87,500	$35,000	0	$35,000	$245,000
Rate: $0.245/35 = 0.70%						
TAS						
3,820 tonnes; GVP $22m	$55,000	$55,000	$22,000	0	$22,000	$154,000
Rate: $0.154/22 = 0.70%						
QLD						
60 tonnes; GVP $0.5m	$1,250	0	$1,250	$1,250	$500	$4,250
Rate: $0.00425/0.5 = 8.5%						
1. Total Growers Funds Rate: $0.63/$99=0.64%	$246,250	$142,500	$99,250	$42,250	$98,500	$628,750
2. Net matching funds	$227,000	0	0	0	0	$227,000
3. Total Funds Pool	$473,250	$142,500	$99,250	$42,250	$98,500	$855,750
4a.Impact on Large Grower $400,000 turnover	$1,000/yr	$1,000/yr	$200/yr	$200/yr	$200/yr	$2,600/yr
4b.Impact on Small Grower $30,000 turnover	$75/yr	$75/yr	$30/yr	$30/yr	$30/yr	$240/yr
5. Funds collection mechanism	National levy collected by LRS	LRS, at same time as the RD&E levy	LRS, at same time as the RD&E levy	LRS, at same time as the RD&E levy	LRS, at same time as the RD&E levy	
6. Funds held by	FRDC	OA and State bodies	OA and State bodies	OA and State bodies	OA and State bodies	
7. FUNDS to be invested in:	RD&E Projects per Industry / FRDC RD&E Plan	PO Breeding Program – possibly via an ASI spat levy	National Oyster Biosecurity Program	NSW and Qld SRO Market Development Program	National Governance, Leadership & Admin Services	

The approach is flexible as it recognises that individual states have expressed individual needs (e.g. SRO states want marketing). The figures in the table assume that:

1. OA works with FRDC and respective states to manage and leverage the funds contributed and matched for RD&E purposes ($473,250 per year),
2. OA receives all other funds collected from DoA (LRS) and remits them (less a admin fee) to respective states where they are leveraged further as required,
3. All growers pay a national oyster RD&E and levy, that is managed jointly by OA and FRDC. All existing state levies for RD&E purposes are terminated.
4. SA, TAS, NSW and QLD Pacific Oyster growers implement a breeding program. SRO growers (NSW & QLD) invest in an SRO breeding program.
5. All growers and states contribute to a national biosecurity fund,

6. NSW and QLD SRO growers contribute to a marketing and promotion program for their products. Funds are invested according to their priorities. These funds are NOT matched by FRDC/Commonwealth.
7. All growers and states contribute to a national industry communication and leadership program run by OA jointly with the existing state based industry bodies. Admin funds are provided to support the OA board and executive.

Based on the relative GVPs and streams of funds contributed by each state the effective contribution rate for growers in each state are – NSW at 0.55% of GVP, SA and TAS each at 0.70% of GVP, and QLD at 0.85%. They vary because states choose to have varying needs. But all growers will be better off that they are currently, because they will share the cost efficiencies derived from a single national funding framework. The real benefit of this approach is that each state industry and OA is guaranteed an equitable annual income stream, with minimal losses or collection costs.

Comments in the table also demonstrate the likely annual financial impact on large and small growers, and the way funding streams could be held, managed and invested.

Under a proposed national IPA and funding mechanism the growers are in charge – a majority of states and growers can change the key elements of the funding mechanism at any time.

c. Transition to the National Funding Framework

This study recommends the national oyster industry transition to a national RD&E funding and investment framework over the next 2-3 years (or earlier if industry requires).

This transition must be flexible (in both content and timing) to ensure all stakeholders go forward together, and that both 1st order efficiency dividends and 2nd order spin-off benefits are captured from the transition.

This transitional time frame is sensitive to:

- the urgent need for industry RD&E investment in POMS, breeding, etc,
- the need to manage RD&E investment up to and after the current SCRC term,
- the immediate risk of OA failure, due to a lack of broader industry funding.

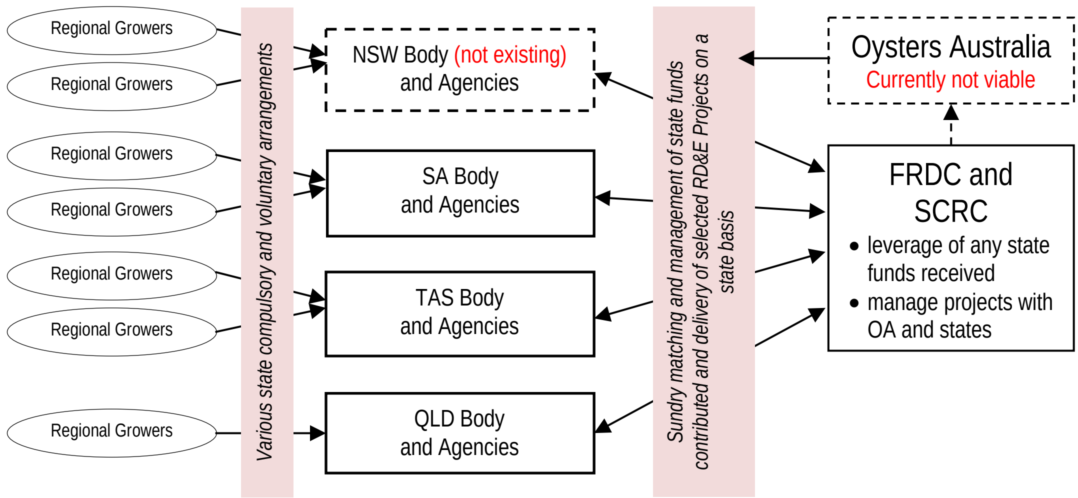
The proposed national RD&E Levy would replace all existing RD&E levies. Any additional contributions would be voluntary and collected (free of any charges) on the back of the National RD&E levy.

d. The Structural Transition to a National Funding Framework

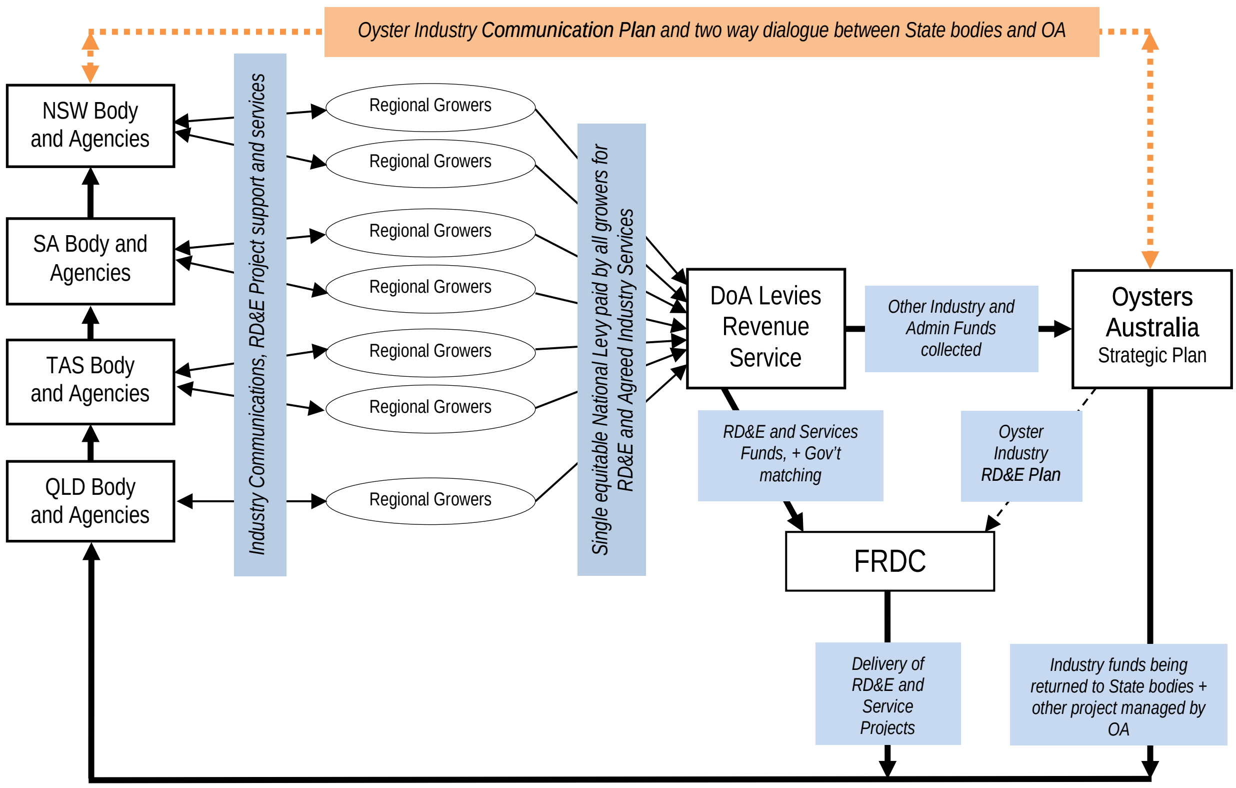
It is important that the OA Board and Executive, with all the state Industry Bodies spend time to discuss and agree the benefits of the national funding framework and any related transition from current arrangements to that new framework. This project has taken a significant first step to this end – more leadership from OA and state bodies is now required to achieve real gains for the industry.

Figure 10. Structural Transition

Current RD&E Funding Framework



Proposed 2020 National RD&E and Services Funding Framework



5. Benefits and Adoption

The beneficiaries and benefits from adoption of a national industry funding model are summarised below.

