

8 July 2010

Committee Secretary
Senate Standing Committee on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

SFMCA SUBMISSION – Inquiry into the Australian horse industry and an emergency animal disease response agreement

The Stock Feed Manufacturers' Council of Australia (SFMCA) is the peak industry body representing Australian feed manufacturers. SFMCA members manufacture over 5.2MMT of animal feeds annually. The members of our organisation manufacture a wide range of feeds including those supplied to the horse industry.

Submission Summary

The EADRA levy scheme must be equitable across horse owners. The most equitable scheme is where collection is directly from owners with two options being most applicable these being:

- 1. Horse Organisation Registration and/or Membership – collected as part of either annual membership fees or on registration of horses.**
- 2. Event Entry – collection in a fee when horses are entered in races, events, shows, pony club days and other horse activities.**

The SFMCA believes that an indirect collection method through horse industry inputs is highly inequitable. We also believe it would be anticompetitive as it is only applied against manufactured feeds and not feed ingredients competing with manufactured feeds. The SFMCA would like it to be clearly recognised that our organisation and the individual manufacturers of horse feeds object to any move to collect EADRA levies from horse feeds.

Discussion in the horse industry has been around applying the levy against manufactured feeds, whilst owners either not feeding their horses (relying on pasture grazing) or mixing their own feeds would pay no levy. Any move in this direction would disadvantage horse feed manufacturers and is inequitable across the industry. The SFMCA argues that horse feed is not a product of the horse industry and is unsuitable as a levy collection method.

This submission sets out the reasoning behind this objection and it is authorised by the Federal Council of the Stock Feed Manufacturers' Council of Australia.

SFMCA Submission

Our organisation supports the horse industry committing to an Emergency Animal Disease Response Agreement (EADRA). The SFMCA does not oppose the intent of the horse industry and Government in having a cost sharing agreement to respond to exotic horse disease incursion.

This submission addresses the Inquiries Terms of Reference point *b) Options for equitable contributions by horse owners to a levy scheme to meet their obligations under EADRA in the event of an emergency animal disease outbreak in horses.*

We are aware that participants in the horse industry have been promoting various EADRA levy collection options. One of the options being promoted is the use of feed as a collection mechanism. Discussions our organisation has had with horse industry association contacts and Animal Health Australia has resulted in the SFMCA making this submission to ensure that the Senate Inquiry gains a full appreciation of the views of horse feed manufacturers.

The following points are raised against horse feed as a means of EADRA levy collection.

1. Horse feed is not a product of the horse industry

We believe that the implementation of a horse industry EADRA levy would be implemented under the *Primary Industries (Excise) Levies Act 1999*. Under this Act, the horse industry levy would apply to a product of the industry. Within this submission we also make reference to the Department of Agriculture, Fisheries and Forestry Levies Revenue Service document entitled *Levy Principles and Guidelines*.

We recognise that the horse industry does not produce a product such as meat, milk, eggs or wool as produced by other livestock industries. However we disagree with the use of feed as an indirect product for levy collection. Feed is a product of the stockfeed industry, it is not a product of the horse industry. Feed is a commercial product used by horse owners.

Within the *Primary Industries (Excise) Levies Act 1999*, definitions are provided for product, animal product and plant product, these being:

product means an animal product or a plant product (whether or not any operations have been performed in relation to the animal product or plant product).

animal product means:

- (a) an animal; or
- (b) any part of an animal; or
- (c) anything produced by an animal; or
- (d) anything wholly or principally produced from, or wholly or principally derived from, an animal.

plant product means:

- (a) a plant; or
- (b) any part of a plant; or
- (c) anything produced by a plant; or
- (d) anything wholly or principally produced from, or wholly or principally derived from, a plant.

Under these definitions horse feed cannot be seen to meet the definition of a product of the horse industry. As the EADRA levy would apply to an animal industry in horses, the product should also meet the definition of an animal product. Horse feeds do not meet the animal product definition.

Horse feed is in fact a plant product, being derived from grains, grain co-products (bran, rice pollard, etc), vegetable protein meals, plant roughage (chaff, straw, hay) and additional vitamins and minerals. The SFMCA argues that applying a levy to horse feed is in fact applying a levy against plant industry products that have been manufactured into horse feeds.

