

12 November 2010

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

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

The Stock Feed Manufacturers' Council of Australia (SFMCA) has made a prior submission dated 8 July 2010. As the issues surrounding the implementation of an EADRA levy have been discussed by various parts of the horse industry, the SFMCA makes this supplementary submission to address some additional points.

1. Proposed levy collection methods

The Horse Industry Levy Working Group has proposed two preferred levy collection methods, these being manufactured horse feeds and horse wormers. The definition of manufactured horse feed, the SFMCA has been provided with by Animal Health Australia, is:

Manufactured horse feed – A product that is modified, an adulterated feed or a specialist supplement that is produced and marketed for equines or identified as an equine specific consumable product. This definition does not include chaff products or specialist feed additives.

The proposal clearly does not include the many ingredients that are purchased by horse owners in feeding their horses and it is targeted to only include feeds sold as horse feeds.

The SFMCA sees this proposal as highly inequitable as there are large volumes of raw materials purchased by horse owners that will be exempt from levy collection, this includes the following feeds:

- Cereal grains – oats, barley, wheat, triticale and sorghum in whole, cracked, steam rolled or extruded form.
- Pulse grains – lupins, peas, faba beans either in whole, rolled or steam rolled form.
- Cereal by-products – wheaten bran, wheaten pollard, millmix, rice pollard, dried distillers grains, oats hulls, dehulled oats, malt combings.
- Vegetable protein meals – soybean meal, cottonseed meal, canola meal, sunflower meal, linseed meal, safflower meal, copra meal, palm kernel meal, full fat soybean meal.

- Fodder – oaten hay, oaten chaff, wheaten hay, wheaten chaff, lucerne hay, lucerne chaff

In addition there are a large range of vitamin and mineral supplements that are supplied to horse owners to manufacture their own feeds.

The SFMCA believes that a levy applied to only part of the industry, those purchasing manufactured horse feeds, is highly inequitable.

2. Manufactured Horse Feed Consumption

Applying a levy on manufactured horse feed has no solid basis as there is no available data that identifies the proportion of horses and horse owners that will be captured by the levy system.

There is no data defining the total volume of horse feed consumed by the horse industry. This is required to form a basis upon which the proportion of manufactured horse feed consumption can be calculated.

The SFMCA does not collect data on manufactured horse feeds and we are aware of no government or industry data collection.

Without data for each of these two areas, it is impossible for the horse industry to form any view regarding the proportion of the horse industry that will pay a levy applied to manufactured horse feeds.

The SFMCA holds the view that the volume of manufactured horse feed sold within Australia is used by less than 50% of the horses. We note that the Australian Horse Industry Council in June 2010 estimated that manufactured horse feeds were used by only 22% of domesticated horses.

The SFMCA states that a levy applied to only the minority of horse owners in highly inequitable.

3. Levy Cost

Advice received from Animal Health Australia makes reference to a probable levy cost of 60c/20 kg bag, with this being described as a small cost and insufficient to alter horse owners buying habits.

The actual levy cost will be dependent upon the emergency disease response costs and spreading cost recovery over the following ten year period. The actual levy cost could be in the range \$0.20 – \$1.00/20kg bag.

The following table provides the scale in levy payment for a typical horse owner feeding 5kg/horse/day. This feeding rate is below that recommended for most manufactured horse feeds where the horse is in work.

Levy Amount	Cost/horse/annum
20c/20 bag	\$18.25
40c/20 bag	\$36.50

60c/20 bag	\$54.75
80c/20 bag	\$73.00
\$1.00/20 bag	\$91.25

It can be seen that for those horse owners using manufactured feed, the horse levy will be a large cost and far from the “small cost” that has been discussed. Where horse enterprises have larger numbers of horses in training for racing or work for equestrian sports, the cost to their business will be significant and the option of mixing their own feeds to avoid paying the EADRA levy will be attractive.

Discussions the SFMCA has held with horse feed manufacturers confirms the view that **applying the EADRA levy to horse feeds will result in reduced horse feed sales. Owners will change their practices to either stop or reduce using manufactured feeds, taking the easy and lower cost option of buying ingredients that will not be subject to the levy.**

4. Administration burden

It is our understanding that the EADRA levy legislation must ensure there is no "cost shifting". Thus the responsibility for payment of the levy resides with the industry benefiting from the levy collection, in this case horse owners. We believe the horse industry is seeking to have levy collection on horse feeds, as they see themselves (horse owners) paying the levy as it is transferred in the feed selling price.

To ensure there is no cost shifting requires the levy collection component to be shown on tax invoices from the collection point (feed manufacturer) through the supply chain to retail sale to the horse owner. Without this levy identification on invoices, it is more likely that the EADRA levy cost may not be passed through to the horse industry and the cost is effectively shifted or absorbed within the feed supply chain.

Horse owners will only have recognition that they are paying the levy when it is shown on the retail sales invoice. Based upon the need to have the EADRA levy shown on invoices, this results in horse feed wholesalers and retailers being stakeholders in the EADRA levy introduction, as they would be required to implement new invoicing requirements.

Applying the levy to manufactured horse feeds will increase the administration burden on many more operators than the feed mills. There are thousands of retail outlets selling manufactured horse feeds that will need to comply with levy administration.

5. Imported Feeds

A number of companies import and distribute horse feeds, these being marketed based upon overseas nutritional expertise and use of leading horse enthusiasts. The SFMCA believes that the EADRA levy could not be legally enforced within the country of manufacture. It would be inequitable to not have the EADRA levy applied to these imported feeds.

The EADRA levy legislation will need to account for imported manufactured feeds.

6. Levy Avoidance

Based upon the definition of manufactured horse feeds being *produced and marketed for equines or identified as an equine specific consumable product*, manufacturers could easily switch to selling products that are not identified or marketed as equine specific products.

The market already has considerable multipurpose products labelled and marketed as “Utility Pellets, Pasture Replacer, General Purpose Feed”. The SFMCA believes that should the EADRA levy become active for manufactured horse feeds, there would be a significant increase in these types of non equine general purpose feeds within the market.

While the major horse feed manufacturers will seek to retain their horse feed products and branding, there will be some manufacturers that will take advantage of the market opportunity. **Due to the industry being a high volume, low margin business, some manufacturers, distributors, retailers and horse owners will readily use this option to avoid paying the EADRA levy.**

We trust that the Senate Committee will carefully consider the points raised within this submission.

Yours sincerely



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