Beneficiary	Benefits and gains will accrue from:	Risks and losses may arise from:
Oyster Growers	**1. National Investment Focus on Big Issues** Current oyster industry planning, governance and funding arrangements across the states are not efficient or appropriately engaged. OA has identified the big issues but is having real trouble surviving and gaining any traction with stakeholder investors.	▪ The initiative will failure if industry engagement, governance and planning processes are not sufficiently robust to enable and support the development and maintenance of a national funding platform.
	2. Increased Investment in Big Issues An efficient national funding structure will deliver compulsory investment funding streams that are both larger (as current leakage will cease) and more predictable (year on year). OA has already undertaken (and repeated in this project) the process of identifying industry's Big Issues and strategic investment priorities.	▪ Many growers do not understand who or what OA is, or its role or priorities. ▪ There is a lot of loose misinformation about OA (especially among NSW growers) and its intent. ▪ OA needs a good PR campaign now to demonstrate its leadership and attractive value proposition to industry.
	3. More Viable Oyster Enterprises OA's stated role is to achieve a sustainable increase in oyster production, increase consumer satisfaction with oysters, and build capacity leadership and confidence across industry and its supply chains. Success in any or all of these goals will boost long term oyster sales, defend against loss of production capacity, reduce growers' costs, boost sales margins and improve productivity through skills and collaboration.	▪ If OA fails due to lack of industry support, there will be a severe loss of national industry leadership and confidence, and an unavoidable default to the variable and limited resources of state bodies. ▪ If industry fails to collectively address the Big Issues it currently faces (biosecurity, breeding, promotion, leadership, efficient investment funding) it will squander any potential leadership gains and strategic planning leverage that it has progressively placed on the OA Board over the last few years.
	4. Increased Oyster Industry Cohesion and Trust Traditionally, many growers do not trust growers in other states, or the OA leadership team. Some growers do not trust their own leaders. The result is a number of state bodies have ineffective governance structures and funding	▪ Lack of an attractive value proposition from OA. But OA's role and strategic agenda exists and is attractive - it just needs to be articulated and communicated robustly. ▪ Lack of resources in the hands of OA to engage industry and drive its strategy and value proposition to growers.

	arrangements. The recently established OA national body, with national leadership and new direction, offers a way to break from the past to implement new thinking and investment pathways. OA now needs to engage all growers and build trust in its vision, mission, and stated objectives. OA needs to get growers on board now with its agenda.	▪ Lack of leadership/capacity by OA directors at the state level often in the face of difficult regional stakeholders and lack of resources. ▪ Lack of a sound Communication Strategy between OA and state bodies and growers into the future. ▪ Lack of clarity re what is doable between OA, FRDC and SCRC.
State Industry Bodies	**5. Strategic Direction** State industry bodies are the traditional, valued leaders of industry development - they are also an important legislative/compliance link for growers. State bodies offer considerable capacity to the national industry as it resolves the Big Issues facing all growers. But state/regional industry structures lack scope and resources. They cannot lead their growers/producers in resolving any national issues that threaten grower viability and sustainability (e.g. biosecurity, marketing, free trade agreements, etc). State bodies should be strengthened and supported though national communication, planning, investment and collaboration.	▪ Disunity is death at a state level and at a national level. Growers can make no progress on issues unless they are united under a strong majority and put real money on the table. ▪ Some state bodies are better at what they do than others. Improvements may require change of legislation, change of governance and procedures, change in funding, or change in personnel – or changes in all these elements. ▪ Growers in SA and TAS are ready to move forward with a national funding initiative. Many NSW growers are not. ▪ A poorly planned, non-inclusive approach by OA will likely alienate a state body and result in loss of trust. The OA Board needs to fully engage, support and resource its respective state bodies.
	6. Funding and Leverage Financial efficiency and metrics are very important to enterprise productivity and viability. Growers can make money individually by selling oysters, but they face big losses from uncontrolled risks. But if growers are smart about how they invest precompetitively together and leverage funds collaboratively, they can significantly increase their returns, <u>and also</u> reduce the risk of losses they face on farm. Recent national legislative amendments available through FRDC mean there are attractive new financial leverage opportunities available to OA and all growers.	▪ Optimum investment leverage cannot be achieved (nor should it be attempted) unless all state bodies are in accord with the OA's national Strategic Plan and support a national funding framework. ▪ Any agreements between OA and state bodies to collect funds nationally from growers and return part thereof to state bodies, need to be clear and in writing, preferably under an IPA with FRDC and OA.
National Industry	**7. Survival** Survival of the national leadership	▪ Loss of a national leadership body. ▪ Loss of international

Body (OA)	body (OA) is critical to the competitiveness and viability of the Australian oyster industry. The required productivity gains and risk management dividends will not be achieved if the industry relies solely on the various state grower bodies and related inefficient investment arrangements.	competitiveness against imports, especially from NZ. ▪ Falling long term productivity due to inadequate management of Big Issues facing the industry. ▪ Lack of investment by growers on a sustainable and equitable basis. ▪ Inefficient collection, leverage and management of growers funds in pursuit of Big Issues.
FRDC / SCRC	**8. Industry Investment** Larger and more efficient industry contributions to FRDC/SCRC projects (both RD&E and Industry Services) will reduce project delivery unit costs and promote broader awareness and adoption of project outputs and available services.	▪ Lost opportunities and related time delays in gaining industry support for a collaborative national investment
Community and General Public	**9. Buy Australian Seafood** This initiative will boost consumer awareness of oysters and local seafood. This initiative will enhance growers' social license to operate, by enhancing the role and viability of oyster fishery communities.	▪ Ongoing and recent media events (e.g. biotoxin plumes and lease closures in Tasmania) have detracted from the oyster industry's sustainable and safe seafood image with consumers. ▪ An inadequate response is to not invest in solutions that resolve or minimise these risks and impacts.

6. Further Development

It is recommended that the following activities and steps be taken to further develop, disseminate, and exploit commercially the results of research undertaken in this project.

a. Build Industry Trust in OA and its Strategic Agenda

Now that the national funding debate is underway, OA Board should actively and overtly engage, inform and lead industry stakeholders in all states to:

- Communicate (verbally, on web and email, and via conferences and events) and demonstrate the industry initiatives and projects it is already delivering on and what is coming up. This may be taken forward and become the industry's formal Communication Plan.
- Harness through collaboration the regional opinion leaders and commercial parties who can support its strategic agenda. There are many credible people who support OA and its agenda, but they have no safe platform to voice their support and so are not heard by the noisy minority.
- Consider and respond to the various national funding options, refine and test options and add new ideas, and capture consensus.
- Target regional effort. The percentages in support of the national funding framework are quite good and improving, but need to focus on regions of softness and uninformed resistance.
- Maintain and build momentum for the national funding initiative.

The aim of this strategy is to make all growers more aware of OA, what its priorities are and to build support for it and its national agenda.

This approach is exactly what OA's stated third goal (per the Strategic Plan) is all about.

b. Establish a national focus to drive funding imperatives on Growers' Big Issues

It is clear from quantitative industry responses received during the regional workshops that:

- the two big hot button issues for growers are *Oyster Breeding*, and *Disease Management*.
- in NSW these are also important issues, but no more so than *Reducing Farm Costs and better Market Returns* (two sides of the same gross margin coin).
- all other priorities are far less important.

These three issues are an excellent focus for a new Industry Partnership Agreement that OA and FRDC have recently developed and are contained in the underpinning 2014-2019 Strategic Plan. All three issues are critical to achieving the first goal in OA's Strategic Plan (ie, sustainable increases in production to GVP $120 million).

If growers really want these big issues resolved they have to support OA to fund them, through an efficient national funding mechanism. So an IPA with 3 core goals based primarily on these three issues, should be offered to industry and state agencies as a real answer to managing agreed industry priorities over the next 5 years.

The new IPA approach will shift the industry focus away from the current regional argy-bargy about self-interest and who will control what and whom, to national collaboration and co-investment. The IPA approach offers a win-win for OA, growers and state agencies. It also creates a new industry RD&E horizon to collaborate with FRDC and a potential SCRC.

The relevant state agencies should also be partners/collaborators within the IPA, in order to strengthen national collaboration and the case for the national IPA (as is the case with WA Fisheries agency in the proposed WRL IPA). The oyster IPA investments would focus on the 3 key issues (including marketing for NSW/QLD SRO growers) as FRDC now has the powers to manage these unmatched service investments on industry's behalf.

The IPA would map out funding streams and structural change over a transition as proposed elsewhere in this report – see Figures 8 and 9. The IPA would effectively house a collaborative and flexible transition to a national funding framework. Admin funding for OA would not be part of the IPA unless and until it was endorsed by industry.

- On Day 1 of the IPA, the funding model would start with existing funding arrangements via state bodies in back-to-back agreement with FRDC and OA. The IPA would facilitate a process to promptly bring key people and good thinkers from OA, state bodies, growers and state agencies together to work on the Core issues and map out the funding pathway for the succeeding 3 year.
- In Year 3 of the IPA (based on achieving certain milestones regarding sharing of collected funds back to state bodies), the IPA would require OA to present and seek national grower endorsement for a national RD&E compulsory levy and selected additional voluntary contributions to do specific projects related to the core goals of the IPA.
- The IPA's contractual term should be sufficient to cover the structural transition recommended in this report.

It will be useful for OA/FRDC within the IPA to also establish a dedicated team (ie. an IPA committee) of growers/experts to progressively advise the OA Board re management of each big issue. This will take the current focus away from OA having to defend its directors (evident in some states), and engage more state and regional industry leaders in these three big national issues.

c. Implement a Transition Plan to a National Funding Framework

This report recommends a pathway to establish a national oyster industry funding framework. The proposed IPA provides the context and OA circuit breaker to deliver the change required. OA should develop the Transition Plan and related funding proposals as a standalone exercise under the IPA.