The SFMCA argues that the horse industry has two products, these being:

1. Horses, bred for use by their owners. Apart from wild horses, all horses have been bred for a purpose, whether this is in commercial activity or pleasure and leisure pursuits.
2. Horse activities through racing, eventing, riding, competing, showing and breeding. Owners and horses participate in horse events and the product of the industry is participation in these equine pursuits.

It is the horses themselves and their participation in horse events that are the products that should be levied. A levy applying against breeding horses and event participation meets the EADRA Guidelines. We believe collection on horse feed does not comply with the Guidelines.

2. Indirect Collection Method

A levy on horse feed is an indirect method of collecting levies and will not be seen or recognised by the horse owner. We believe that levy collection must be transparent so the horse owners recognise the cost in levy payments. SFMCA does not support any indirect levy collection system; the collection must be directly from horse owners in registration or event participation levies.

We have seen the argument that the horticulture industry collects some levies via an indirect means, this being based upon applying the levy to the sale plastic pots to nurseries rather than to nursery plants. This has been done due to difficulties in collecting levies from every nursery grower in Australia. For nurseries, plastic pots are an input for the industry and the levy is being collected from the pot importers. This is seen as an industry input levy collection system and it is proposed that levy collection on horse feed would similarly be an industry input levy. This argument, however, breaks down because the plastic pot is sold with the nursery industries products, this being the potted plant. The levy on plastic pots is directly linked to the industries product – nursery plants.

Horse feed has no link with the horse industries product. Although manufactured horse feed is consumed by horses, it is not an essential input for the horse industry. There is no relationship between units of horse feed sold and units of horse product. The example of levy collection from pots in the nursery industry provides the perfect example of why the levy should not apply to horse feed.

The SFMCA does not agree with an indirect input levy collection system.

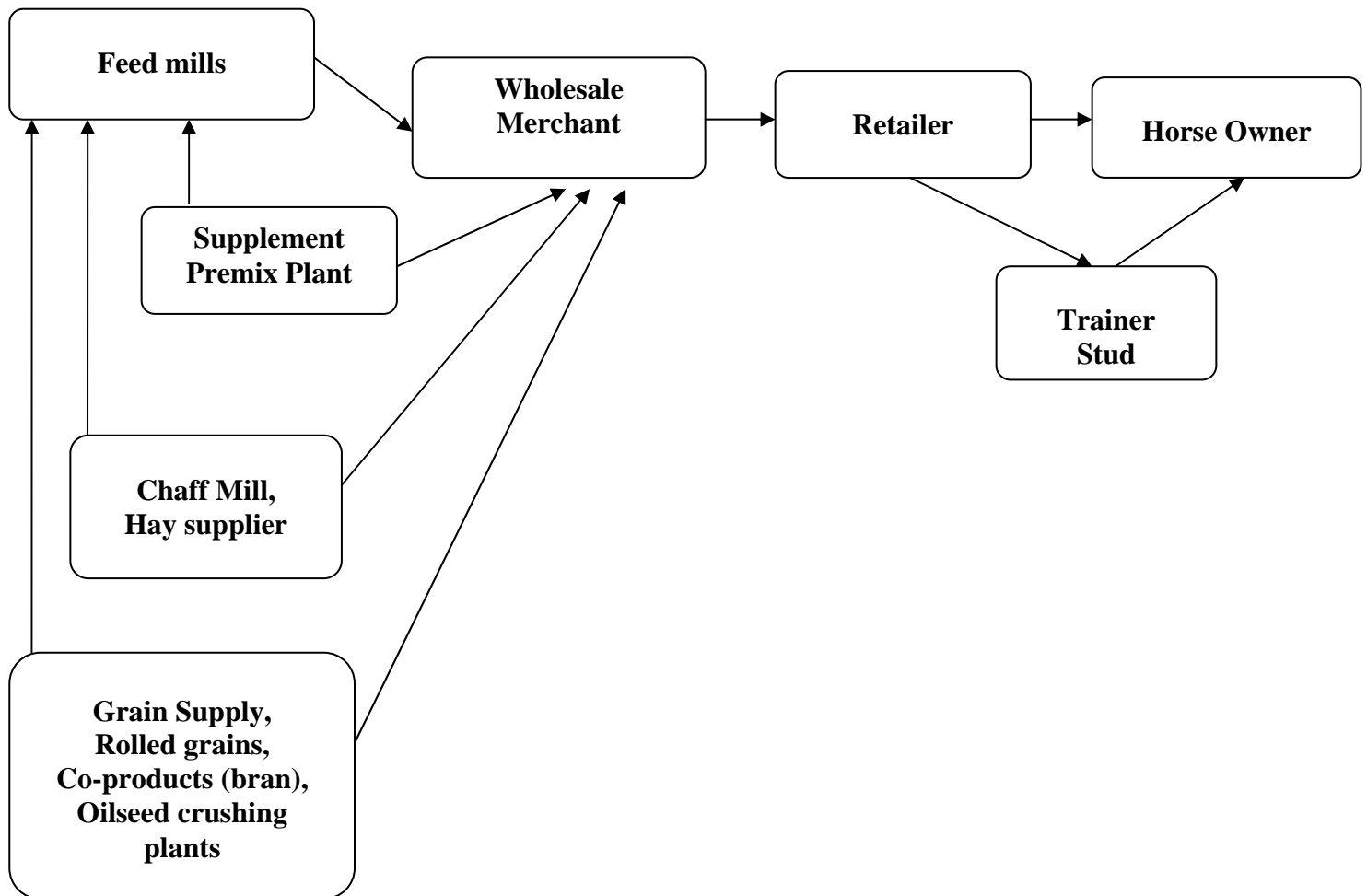
3. Point of levy collection removed from horse owners

It has been proposed that horse feed manufacturer's would collect the levy. This being applied through a levy amount added to the price of feed when sold by the manufacturer. The manufacturer is well removed from the horse owner, with feed supplied through feed wholesalers, distributors and retailers before being purchased by trainers, studs and individual horse owners. Diagram 1 is provided to illustrate the typical route of feed supply from manufacturer to horse owner.

The horse feed supply route is complex and many third parties can be involved including transport companies and warehouses who may or may not take ownership of the feed. We believe elements of the horse industry have either understated the complexity of the supply chain or have limited understanding of how the market works.

Applying a levy at point of manufacture does not result in the horse owner seeing this cost in their feed purchase. For horse owners paying training or breeding fees, the levy cost is lost within horse feed used by the trainer or stud.

Diagram 1. Horse Feed Supply Chain



Under the *Primary Industries (Excise) Levies Act 1999* each industry has defined who is liable for payment of the levy. Within each industry this is the producer of the product, eg coarse grain levies are payable by the grain producer, dairy produce levies are payable by the producer of the milk. Under a proposed horse industry levy on horse feed, neither the horse owners nor any entity involved in the horse industry will be the levy payer. For manufactured horse feeds, the levy payer will become the next participant in the feed supply chain after the manufacturer. For the majority of feed this will either be a feed wholesaler or retailer.

The SFMCA believes levy collection on horse feed does not meet the requirement of the *Primary Industries (Excise) Levies Act 1999*.

4. Administration burden

It is our understanding that the EADRA levy must be identified separately in accounts and financial statements. This will place a considerable additional administration burden on feed manufacturers.

In addition we understand that the levy amount must not have any Goods and Services Tax applied. This adds a further level of administration complexity to the horse feed supply chain, with wholesalers and resellers being required to account for the Levy separately in their GST reporting.

We do not believe the horse feed industry supply chain should be faced with these administration compliance costs.

5. Cost non recovery through the supply chain

Levy collection by feed mills assumes that this cost is transferable through the supply chain. It is also assumed that each participant in the supply chain has the capacity to pass this cost through the chain. With the levy ultimately being paid by the horse owner in the price of feed or training, spelling and breeding fees charged.