Funding for OA admin is an immediate and important challenge. OA should seek to establish an interim funding arrangement based on state contributions and fees-for-services to stakeholders until it can secure industry endorsement for the national funding framework (including the administrative services contribution).

d. Maintain and Improve the National Oyster Data sets

During this project, the Project Leader, OA Board and executive staff, and industry leaders have invested considerable time, money and leadership to collate relevant state and national oyster industry facts and metrics. These data sets also include some grower license details preparatory to a potential poll of growers late in the project.

The main sources of data have been OA, ABARES, and state bodies and related reports. The final data set identified in this report is a bare minimum, certainly not perfect, but is now credible.

For an oyster industry now facing strong global seafood competitors, discerning consumer markets, intractable sustainability issues, and is a major user of public resources, it is imperative that its decisions can be made promptly based on accurate knowledge of risks, trends, facts and implications. This is particularly so regarding the key issues OA has identified including breeding, biosecurity and disease, enterprise viability,[10] and collaborative marketing. Additional data needs also arise from time to time. For example federal government has upgraded requirements for eligible RD&E investment and matching re industry members' exposure to OH&S risks. It is therefore reasonable to expect that a $100 million industry and related agencies will maintain a common up-to-date data set for stakeholder use. OA simply does not have this current capacity.

OA's lack of data regarding grower licenseholders is also symptomatic of and cause for growers' current widespread lack of awareness of and trust in OA. Current data about growers and enterprises is held (often defensively due to state privacy laws) by state bodies, but the imperative for engagement and leadership is at a national level.

In addition the relative datasets are not harmonised. For example some states report harvest volume by dozens and bags while other agencies such as ABARES uses kilograms. The relevant conversion factors vary by species and region.

These various misalignments and multiple formats need to be resolved through standard appropriate reporting formats to meet the needs of data users. A current national grower database is the first step in any national body engaging with and building trust with stakeholders and all licenseholders.

The industry's data sets should be allocated investment and maintenance capital that is commensurate with its potential long term value to the oyster industry.

Data aggregation and management is generally poor across most seafood sectors. Closer alignment is required between the national seafood and sector databases and the various sources (Commonwealth, state, fishery, enterprise) of data collected and supplied to maintain them. For the oyster sector it is recommended these inconsistencies be resolved and harmonised with supporting agencies as soon as possible before they compound to constrain database integrity, utility and decision-making.

[10] During the course of this project a credible industry source advised that project leader that an estimated 20-30% of NSW based oyster growers are not registered license holders and declarations to government regarding their harvest volumes and sales have limited credibility.

7. Planned Outcomes

Public Benefit Outcomes

The main public benefit outcomes anticipated to flow from the recommendations proposed in this report are:

a. Sustainable oyster production environment where biosecurity issues are given appropriate investment priority,

b. High human health oyster production systems,

c. Viable industry producing seafood products valued by consumers,

d. Collaborative national policy that will boost agency outcomes and efficiency,

e. Better return on taxpayers' invested matching funds.

Private Benefit Outcomes

The main private benefit outcomes anticipated to flow from the recommendations proposed in this report are:

a. Improved viability of Australian oyster production enterprises,

b. Stronger and better supported national and state industry organisations,

c. Better grower communication and engagement in national issues,

d. More efficient use of available industry capital for high priority RD&E investment,

e. Threat of action against unregistered/non-compliant growers.

The specific private benefits for the six outcomes listed in the original project application approved by the SCRC, are as follows:

a. *To understand the industry's existing funding mechanisms, links to relevant legislation, why they work, and comparable industry examples*

   This outcome has been documented in detail and presented in the initial Briefing Paper (Oct 2012) and this report.

   In summary, existing funding mechanisms are state based and their mechanism and efficiency varies considerably across jurisdictions. They are largely effective in addressing local issues in most states but are not able to defend against national industry risks. They will result in inequitable investment grower outcomes across jurisdictions.

b. *To understand stakeholder views re arrangements and options for funding mechanisms (particular focus on NSW legislation and arrangements)*

   This outcome was achieved as part of the national stakeholder engagement and workshop program detailed in this report and related appendices.

   Prior to the workshop rollout, OA determined that a specific early focus on engaging NSW was not required, and was integrated into the national workshops.

c. *To document funding options, collection mechanisms, impacts, cost effectiveness, pro's and con's of each, etc*

This outcome has been achieved, with funding options and related metrics and pros and cons documented in this report.

Analysis supports the recommended option of an *ad valorem* national RD&E levy implemented jointly (under new FRDC powers) with appropriate flexible voluntary contributions. The levy and voluntary contributions should target key risk areas as identified in the OA Strategic Plan and recent industry quantitative advice.

Importantly the report recommends a national IPA structure and transition period to enable OA to lead all industry stakeholders to the recommended option.

d. *To consult with and document all stakeholder responses regarding the optional and preferred funding mechanisms and pathways in SA, TAS, and NSW,*

This outcome has been achieved through an independently managed workshop process. Detailed industry responses presented in this report and related appendices. This report states (in Results, section f):

> While it appears from independent review that there is a solid and growing majority of growers (say 70%) and a majority of state bodies (SA, TAS and also QLD) wanting to establish a Heads of Agreement to implement a national funding framework, there is a significant (and often noisy) minority of growers (mostly in NSW) who will not support a national funding initiative as currently proposed.

A significant weakness of this process was the relatively low attendance of stakeholders at the workshops.

e. To secure ratification by industry leaders/stakeholders regarding recommended funding option and implementation pathway,

This outcome was not achieved. The OA Board has advised the Project Leader that the process to seek full industry ratification should pause, awaiting further consideration by OA.

f. To provide final advice to industry and proposed process and recommended outcomes for Oysters Australia.

Given that unanimous support was not achieved, this project lacks the certainty to make express recommendations.

However the report does make clear recommendations regarding:

- a preferred national oyster industry funding framework, including structures of levies and voluntary contributions,
- a preferred transition pathway to achieve this framework, and
- an appropriate national Industry Partnership Agreement structure to house the initiative over the next 3 years.

Linkages with CRC Milestone Outcomes

Subject to the progressive and transitional outcomes described in the previous section, the project has achieved all milestones as agreed under the revised and realigned project schedule.

8. Conclusion

Strategic Turning Point

This project reveals the challenges and options that the Australian Oyster Industry faces.

Oysters are losing market share even as the demands of domestic seafood consumers rise, global risks (biosecurity, genetic improvement, market competitiveness) are threatening local enterprise sustainability and viability, and growers struggle to communicate and find common approaches that invest in real responses.

The fact is a significant number of growers and key stakeholders continue to believe they can run the oyster industry tomorrow the same way they ran it yesterday. As all rural industry leaders know, this is never possible – all the key drivers and risks are dynamic and will continue to change. In financial terms the return on capital for many oyster growers is low (as per their responses and related analysis) and not sustainable. Should these growers remain in the industry, assisted by low barriers to entry that also depress margins for many otherwise viable growers? The more progressive growers are viable and intend to manage the industry to enhance their returns.

The paper trail shows that change has been coming for a few years, as recognised by the formation of OA in 2011. While this national structural change is welcome and necessary it will ultimately be cosmetic and achieve nothing unless there is also real strategic and financial change through the industry. The nub of this matter is what changes are needed, what will they cost, and who should pay. OA is fast approaching this turning point and industry is not far behind. Bottom line is the current industry situation is not tenable.

What, How Much, and Who

<u>What changes are needed?:</u>

These changes in strategy are identified pretty well in the OA's Strategic Plan which has largely been reconfirmed in the recent quantitative responses from grower workshops.

<u>What will these changes cost?:</u>

As detailed in Figure 8, growers are <u>currently</u> investing (somewhat inefficiently) around $484,000 per year to get their outcomes from RD&E and related services. On a $100 million dollar industry harvesting 14,800 tonnes this is an average grower investment of 0.48% or 3.2 cents/kg. Around half of this investment (0.25%) is variously leveraged through the FRDC/SCRC.

If the OA strategy is actively pursued and done so efficiently on a collaborative national/state basis <u>as proposed in Figure 9</u>, the total industry contribution will rise to an estimated $630,000 (an average of 0.63% or 4.3 cents/kg). This increase of $146,000 represents an increase of 34% in funds contributed by growers. But the extra 1.1 cents/kg (4.3 less 3.2) that this will cost growers is well a truly worth it for growers. They get sustainable national investments into programs in key risk areas, a viable leadership structure of national and state bodies, and a number of intangible efficiency gains (e.g. a national industry communications plan that engages all oyster growers).

Based on the increased payment to ~4.3 cents/kg, the impact of the change is estimated as follows:

- a big grower ($400,000 turnover) will pay total contributions of ~$2600 per year,

- a small grower ($30,000 turnover) will pay total contributions of ~$240 per year.

These estimates do not include any additional leverage or benefits that will come from supply chain partnerships and efficiencies that OA could develop (similar to the arrangements that national RDC, Wine Australia has achieved in the wine industry).

Putting this proposed contribution rate (0.63%) in context, the vast majority of growers in other rural non-seafood industries are contributing more than 1.5% of their farm gate turnover (ie. GVP) to their RDC for investment in RD&E and all related industry services. The proposed rate of oyster investment is therefore less than half the rate that currently exists in most non-seafood industries.

Prawn farmers, the only sector with an existing national RD&E levy is currently contributing 3.64 cents/kilo (0.25% of GVP) for RD&E, a voluntary contribution of 2.32 cents/kilo (0.16%) for industry admin, and has recently agreed to add a further unmatched voluntary contribution of 4.0 cents/kg (0.27%) to undertaken collaborative marketing. This adds to a total contribution by farmers of 9.96 cents/kilo (0.68%). The bulk of prawn farmers are strongly supportive of their combined levy/voluntary contribution approach - the largest farms are contributing in excess of $20,000 per year to participate in this co-investment strategy.