Feed wholesalers and retailers are the feed mill customers, not horse owners. These entities can be purchasing large volumes of feed. The supply of horse feeds is very competitive, with distributors and retailers switching feed supply due to small price movements. The potential monetary value of the EADRA levy on horse feed will be large relative to the margins applying to horse feed. Feed supply is a high volume low margin business and any supplier that can gain a cost benefit will gain market advantage.

The SFMCA argues that the levy will be lost in supply chain competition and in reality the levy will become a “tax” applied to feed mills and then lost through the supply chain of distributors, retailers, transport operators, trainers and studs. The end result being horse owners will be contributing considerably less than collected from the manufacturers. Due to the supply chain distance from feed manufacturer to horse owner and lack of transparency in passing the levy through the supply chain, we can see why some horse industry participants are in favour of levy collection through horse feed.

The SFMCA believes that if the EADRA levy is applied to horse feeds, the majority of the levy will come from the supply chain in reduced margins, with horse owners paying a minimal

additional cost. We believe this is inequitable and does not meet the objective of having levy payment from the horse industry. This outcome would be the result of trying to apply a levy to an input that is not a product of the horse industry.

6. Definition of Horse Feed

Information from AHA and horse industry associations makes reference to a potential levy applying to “hard feed”. This term although used by some horse industry representatives, is not a term used by horse feed manufacturers. Based upon feedback we have received, we believe what advocates of levy collection through hard feed are actually referring to is levy collection from manufactured feeds as opposed to non manufactured or home-mixed feeds.

We believe arguments put regarding “hard feed” levy collection to be misleading, conveying the impression the levy would apply more broadly than that applying to manufactured feed. Our understanding is that a levy would not apply to straight raw materials such as whole grain, rolled or cracked grains, co-products such as bran and rice pollard, protein meals such as soybean meal, full fat soybean meal, canola meal and sunflower meal, whole sunflower seed and vegetable oils. All of these hard feed ingredients are sold through produce stores and compete with manufactured feeds. Why should an industry levy be applied based upon the manufacturing process the ingredients have been through? If sold as straight ingredients there is no levy, if blended together and sold as loose-mix or pelleted feed there would be a levy applied.

We are lead to believe that chaff and hay would also not be classed as hard feeds and so automatically exempt from levy collection. Many manufactured horse feeds are sold containing chaff. Why exempt chaff but require chaff based feeds to have a levy applied?

The horse feed market contains many supplementary feeding products; some of these are high protein supplements, containing protein meals, vitamins and minerals. These form part of the horses feeding ration that horse owners would class as hard feed. There is uncertainty where these types of manufactured feed products would be classed as hard feed. There is significant debate over where the definition of hard feed or manufactured feed would start and stop.

SFMCA questions the logic that has been applied to the argument for using “hard feed” for levy collection. If it is in effect a levy collection method on manufactured feed only, this should be clearly defined. The SFMCA vigorously objects to only manufactured feeds being included for levy collection.

Use of the alternate term “manufactured feed” also presents problems as manufactured should include all grains and chaff as machinery is used to harvest, process and bag the product. It can be seen that the definition applying to levy collection will present many problems as well as potential loop holes for levy avoidance. Those promoting levy collection on feed have a lack of understanding of the complexity of the feed market and have proposed an overly simplistic view of levy collection.

7. Non application to home-mixed feeds

We question why manufactured feed suppliers, feed distributors and horse owners using these feeds would be required to pay the EADRA levy, when a horse owner mixing their own feed would pay no levy?

This is a major impediment that will be placed on owners that use manufactured feeds. We see this as an inequitable position, with a portion of the horse industry being free from levy contribution.

The largest horse operations commonly mix their own feeds. This involves bulk grain storage as conducted by many racing stables and breeding farms. Some of the largest horse industry participants would consequently not pay any levy.

SFMCA believes that placing a levy on manufactured feeds, whilst feed raw materials sold directly to horse owners who mixed their own feed had no levy, would create a market imbalance. We argue that the Australian and State Governments should not introduce a levy system that disadvantages a manufacturing industry and it does not apply the levy to the industry's major competitor, home-mixing.

8. Inequitable application between horse owners – most horses are never provided with manufactured feed

Many horses are never fed anything other than pasture and hay. Owners of these horses will never pay any levy.