If no action is taken to implement OA's strategy soon, and manage big risks, the real cost will be failure of the national body (OA), ongoing loss of cash flow and capital in non-viable enterprises and related supply chains, further slide in oysters' share of seafood consumer markets, and diminished return on RD&E invested todate.

<u>Who should pay?</u>

It is very clear who should pay – the oyster grower, as the prime beneficiary of the proposed investment. But a smart, efficient national investment strategy will leverage growers' funds with FRDC/SCRC and other supply chain and market initiatives that are available.

Governance

The reshaping and streamlining of jurisdictional and oyster fishery governance is overdue and urgently needed, to ensure that the enterprise productivity, risk management and market gains flow from the OA's leadership and strategic agenda.

The IPA structure offers a step change opportunity to change the industry dynamics and effectively house the transition that industry requires.

OA and state bodies need a Heads-of-Agreement to underpin and confirm their 3 year commitment to this IPA approach and the FRDC/SCRC.

Funding Option

The funding framework of a national compulsory levy with selected voluntary contributions is the optimum funding arrangement for the oyster industry over the next 3-5 years. This option provides the most equitable and cost effective means to collect funds and transmit the right market signals to all investors.

OA need to work with industry and states to establish a funding agreement to sustain it until more permanent national funding is secured via the proposed national funding model.

National Oyster Industry Data Sets

The project has collated data and information regarding the industry, the risks it faces and its performance. OA should work with state and national bodies and agencies to collate and maintain a cost effective national data set to guide industry development.

9. References

ABARES – Publications of FishStats 2012 and prior

ACCC – Draft Determination: Application for revocation and substitution of authorisations A60024 and A60025 lodged by SAOGA Inc. 2010

CDI Pinnacle – Discussion Paper: Australian Oyster Industry Governance Model. 2009

FRDC – Summary of PIERD Act changes for Seafood Marketing and Promotion

FRDC – 2011/043 Final Report – Understanding and Planning for Potential Impacts of OsHV on the Pacific Oyster industry 2012

New Zealand Aquaculture Facts 2012

NSW Aquaculture Production Report 2011-12, Department of Primary Industries

NSW – Annual Report of the Aquaculture Research Advisory Committee 2011, Department of Primary Industries

NSW Oyster Industry – Sustainable Aquaculture Strategy 2006

Oysters Australia – Strategic Plan and various reports

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SA – Aquaculture Cost Recovery Policy, PIRSA, 2003

SA EPA – Code of Practice for Environmental Management of the SA Oyster Farming Industry 2005

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SCRC Project 2011/749 – ACPF Briefing Paper and Final Report

SCRC – Review of Australian breeding programs for Pacific Oysters, Sydney Rock Oyster, Barramundi and Prawns, Dr M. Rye, 2012

Western Australian Government – State of the Fisheries and Aquatic Resources Report 2011/12 and prior

10. Appendices

Appendix 1. Oyster Industry Profile

Edible oysters comprise the 4th largest commercial catch of all Australian fishery species, after sardines, salmon and prawns. Small volumes of oysters are also harvested by recreational and customary fishers. Native oysters are caught in all jurisdictions but SA, NSW and Tasmania are the key commercial fisheries making up the $100 million industry. *Data Sources: ABARES 2011; NSW Aquaculture Production Report 2010-11; FRDC Fish Magazine 2011; ACCC Determinations A91229 & A91230, 2010; Qld DEEDI Report to Farmers 2011; Oyster Industry Management Plan for Moreton Bay Marine Park 2006.*

Jurisdiction	NSW	SA	TAS	QLD	Total
Production 2010 (t)	4,960 (est.~20-30% unreported)	6,123	3,724	59	14,863
Key Species	Sydney Rock Oyster (SRO), and native	Pacific Oyster (PO)	Pacific Oyster (PO)	*SRO*	
Growers / Licences 2010	336 / 2,378 leases	346 licences	113 licences	101 licences	600 growers; 896 leases
Industry Profile	• SRO harvested since 1800s • SRO produced in 41 marine estuaries (top 19 comprise 99%).	• Established late 1980's • 7 regions (Coffin Bay, Streaky Bay, Cowell, Kangaroo Is., Yorke Peninsula, Louth Bay, Smoky Bay)	• Pacific Oysters since 1947 • Regions include north & east of Smithton to D'Entrecasteaux Channel.	• SRO since 1800s • 25 regions (mostly in Moreton Bay)	
Organisations	8 regional oyster grower associations	SAOGA; SAORC	Oysters Tasmania; TORC	Qld OGA	OA, FRDC, SCRC
Total Lease Area (ha)	2,930 ha	1,000 ha	700 ha	>34 ha	4,634 ha
Avg license area (ha)	8.6 ha	2.9 ha	6.2 ha	0.3 ha	5.2 ha
Avg Tonnes / License	14.8 tonnes	17.7 tonnes	32.9 tonnes	0.6 tonnes	16.6 tonnes
Avg Harvest Tonnes / ha	1.7 tonnes	6.1 tonnes	5.3 tonnes	1.7 tonnes	3.2 tonnes
GVP 2010 $ mil.	$43.0 (2011: SRO $31; PO $4)	$35.0	$21.3	$0.512	$99.8
Avg Harvest $GVP / ha	$12,662	$38,760	$26,229	$14,784	$20,358
Biosecurity Status	Threat from POMS (PO Mortality Synd.)	Threat from SAMS (SA Mortality Synd.)	Threat from POMS (PO Mortality Synd.)	Unknown	
Hatchery Services 2010	~60% wild settlement of spat Southern Cross Shellfish, Port Stephens	SA Oyster Hatchery, Camerons, Shellfish Culture, Geordy River Aqua, Southern Cross Shellfish	Camerons, Shellfish Culture, Geordy River Aqua, Southern Cross Shellfish	Nil locally, SRO from Select Oyster Co.	
Employment	~1500 direct FTEs	unknown	unknown	unknown	unknown
Exports 2010 (t)	7	217	26	0	320
Imports -fresh, chilled or frozen	826 tonnes of fresh, chilled or frozen edible oysters imported during 2009-10. (Valued at $8.7 million). New Zealand accounted for 96% of imports with small volumes from China. The New Zealand Industry is currently responding to significant loss (>90% of oysters in some areas) due to a virus outbreak.				

Appendix 2. OA Funding Mechanism Briefing Paper

Oysters Australia

Funding Mechanism Briefing Paper

23 October 2012

This paper presents information and funding options for Oysters Australia.

Edible oyster farming is Australia's oldest aquaculture industry. The first Sydney Rock Oysters were grown and harvested in NSW in the early 1800's.

In 2011 Oysters Australia was incorporated as the first national body to represent the interests of all Australian oyster growers. Grower organisations from South Australia, Tasmania, and New South Wales are directly represented on Oysters Australia. Queensland growers are represented by observers at OA meetings.

Oysters Australia and the Seafood CRC have jointly commissioned this paper as the first step to addressing a number of strategic objectives and funding needs identified by industry members.

The Project

1. Challenges for Oysters Australia

Oysters Australia brings together six existing state organisations under a national Board.
OA has outlined a vision for the industry based on three key goals:

- Sustainably increase in edible oyster production to 20 million dozen, with a GVP (Gross Value of Production) of $120 million,
- Increase consumer satisfaction, and in so doing increase edible oyster consumption by 13%,
- Build capacity, leadership and confidence in the industry among growers, supply chain partners, government and the community.

The six grower-directors of Oysters Australia will lead industry to achieve five core objectives by June 2015:

1. Identify, commission, manage and report key RD&E projects,
2. Liaise closely with states to articulate RD&E goals, and projects,
3. Lead industry to investigate marketing/promotion priorities,
4. Work with chain partners, regulators to replace functions of existing structures and improve industry outcomes.
5. Establish and implement appropriate, transparent and efficient national governance arrangements as national industry body.

2. Objectives for this Project

This project will specifically address national funding options. It will :

1. Collate, review and document information on existing funding mechanisms, legislation and priority strategies for industry,
2. Collate and review recommendations (based on previous industry consultation) on preferred levy mechanisms,
3. Survey and document external stakeholder views re funding mechanisms, including NSW legislation/agencies, and FRDC,
4. Submit a Briefing Paper to Industry identifying the need for funding, levy options, case examples and survey feedback,
5. Present to state meetings and document feedback,
6. Document the preferred funding option (mechanisms, rate, impacts, adoption pathway, process, time frame, etc),
7. Meet with industry leaders / key stakeholders to confirm the preferred funding option and pathway,
8. Meet with NSW stakeholders to discuss the preferred funding option and implementation pathway,
9. If national levy is agreed, draft a brief for the conduct of the ballot process and conduct the ballot process,
10. Submit a final report of the project to Oysters Australia.

3. Project Methodology

This project will be undertaken by Ridge Partners and Oysters Australia over a 6-9 month period from September 2012. The project will comprise desk reviews, comprehensive industry consultation, and reporting to industry and Oysters Australia.

Industry Profile

Edible oysters comprise the 4th largest commercial catch of all Australian fishery species, after sardines, salmon and prawns. Small volumes of oysters are also harvested by recreational and customary fishers. Native oysters are caught in all jurisdictions but SA , NSW and Tasmania are the key commercial fisheries making up the $100 million industry. *Data Sources: ABARES 2011; NSW Aquaculture Production Report 2010-11; FRDC Fish Magazine 2011; ACCC Determinations A91229 & A91230, 2010; Qld DEEDI Report to Farmers 2011; Oyster Industry Management Plan for Moreton Bay Marine Park 2006.*

Jurisdiction	NSW	SA	TAS	Qld	Total
Production 2010 tonnes	4,960 (estimated~20% unreported)	6,123	3,724	59	14,863
Key Species	Sydney Rock Oyster (SRO), and native	Pacific Oyster (PO)	Pacific Oyster (PO)	*SRO*	
Growers / Licences 2010	336 / 2378 leases	346 licences	113 licences	101 licences	600 growers; 896 leases
Industry Profile	• SRO harvested since 1800s • SRO produced in 41 marine estuaries (top 19 comprise 99%).	• Established late 1980's • 7 regions: Coffin Bay, Streaky Bay, Cowell, Kangaroo Island, Yorke Peninsula, Louth Bay,& Smoky Bay	• Pacific Oysters since 1947 • Regions include north and east from Smithton to D'Entrecasteaux Channel.	• SRO since 1800s • 25 regions (Moreton Bay)	
Lease Area	2,930 ha	1,000 ha	700 ha	>34 ha	4,634 ha
Avg license area ha	8.6 ha	2.9 ha	6.2 ha	0.3 ha	5.2 ha
Avg Tonnes / License	14.8 tonnes	17.7 tonnes	32.9 tonnes	0.6 tonnes	16.6 tonnes
Avg Harvest tonnes /ha	1.7 tonnes	6.1 tonnes	5.3 tonnes	1.7 tonnes	3.2 tonnes
GVP 2010 $ million	$43.0 (2011: SRO $31; PO $4)	$35.0	$21.3	$0.512	$99.8
Avg Harvest $GVP / ha	$12,662	$38,760	$26,229	$14,784	$20,358
Biosecurity Status	Threat from POMS (PO Mortality Synd.)	Threat from SAMS (SA Mortality Synd.)	Threat from POMS (PO Mortality Synd.)	Unknown	
Hatchery Services 2010	• ~60% wild settlement of spat • Southern Cross Shellfish, Port Stephens	SA Oyster Hatchery, Camerons, Shellfish Culture, Geordy River Aqua, Southern Cross Shellfish	Camerons, Shellfish Culture, Geordy River Aqua, Southern Cross Shellfish	Nil locally, SRO from Select Oyster Co.	
Employment	~1500 direct FTEs	unknown	unknown	unknown	unknown
Exports 2010 tonnes	7	217	26	0	320
Imports – fresh, chilled or frozen	• 826 tonnes of fresh, chilled or frozen edible oysters imported during 2009-10. (Valued at $8.7 million). New Zealand accounted for 96% of imports with small volumes from China. The New Zealand Industry is currently responding to significant loss (>90% of oysters in some areas) due to a virus outbreak.				
Organisations	8 regional oyster grower associations	SAOGA; SAORC	Oysters Tasmania; TORC	Qld OGA	OA, FRDC, SCRC

Existing Oyster Funding Mechanisms

In 2009 the industry has developed a discussion Paper (CDI Pinnacle, 2009) which identified existing funding mechanisms and issues.

State	Funding Source	Funding Mechanism	Linkages and Relevant Legislation	Agencies	Priority Issues Impacting Business Performance
NSW	• Compulsory Lease Area levy • NSW Aquaculture Research Advisory Committee (ARAC) Levy Annual Research Contribution • ARAC is established under Section 157 of the Fisheries Management Act 1994.	• NSW Gov't levy of $38 /ha+GST • 2010-11 Funds - $136,000. Funds to FRDC $95,000 • Funds matched at FRDC, then to SCRC • Billing on financial year; permit holders option to pay by 30 Sept or quarterly. • Money held in the NSW Primary Industries Crown Trust Account - no interest.	• S 143 of the Fisheries Management Act 1994 • State Environmental Planning Policy 62 • Aquaculture lease security Bond introduced in 2001 - $1000 per ha or annual contribution of $40/ha • NSW Shellfish Program, administered by the NSW Food Authority, under the NSW Food Act 2003	12. Premiers - manage projects/issues of significance 13. I&I/DPI – key agency; leases, production, policy 14. Planning - integration into state land use planning 15. Natural Resources – estuary/ coastal management 16. NSW Food Authority - safe food regulator 17. Environment & Conservation - protects wildlife 18. Lands - Crown land tenure & applications for leases 19. Maritime Authority - maritime regulator 20. Marine Parks Authority – conservation/zoning 21. Local Gov't – oyster water quality and conflicts 22. Catchment Management Authorities - NRM matters	1. Local development impacts and water quality management 2. Developing new markets and customers 3. Genetics / breeding program 4. Supply chain management 5. Reducing costs of farming 6. Tenure security and capital access 7. Labour availability & training
SA	• Compulsory Lease Area Levy at State level • Voluntary (ACCC) spat levy collected by hatcheries	• PIRSA levy $58.76 /ha – $59,000 p. a. paid to SAORC • $1 per 1000 spat levy. Funds raised (2008-09) ~$120,000	• Aquaculture Act 2001 • Aquaculture Regulations 2005 – under the 2001 Act • Fisheries Management Act 2007 • Aquaculture Zones Policies - 2006 onwards • S 91C of Commonwealth Trade Practices Act 1991	1. Primary Industries and Resources SA – key agency 2. SA Environmental Protection Authority – Code of Practice for Oyster Farming 2005 3. SA Food Act 2001 – administered by the state department of health	1. Developing new markets and customers 2. Genetics / breeding program 3. Labour availability & training 4. Reducing costs of farming 5. Tenure security and capital access 6. Local development impacts and water quality management
TAS	• Compulsory Lease Area Levy at State level • Voluntary (Trade Practices Act S90) Spat Levy collected by hatcheries	• Tas Gov't levy $67.32 /ha – $47,000 p. a. paid to TORC • $1.25 /1,000 spat = $79,000 • Tas Gov't matching contribution of ~$20,000	• Living Marine Resources Management Act 1995 • Fishing Registration Act 2001 • Marine Farming Planning Act 1995 • Fisheries (Shellfish) Rules 2007 • Marine Farming Planning Regulations 2006 • Food Act 2003	1. Primary Industries, Parks, Water and Environment - industry matters and regulation 2. Health and Human Services – manager of shellfish food quality and public health risks through the Australian Shellfish Quality Assurance Program	1. Reducing costs of farming 2. Local development impacts - water 3. Developing new markets and customers 4. Tenure security, and capital access 5. Labour availability & training 6. Production optimisation 7. Genetics / breeding program 8. Supply chain management
QLD	• Voluntary contribution of an annual membership fee of $50 determined by the Qld Oysters Growers Ass'n	• Total Funds raised per year = $5,000	• Oyster Industry Management Plan • Fisheries Act 1994 • Fisheries Regulations 2008 • Sustainable Planning Act 2009 • Food Act 2006 • Environmental Protection Act 1994 • Integrated Planning Act 1997 • Coastal Planning and Management Act 1995 • Marine Parks Act 2004	1. Agriculture, Fisheries & Forestry- key agency 2. Qld EPA - annual resource access approvals 3. Health –shellfish food quality and public health risks	1. Genetic supply 2. Economic survival of regional industry

Funding for Growth

Context

In 2012 the oyster growers contributed approximately $203,000, raised from memberships, levies and other fund raising activities. These funds represented 0.23% of estimated industry turnover of $90 million in that year. Leverage achieved by industry through the FRDC and SCRC increases this pool of funds to $577, 000.

The SCRC will terminate its investments and windup in June 2014. However opportunity exists to maintain the SCRC Company in industry hands or to rebid for a further CRC term.

The FRDC will continue to support the oyster industry via its existing funding and matching mechanisms for RD&E activity. A legislative and organisational restructure currently being considered by the FRDC will potentially provide a greater range of industry services (and leverage options) to the oyster industry via new service delivery pathways being developed.

Forecast Source and Use of Funds

The following table presents the oyster industry's investment via the Seafood CRC across 2007-2014.

Annually, the industry has invested $203,000 which is matched at $187,000 by FRDC and $160,000 by CRC. This is an agreement which began in 2007 and completes in 2014.

The industry has not yet decided its allocation of state funds to the national investment pool from 2014 as it waits for the outcome of a potential SCRC rebid. At present, all remaining funds have been invested with a small proportion yet to be contracted.

$'000 Oyster R,D&E	Total	per year	2015 on
Source of Funds			
Industry	*1,425*	*203*	TBA
FRDC	*1,327*	*187*	TBA
SCRC	*1,121*	*160*	TBA
Funds Available	*3,874*	*577*	TBA
Use of Funds			
Breeding	*2,343*	*334*	
Market & Supply	*844*	*120*	
Planning & Operations	*458*	*65*	
Funds Committed	*3,874*		

Right to Operate

All wild catch and farmed seafood ventures are facing increased scrutiny from communities and regulators. The recent political response to the so called super trawler in Australian waters and revocation of its license to operate demonstrates how the unanimous opinion of respected scientists has limited weight in the face of community concern.

As the major aquaculture user of inshore waters in a number of high population centres (especially in NSW and Qld), the oyster industry is exposed to the risk that the community will with-drawn or constrain its support for the industry to operate.