For owners feeding their horses, they will only pay the levy if they purchase manufactured feeds.

The contribution each horse owner pays in levies will directly relate to the level of feed they use rather than the number of horses they own. The levy collection will be influenced by seasonal conditions, with owners in drought affected areas paying a higher levy. Wealthier horse owners, with more available land area, use less feed and will pay lower levies. This is an inequitable situation as an emergency animal disease will potentially affect all horses irrespective of how they are fed and who owns them.

- Horse owners with limited access to pasture grazing utilise more manufactured feed and will pay a higher levy.
- Horse owners that undertake higher levels of racing, eventing and endurance work will pay higher levies due to their horses' higher intake.
- Those owners based upon larger land area and lower stocking density, will be advantaged in using less manufactured feed and paying no or only a small levy.
- Country based horse owners have access to lower cost agistment, city based owners use more feed and so would pay more levies than country owners.
- When dry seasonal conditions occur, especially droughts, horse owners are forced to purchase more feed. Horse owners in these areas will be paying a higher levy amount than those outside drought affected regions.

The Australian Government guidelines for EADRA collection, calls for the collection method to be equitable. We believe levy collection on horse feeds to be highly unfair and inequitable for many horse owners.

9. It is easy for horse owners to avoid paying the levy

Any horse owner can simply avoid paying the levy by not using manufactured horse feed. Every produce store sells rolled oats, rolled barley, protein meals and vitamin/mineral supplements. This option is available to horse owners and is the major competitive force horse feed manufacturers compete against.

By avoiding paying the levy through mixing their own feeds, the horse owner is not entering into any risk taking activity. The use of home-mixed feeds is supported by many companies supplying horse supplements and feeding advice. It could be argued that companies promoting home-mixing would be actively promoting levy payment avoidance! We do not believe this would be a healthy outcome for either the feed or horse industries.

10. Lack of Statistical data to base the levy on

The SFMCA is aware of no reliable statistical data on feed use by the horse industry. We believe this is a major limitation in the proposal to collect levies on horse feed. Without adequate data there is only a vague concept of the potential levy that would be applied if funds are needed to be collected.

Data needs to be available identifying the actual number of horses that are fed; we believe that a significant number of horses are only fed pasture and hay.

Data also needs to be available identifying total horse feed use and this then split into the amount of feed the levy would be collected from. Based upon best estimates from our members we believe that manufactured feed will be below 60% of feed used by horse owners. When horses that are never fed are included, we believe a manufactured horse feed levy will be collected from less than 50% of horses in Australia. Based upon calculations using 165,000 tonnes of “hard feed” fed annually (data provided from AHIC) and there being a minimum 800,000 horses in Australia, this equates to only 200kg/horse or 550g/horse/day. This represents a very low feeding rate. Thus feed use outside manufactured feed must be much greater and our best estimate of 60% of feed use being manufactured feed is a gross overestimate. We believe the size of the market in terms of total feed use is far greater and that home-mixing of feed remains a significant market share.

The SFMCA argues that unless the levy is collected on all feeds, not just manufactured feeds, the levy collection will be highly inequitable and does not satisfy EADRA Guidelines of being broadly based.

11. Levy collection leakage

Some operators will seek to find ways of not paying the levy. We believe there will be areas where some manufacturers and horse owners will move to utilising non horse feed formulations as a means of avoiding paying the levy. This may be done through the purchase of other species feeds or alternately horse feeds may be labeled and invoiced in a manner that is less descriptive and not identified as a horse feed. Many horse feed suppliers manufacture feed for other

livestock species and supply of horse feed under a non horse feed name or label is highly unlikely to be found through audits.

The concern of the larger horse feed manufacturers is that smaller manufacturers will be more likely to look at means of avoiding paying the levy. These sites are also much less likely to be audited.

12. Collection from other animal species

Advice received from our members is that horse feeds are commonly used in feeding other livestock. This occurs on small properties keeping horses, cattle and sheep.

We are also aware of horse feed being purchased and repacked by independent third parties for resale to other species such as rabbits. This practice is carried out independently of the horse feed manufacturer.