Preferred Levy Mechanisms

Nationally, the oyster industry has 3 options to raise funds that can subsequently be matched or unmatched (ie further leveraged):

Type	Advantages and Disadvantages	Current Industry Examples
1. Statutory Levy	• Industry agreement and control re who pays, levy rate, mechanism, etc • Payment compulsory - 12 principles • Strong national legal platform • Low set-up and running costs per production unit for large industries • Very efficient for industries spread across many states / jurisdictions • Very efficient in single-product sectors, low leakage, low cash risk • ~12-15 months to establish	• All major primary industries – prawn farmers, dairy, horticulture, meat, pork, cotton, grain, forestry • Used to fund RD&E and industry services – marketing, promotion, biosecurity • RD&E components can be matched (leveraged)
2. Heads of Agreement / MOU	• Legal agreement between members for an agreed collection method • E.g. gaining legislative support through the S90 Trade Practices Act • Best in small cohesive sectors with high level of member trust and with their leadership organisation. • Provide flexibility and control, with low cash flow risk /leakage • Takes 6-8 months to establish • Relatively inexpensive to manage if strong body and no leakage	• SA Oyster Industry spat levy endorsed by ACCC • TAS Oyster Industry spat levy under Trade Prac. Act • MOU currently used in some seafood sectors, but rarely in any other industries. • Horticulture Aust. uses regional commodity MOUs selectively to piggy back onto core national statutory levies.
3. Voluntary Contribution	• Ad hoc sector agreement for voluntary contribution case-by-case • Inexpensive to run but high leakage • Requires high level of member trust • Quick to establish (1-4 months)	• Used by horticulture to piggy-back small promotions onto national statutory levy

Current Funding Mechanisms

The Industry currently has a number of jurisdictional levy mechanisms to raise funds. These are noted on previous pages and summarised as:

NSW
- Mechanism – statutory compulsory state lease area levy
- Collection - $37/ha/year + GST by statutory authority with license
- Review - annually to ~0.25% of Avg GVP

SA
- Levy 1: Mechanism – statutory compulsory state area levy
- Collection - $58.76/ha by PIRSA and paid to SAORC
- Review – periodically to ~0.25% of Avg GVP
- Levy 2: Mechanism – voluntary Heads-of-Agreement industry spat levy - ACCC compliant
- Collection - $1 /1000 spat purchased by grower paid to SAORC

TAS
- Levy 1: Mechanism – statutory compulsory state area levy
- Collection - $67.32/ha by DPIWE and paid to TORC
- Review – periodically to ~0.25% of Avg GVP
- Levy 2: Mechanism – voluntary Heads-of-Agreement industry spat levy – Trade Practices Act Section 90
- Collection - $1.25 /1000 spat purchased by grower paid to TORC

QLD
- Mechanism – voluntary Heads-of-Agreement - membership of QOGA
- Collection – $50/year membership
- Review - by agreement of QOIA.

Compulsory levies (net of state collection costs, together with state matching in Tasmania's case), are largely used by each jurisdiction as matchable contributions to FRDC/SCRC. Net matched funds from FRDC are then passed to the CRC's investment pool for use in RD&E projects.

Delivering Key Goals

The Oyster Industry is a large national industry servicing multiple jurisdictions, multiple production systems across multiple zones, to domestic and export markets. However there is only one product at the harvest point – fresh Pacific or Sydney Rock oysters.

Oyster Industry jurisdictions and segments have undertaken a number of strategic reviews and planning sessions (CDIP 2009, p 27). These have identified a range of investment priorities (see above Existing Oyster Funding Mechanisms), many of which have a national industry focus. The 2011 formation of Oysters Australia is seen by many industry leaders as the critical step to enable subsequent planning and investment in other national issues, that are currently un/under-funded. Industry has endorsed this view, leading to the creation of Oysters Australia.

All oyster growers face a comparable range of risks (eg biosecurity, water quality, nutrition, etc) and opportunities (breeding and genetics, market access, management skill, etc). The potential for efficient, collaborative investment on a national scale, will therefore benefit all growers through better risk management capacity and cost control.

Oysters Australia has identified three key areas (see Goals on p 1) where it intends to enhance industry performance:

Sustainably increase in edible oyster production to 20 million dozen with a gross value of production (GVP) of $120 mill. pa,

Increase consumer satisfaction and in so doing increase edible oyster consumption by 13%,

Build capacity, leadership and confidence in industry among growers, supply chain partners, government and community.

Each goal can and will make a strong contribution to industry growth, be it measured in terms of GVP, consumer satisfaction, or industry capacity. But the following issues must be addressed for the oyster industry to grow and prosper:

Biosecurity

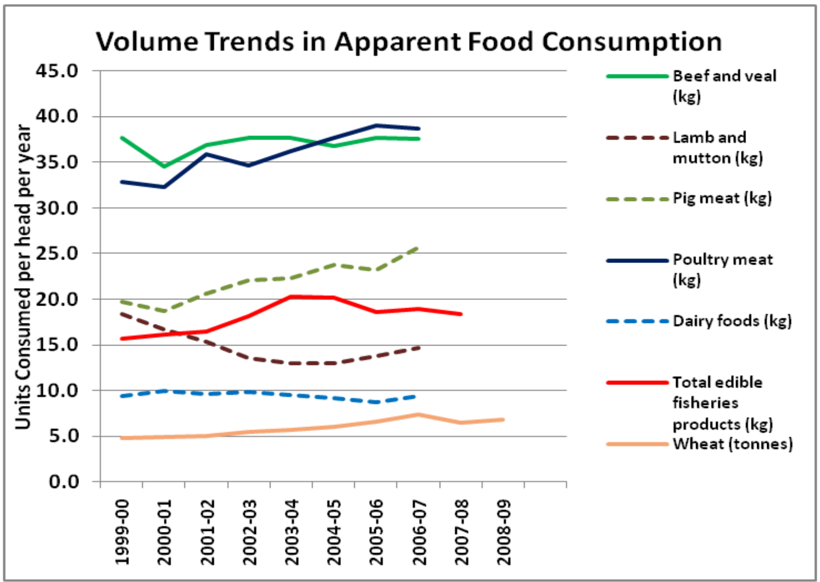
Biosecurity (i.e. POMS, SAMS, etc) is the major risk to production volume for the global and Australian industry. As Australia is a relatively small player in the global oyster industry, these global risks will need to be cost effectively managed on a local scale via a single national well-funded program that uses the best science and has access to the best experts and chain partners. The industry is not a participant in the National Residue Survey and has minimal reserve funding for emergencies (CDIP 2009, p12). Industry has no mechanism to equitably raise funds to address biosecurity issues.

Breeding

Genetic selection offers the greatest opportunity to increase industry production from existing leases. Across the two key species (Sydney Rock Oyster and Pacific Oyster) industry must identify, breed and grow-out spat to target specific preferences of consumers in its key markets. A nationally coordinated genetic selection and breeding program, operated in collaboration with approved commercial hatcheries, will be the most cost effective way to breed spat to specific traits for consumer market outcomes. Industry has limited capacity to equitably raise funds to address breeding issues

Market Competition

Seafood market competition is increasing. The seafood industry has attractive and nutritious natural products but it faces strong competition from both other domestic food industries, and from imported seafood, in the race to attract modern consumers. The following figure submitted as part of the seafood submission to the National Food Plan highlights the challenge for seafood. ABARES forecasts that imports of seafood to Australia will continue to increase as a share of domestic seafood demand.



Other Australian sectors (eg wildcatch and farmed prawns) now face increased import competition, and are being forced to differentiate and promote their products in domestic markets to maintain margins. This is also a likely scenario for commodity oysters in the domestic market in the longer term.

Capacity and Promotion

Product offer differentiation and promotion are becoming more important to achieve seafood market success.

Research by the Seafood CRC confirms that seafood consumers demand products that are more easily prepared, attractive to the eye, better tasting and are more convenient for their time-poor lifestyles. Fundamentally, they want to purchase healthy Australian seafood that does not exploit producers, and respects social and environmental values. Food freshness is more important than the production source (wild or aquaculture). They are prepared to pay higher prices where these fundamental values are assured. Increasingly consumers are looking to purchase minimally transformed food in order to capture its full nutritional benefits. Industry has no mechanism to raise funds to promote or market its products in the face of increasing competition.

Australian seafood (including oysters) is largely a consumer commodity. There is negligible communication of the specific health, convenience or social welfare attributes of seafood to consumers prior to or at the point of sale. As there is negligible promotion of seafood (including oysters) as healthy, nutritious, convenient and sustainable fresh food, most consumers attach a higher level of risk to potential purchase of seafood (including oysters). Industry has only limited and fragmented capacity to communicate the benefits of its product offer to consumers.

National Governance Framework

The recent formation of Oysters Australia provides a single national governance framework for oyster growers, hatcheries and chain partners to achieve a number of advantages, simultaneously:

- to be better informed, and better heard as a single voice by consumers, regulators, and the community,
- to undertake more articulate and comprehensive consultation and planning to manage industry risks and capture growth opportunities,
- to achieve economies of scale that boost investment efficiency (in RD&E, service delivery), and unit reduce costs to growers and chain partners.

Recommended Mechanisms

The CDIP Report 2009 (p 32) recommended a levy adoption pathway as follows:

- a grower-inputs based levy as the most acceptable to industry and the most workable option,
- spat purchase by growers as potentially the most effective input mechanism and collection point,

but only when all growers participate in a national breeding program,

- in the absence of spat purchase as the key input, water (i.e. lease area) is an appropriate input proxy mechanism which is currently the basis for jurisdictional levy collections in the three key states of NSW, SA, and Tas.
- Existing state collection and compliance management arrangements will provide non-contentious pathways to a national levy program. However key aspects such as cash flow security for OA, unit costs to growers, collection costs, investment funds control, and efficiency of the respective systems needs to be harmonised and equitable.

Current Recommendation

An equitable national levy framework is recommended as the most secure and effective funding mechanism for OA pursuing stated national industry goals for the benefit of all growers and hatcheries.

A levy rate must be equitable for all growers at both the payment end and also regarding access to subsequent investment outcomes.

Water or spat sales can be the input mechanism used and relevant collection point.

Two collection mechanism options exist:

- existing state arrangements with formal back-to-back investment agreements with levy collectors and FRDC. States would manage compliance and charge a fee.
- a single collection and compliance service (e.g. Levies Revenue Service - DAFF/FRDC) would be managed nationally for a fee, as in most other industries.

It will be best if industry makes a collective decision to go one way or the other – mixing the 2 options across jurisdiction will not be cost effective for any jurisdiction.

A compulsory statutory mechanism is the only pathway that will ensure OA receives the secure ongoing funding streams it requires to deliver national projects for industry benefit. It offers the following key advantages:

1. Equity across all Australia growers,
2. Industry control of mechanism and funds,
3. Flexibility in management of inputs/funds,
4. Low set-up and running costs per unit,
5. Low funds leakage and project risks.

Funding Options for Oysters Australia

The preferred funding approach for OA is to:

- make the collection of funds for industry use as cost effective and equitable as possible,
- make the investment of industry funds on high priority national issues equitable, cost-effective, and transparent to all growers and industry members.

Next 3 years

In the short term (say up to 3 years) the preferred approach is for OA to seek contributions from state industries to fund the key issues and projects agreed by its 6 organisational members.

Based on the following administrative budget assumptions for OA, the forecast total requirement (excluding the costs of industry projects) for each state industry is as follows:

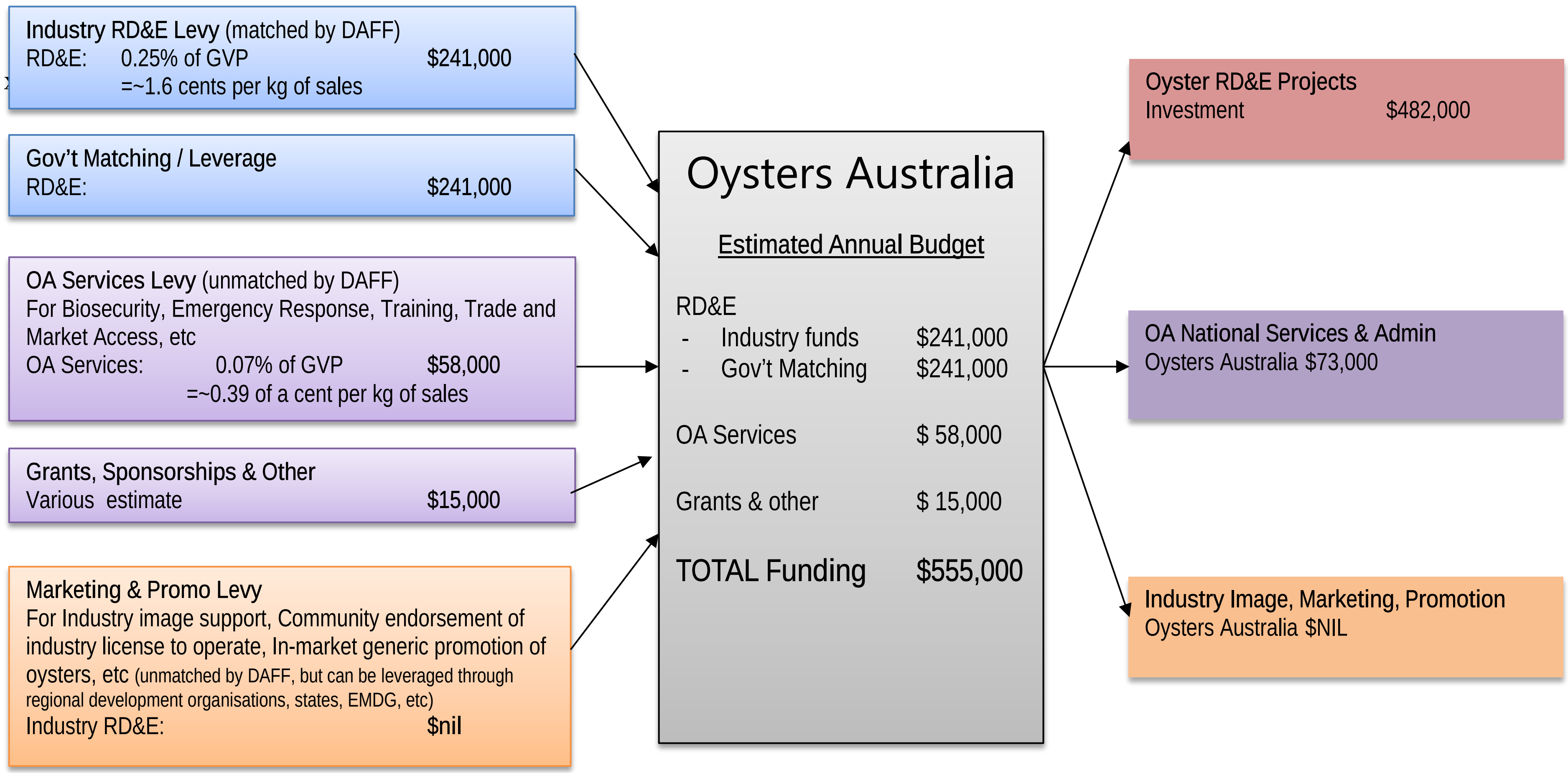
OA Budget Forecast - Year ending June	2012	2013	2014	2015	2016	2017
Contractor services	$23,634	$23,634	$23,634	$39,900	$42,000	$42,000
Meetings - venue hire	$1,300	$1,300	$1,300	$1,500	$1,500	$1,500
Parking, taxis, tolls	$400	$400	$400	$400	$500	$500
Telecommunications	$2,000	$2,000	$2,000	$2,000	$2,200	$2,400
Travel & accommodation - staff / contractors	$4,550	$4,550	$4,550	$5,121	$5,500	$5,600
Travel & accommodation - committee	$24,000	$20,600	$20,600	$20,600	$22,000	$22,000
Professional membership fees	0	0	0	0	$0	$0
Training & conferences - staff / contractors	$550	$550	$550	$619	$750	$750
OA Overheads: accounts, occupancy, travel, banking, advertising, leases, insurance, etc	0	$5,143	$5,287	$5,772	$6,300	$6,900
Total OA Expenditure	$57,534	$58,177	$58,321	$75,912	$80,750	$81,650

These funds can be generated equitably based on the forecast GVP of each state. Using the 2012 GVP figures the estimates for additional funding to support OA are:

	2013	2014	2015	2016	2017
NSW	$2,226	$2,289	$32,866	$34,960	$35,350
SA	$1,961	$2,016	$28,952	$30,797	$31,140
TAS	$929	$955	$13,714	$14,588	$14,751
QLD	$25	$26	$380	$405	$410
Total	$5,143	$5,287	$75,912	$80,750	$81,650

OA funding could also be based on lease area or harvest tonnage but these are not as equitable, given that growers for SRO and PO receive different sale prices at the beach.

How the Recommended Mechanism Could Support OA Goals from 2014



Appendix 3. OA Engagement Flyer release to Industry

Oysters Australia is *investigating* the suitability of a national oyster levy for Australian oyster producers INSTEAD of the Research & Development levies paid in NSW, SA & Tas.

Why?

1. Australian oyster growers have agreed on priorities, some that can't be addressed under existing levy structures. Since 2007, NSW, Tas & SA (Qld in 2009) have co-invested in R&D accessing matching funds via the Seafood CRC. In 2009 all states agreed that they would aim more broadly to;
   - ✓ Sustainably increase edible oyster production to 20 million dozen, with a GVP (Gross Value of Production) of $120 million,
   - ✓ Increase consumer satisfaction and in so doing increase edible oyster consumption by 13%,
   - ✓ Build capacity, leadership and confidence in the industry among growers, supply chain partners, government and the community

   By 2011 oyster growers across all commercial oyster producing states opted to formalise the working model by setting up Oysters Australia.

2. Oysters Australia wants a good report card of delivering against what growers want. Oysters Australia doesn't have resource to address some areas at the moment. Oysters Australia's 2012 report card against its 2009 Business Plan high priorities is:

Oysters Australia 'Business Plan' Report Card 2012	Profile & structure	95%	OA & news forum have been built. Future work areas = communication & r'ship with chain, fund bodies, Gov't
	R, D & E	100%	(Not incl market priorities). R & D is OA's main activity.
	Policy	30%	All voluntary capacity. Focus diverted away to respond to POMS. Needs resource to allow it be proactive.
	Market/ promotion	57%	(Achieved via CRC). Needs resource to achieve priorities post Seafood CRC

3. Existing levies have various mechanisms – ie statutory, non-statutory and voluntary. If the industry collectively wanted to make changes it needs to make changes in 3-4 states. There is risk that one state gets 'left behind' in the administration of change and Oysters Australia is no longer 'Australian'.

4. Existing levies have specific function – ie Research, Development & Extension (RD&E). If the industry collectively wanted to invest in anything 'non R&D' it needs to raise funds another way.

5. A national levy is more efficient. All major primary industries – prawn farmers, dairy, horticulture, meat, pork, cotton, grain and forestry use a national levy to fund RD&E and industry services – marketing, promotion, biosecurity where their RD&E funds are Government matched. It is efficient in single sectors operating across state boundaries.

6. A national levy still involves state industry agreement and control. A statutory national levy involves industry agreement regarding who pays, what rate and the mechanism and can be administered in each state.

7. All states with equitable contribution. It is important that each grower contributes equitably to agreed priorities rather than one state investing more/less heavily than the other. The national industry currently contributes 0.25% GVP in RD&E. A plan, with estimate costs, will be drawn up for investments beyond 2014 so that the industry can decide how much to invest in each of RD&E, market/industry 'image' investments (currently $0) & OA running costs.

Appendix 4. Responses from Regional Workshops regarding Levy Options

The following notes are prepared for the Directors of Oysters Australia based on a series of national levy presentations and facilitation undertaken by Ewan Colquhoun, Ridge Partners.