In these cases levies will be collected from non horse industry feeding.

Horse feeds are manufactured in Australia and exported to overseas markets. There should be no levy applied to export feeds.

It thus is seen that due to horse feed not being a product of the horse industry, imposing a levy on horse feed creates other unintended consequences.

13. Feed, horse shoes and wormers

SFMCA has seen proposals looking at applying the EADRA levy across a number of collection points such as feed, horse shoes and wormers. SFMCA argues that each of these are indirect methods of collection and we do not support this approach.

This would spread the administration costs across many more companies and creates more system audit problems.

We also argue that the horses that are not fed, consuming paddock based grazing and hay, are also those that are most unlikely to use wormers or have horse shoes fitted. Thus spreading the levy across a number of collection inputs may not greatly increase the spread of collection.

14. Audit Limitations

The SFMCA believes that the largest manufacturers will be subject to audit and as such would meet the requirements of collecting and paying levies if they applied to horse feeds. We however also believe that smaller manufacturers would be infrequently, if ever audited, and as such will be able to avoid applying the levy collection.

SFMCA questions how horse feed manufacturers will be identified and what mechanism will be applied to ensure all manufacturers are captured. We recognise that some produce stores mix their own blend of horse feed that is sold in competition with the larger manufacturers. We doubt that the collection and audit system would take account of all horse feeds, leaving the largest

manufacturers to act as the collection service provider, while smaller manufacturers have a market price advantage.

15. Industry Responsibility

SFMCA argues that the horse industry should take responsibility for levy collection. The promotion of collection through a feed levy is a means of shifting responsibility from the horse industry associations to another industry group. The SFMCA objects to being seen as an easy means of getting someone else to do the work of levy collection. We believe a number of horse industry associations have difficulty in making a commitment through their organisation's to implement a direct levy collection mechanism. We argue that the Australian horse industry should function as a united body and take leadership in implementing a direct levy collection mechanism. Shifting responsibility to horse feed manufacturers for levy collection is seen as a weak industry position.

We note that EADRA levies apply across other livestock industries. None of these industries has resorted to trying to impose levy collection through feed supply. These industries are responsible for levy collection.

16. Direct collection is proposed

The SFMCA believes the best method of levy collection is that applying directly to the horse owners. We propose that collection should be through two routes:

1. Registration payments – either through horse breeding association horse registration or industry membership. These organizations already collect registration and membership fees, with the EADRA levy being added to annual fee charges.
2. Event Entry – collection in a fee when horses are entered in races, events, shows, pony club activities. The EADRA levy can be added as an additional charge on participation.

Using these two collection methods the collection process applies to the products of the horse industry – the horses and horse activity.

Through the use of both collection areas, there will be a much broader collection base than that applying to horse feed. The payment will come directly from the horse owner and not indirectly from the supply chain. The levy is payable by the horse owner, not suppliers to the horse industry.

The horse industry through industry associations, racing clubs and horse breed societies would thus be responsible for levy collection.

SUMMARY

The SFMCA does not support the use of horse feeds as a means of collecting the EADRA levy. We see this as a significant threat to the manufacturers of horse feeds. Levy collection on horse feed would be highly unfair and inequitable and does not comply with the Australian Governments EADRA collection guidelines due to:

- Not being applied to a horse industry product.
- Will not apply to the majority of horses.

- Providing an advantage to owners mixing their own feeds as they would avoid levy payment.
- Results in higher levy payment from horses being fed higher amounts of feed.
- Does not provide any levy collection from owners with horse's utilising only pasture, hay and chaff.
- Allows owners with more land and lower stocking density pressure to pay lower levies.
- Encourages manufacturers and horse owners to avoid levy payment through alternate manufacturing arrangements.

Horse feed levy collection would be unfair and inequitable for both the horse owner and feed manufacturer. We argue that the point of collection must be close to the horse owner with direct payment from horse registrations and event participation. Use of an indirect collection method is open to exploitation and is in reality an attempt by the horse industry to have someone else being responsible for the collection process.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. C. Spragg', with a stylized circular flourish at the end.

John Spragg
Executive Officer
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