Key Issues and Responses	Consultant's Comments
Port Macquarie, NSW (16 attendees) • Water quality is main issue – it is "not being addressed at all by OA"! • A minority of attendees suggested that the region has always been a Sydney Rock region and Pacific Oysters should be "banned from the estuary". • "POMS is not an issue for us – why are you wasting our time talking about it!" • General discussion around key issues including biosecurity indicates license holders are poorly informed about (and trying to ignore) the overall biosecurity risk (QX etc in Sydney Rocks and POMS in Pacific Oysters) to the national industry. • "We do not want to join with SA or TAS growers in levy investments – they will try to put us out of business". Fear of loss of control at the OA Board level. • "OA does not communicate with us" • "We do not want to pay any new levies" • Many attendees appear to have just a tolerable relationship with their state regulator and therefore and are overly focussed on compliance matters – most have not seen or been lead to look more positively at the opportunities for regional and national oyster industry development/efficient joint investment/growth. • No negatives about the existing role/performance of the OA EO. • A few loudly proclaim they would like to see "OA go broke and fail" – but there is possibly a majority (many were too silent to tell!) who are broadly supportive of OA and want it to communicate to them better! • While there were a number of outspoken people present, surprisingly the mood at the close of the meeting was broadly in support of OA and its proposed direction. The 4 questions at the end of the presentation were to be addressed after a subsequent local meeting to discuss the matters.	• It was a great result to have so many license holders attending and engaged in the "investment" process. (no run jointly with benchmarking workshop). However unfortunately it seems that most of them are not well informed regarding the broader national oyster industry and its risks and opportunities - limited focus on strategic matters. (This fact became increasingly obvious as meetings in SA/TAS progressed.) In this context it is very easy for a few to drown out a majority view. • OA's leaders struggle to get the OA message across as there is not a good and well supported NSW oyster industry organisation – not sure if the current arrangement via NSW Farmers is effective for growers. Tony Troup has a difficult role and selling the national message and OA's plans is very difficult. • It will be important (and seems a good move now) to better inform this region to increase OA's profile. (But need to see the written responses back from attendees re 4 key questions before considering if/how/when to address this.) • While the presentation content and format across all national meetings was exactly the same, in hind sight it may have been better for the NSW meetings to be in the second week so the consultant could be better prepared to target key issues for NSW. It was very effective to have Tony Troup in the meeting to respond directly to some aggressive questions re OA. • Rate the meeting as 6 out of 10 in terms of it achieving its planned outcomes.
Port Stephens, NSW (5 attendees) • The low attendance by license holders discounted the opportunity for strong engagement and issue discovery. • Industry was prepared to support both Sydney Rock and Pacific Oyster options • New unknown diseases appear to be a real problem • No major problems with OA or a potential realignment of levies; and there seems no barrier to OA seeking an additional \$23k/yr to partially cover its admin/biosecurity costs. • OA EO role is well thought of. • Answers to the 4 Key questions to be directed back to OA/Tony.	• Meeting was generally supportive of OA initiatives, but attendance was too low to get a real read on the issues. (Run jointly with benchmarking meeting). Again it was good to have Tony in the room to respond to key OA questions. • It is concerning that many of the license holders in the region chose not to attend the meeting. • Need to see the individual responses to be determine How best OA can better engage/work with/support growers in the region. Broader level of support is hard to predict. • Say 8/10 for those who attended.
Batemans Bay, NSW (15 attendees) • Good attendance at the meeting. • "Your GVP figures are questionable" – a couple of strident speakers tried to derail the presentation early by attacking the consultant's credibility. That approach is a bit sad! • Private comments to the consultant by 3-4 license holders prior to the presentation confirmed that many growers "are going broke with Syd Rocks" and want to support Sydney Rocks in the Clyde Estuary and also OA's proposals for change. • The formal meeting was quite polarised – there were a few loud license holders who were against any levy realignment (or increase, or marketing, or a national approach), and then there were a few who supported change. Many were in a silent majority. • A number of positive individual comments came through in plenary discussion (eg a national spat levy at ASI to fund POMS!, and a national generic market approach from informed individuals). • Many did not know about OA and said that it was run by the other states for their advantage (a couple suggested it was "a tool of the CRC which is SA based"). • Some wanted OA/SCRC to get out of their business and let them manage directly with their own NSW associations and levies. When questioned about how such a local focus would run they were not able to answer as to how this would work and survive financially. Again there seems to be only 4 or 5 in the meeting who were aware of the significant risks that their oyster industry faces (viability,	• Good attendance, support from local leaders and engagement – but a significant majority were reasonably poorly informed re the bigger viability and national industry issues. No benchmarking meeting held. • Good to have Ewan McAsh in the meeting to directly respond to and refute some of the local prejudice/folk lore. Again it seems a had job for Kevin/Ewan to represent and prosecute the bigger picture OA initiatives. • Load outliers tried to be dominant and discredit new thinking and discussion. Not sure if the NSW/local association suffers from lack of advice from OA / NSW Govt /NSW Farmers – need to look at meeting responses emailed to Kevin McAsh/OA. • There are significant number of license holders in the region that want change and want their business to be viable again. A good communication strategy that includes them will likely be a key part of any OA followup approach. • 6.5/10

biosecurity, market margin) and the opportunities it can pursue.	
Pambula, NSW (18 attendees)	
• Regional association appears to be very well organised - meeting was well attended • Meet attendees had relatively good awareness of and engagement with issues and the presentation brought out a lot of comment – positive and negative. • A minority of license holders were concerned about working with other SA/TAS (loss of control at the OA Board), about any push for a national marketing levy, about incursion of Pacific Oysters into the region, and about possible OA agenda for national marketing. • There was very little anger/unhappiness with OA and its short track record to date. Most attendees thought more communication from OA was desirable and potentially beneficial. • Broadly the meeting was supportive of OA, of its proposed initiatives, levy realignment and small increase in investment.	• Good to have Kevin McAsh in the meeting to directly address specific OA matters. The existing and potential role of OA and its reps seems to be more highly regarded in the Pambula Region compared to Batemans Bay or Port Macquarie. • Meeting run jointly with benchmarking workshop. • The tone of the meeting was quite positive, and also with respect to the levy material/options presented by the consultant. • Need to review the specific responses from attendees to each of the 4 Key questions in order to get a better read on the potential OA regional approach. • Likely that support will be forthcoming for OA proposals. • 7/10
Smokey Bay, SA (6 attendees)	
• Small number of attendees • Great majority were well informed re strategic risks and choices. • All presentation material discussed and debated where required – most attendees were aware of issues and engaged. • Support received for OA proposed direction and levy proposal. • Individuals to respond to the 4 Key questions.	• Meeting held jointly with benchmarking workshop. • Attendees wanted a solid discussion about how the OA levy realignment would work • Good support for OA proposals. • 8/10 for those who attended
Coffin Bay, SA (6 attendees)	
• Limited number of attendees • OA role and direction is not well understood by all – communication problem? • Meeting attendees were well engaged in the presentation and levy/investment options material - a good level of informed questions and strategic level discussion.	• Meeting held jointly with benchmarking workshop. • Attendees wanted a solid discussion about how the OA levy realignment would work • No formal vote held on the 4 Key questions • Moderate-good support will be forthcoming for OA proposals. • 8/10 for those who attended
Cowell, SA (8 attendees)	
• Good level of attendance from local industry • OA role and direction is not well understood by all – communication problem? • Strong flavour of commercial outcomes to levy effectiveness – offsetting existing PIRSA arrangements • Meeting attendees were well engaged in the presentation and levy/investment options material - a good level of informed questions and strategic level discussion.	• Attendees wanted a solid discussion about how the OA levy realignment would work • No formal vote held on the 4 Key questions • Good support for OA proposals. • 8/10
Smithton, TAS (7 attendees)	
• Approximately 70% of license holders in attendance – good • Meeting attendees were well engaged in the presentation and levy/investment options material - a good level of informed questions and strategic level discussion.	• Attendees wanted a solid discussion about how the OA levy realignment would work • No formal vote held on the 4 Key questions but a strong majority of attendees supported the national OA levy approach and initiatives
Swansea, TAS (5 attendees)	
• Small meeting – but did not attract St Helen license holders. • Meeting attendees engaged (over dinner) in the issues and presentation re levy/investment options. • The late hour of the meeting limited opportunity for more detailed discussion of OA proposals.	• Attendees were all broadly in support of the national OA approach, but want to see more detail in coming weeks. • No formal vote held on the 4 Key questions • 7/10
Hobart, TAS (13 attendees)	
• Biosecurity risk is large and growing – now key priority is POMS. ASI may have a possible role but this is evolving in separate discussions between hatcheries and industry. • Existing state based funding arrangements are inadequate to meet national risks • "This national levy issue has been a problem for a long time – it needs to be solved now" • Governance arrangement between OA and the state associations need to very well defined in a national agreement and governance framework • Marketing initiatives have not been successful in the past – any new approach OA may subsequently propose needs to be carefully planned before it is launched	• Meeting held jointly with benchmarking workshop. • Attendees provided individual responses to the 4 key questions at the end of the meeting. Votes (show of hands) held as follows: o Qn1: Yes we agree with a national equitable levy – emphasis on equitable (GVP/ beach price seems best). UNANIMOUS o Qn2: No the states should not have the power to get in the way of an effective national investment/levy mechanism that a strong majority of the national industry wants. States (via state associations) should be close partners with OA but not have a veto to limit national management of risks. MAJORITY o Qn 3: States and OA should maximise all financial leverage opportunities at all state/federal levels. Equity arrangements between all growers across Australia, and between states, should be clear and strong so that states get funds back from OA where they make additional unmatched contributions (eg to run their local association) on a case by case basis. o Qn 4: Yes OA should be given the right by the national industry to propose /implement non RDE investments/levies and to make the business case to all license holders accordingly.