



# Industry funded biosecurity management in Western Australia

A review of the Western Australian industry funded  
biosecurity management Schemes

Prepared for the three Industry Management  
Committees, through the Department of Agriculture and  
Food Western Australia

**June 2012**



**ACIL Tasman**  
Economics Policy Strategy

# Grains, Seeds and Hay; Cattle; and Sheep and Goats Industry Management Committees

## *Industry Funding Schemes Biosecurity and Agriculture Management Act, 2007*

31 October 2012

To Industry

As part of the implementation of the Industry Funding Schemes (IFS), under the *Biosecurity and Agriculture Management Act 2007* (BAM Act), the regulations; the operation of the Schemes; and the benefits to the industry had to be reviewed after the first year of operation, with a report provided to the Industry Management Committees (IMCs) that oversee each Scheme, the Minister for Agriculture and Food and the Industry.

The three IMCs agreed to run one process for all three sets of regulations and Schemes at the same time: Grains, Seeds and Hay; Cattle; and Sheep and Goats.

We are pleased to present the review report to the Industry and participants of the Industry Funding Schemes.

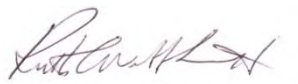
The IMC members are running the Schemes on behalf of the whole industry and encourage your feedback on the Schemes, programs and biosecurity issues in general. Producers can contact us at any time through the IFS Executive Officer, or via the 'Contact Us' form on the Biosecurity WA website.

More information on the Industry Funding Schemes can be found on the Biosecurity WA website – [www.biosecurity.wa.gov.au/IFS](http://www.biosecurity.wa.gov.au/IFS)

Yours faithfully



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Sheep & Goats Industry Funding Scheme Management Committee



**The Hon Terry Redman MLA**  
**Minister for Agriculture and Food; Forestry; Housing**

Min Ref: 39-19569

**Review of the *Biosecurity and Agriculture Management Act 2007* (BAM Act) Industry Funding Scheme Regulations**

Recently I have had the opportunity to assess the report of the Review into the *Biosecurity and Agriculture Management Act 2007* (BAM Act) Industry Funding Scheme Regulations.

The conclusions of the review state that after nearly two years of operation the schemes are operating successfully in terms of grower acceptance. A series of recommendations are offered on how the schemes can be improved and I will work with the Department of Agriculture and Food and the three Industry Funding Scheme Management committees to address the recommendations.

I would like to take the opportunity to congratulate the three committees for firstly accepting the role of initiating the schemes, and the subsequent management of the schemes and the new regulations over the past two years. I would also like to commend the wider industry on their support for the schemes.

The Annual Reports of the three Industry Funding Schemes are due to be released on 31 October 2012. I would recommend all growers take the opportunity to read the review, and the relevant Annual Reports, and take the opportunity to provide feedback to the committees. The committee members are running the schemes on behalf of the whole industry and need your feedback to ensure that the programs maintain their relevance and are meeting the industry's needs.

Without effective and efficient biosecurity measures, both agriculture and our natural resources are at risk from devastating pests and diseases. Biosecurity is a shared responsibility, not only in cost-sharing but also in planning and action. Cost-sharing and community ownership of weed, disease and pest issues is critical to improving the breadth and depth of our biosecurity systems. It is equally important the voices of the agricultural industry are heard to plan for and target investment to the most effective biosecurity measures.

Yours sincerely

**TERRY REDMAN MLA**  
**MINISTER FOR AGRICULTURE AND FOOD**

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## Executive summary

This report reviews the Department of Agriculture and Food Western Australia (DAFWA) Industry Funding Schemes established under the *Biosecurity and Agriculture Management Act 2007* (BAMA) in terms of their operations, regulations and benefits to industry.

The three Industry Funding Schemes (IFSs) represent the areas of Grains, Seeds and Hay, Sheep and Goats, and Cattle. The Schemes are based entirely on contributions from growers. They are structured to ensure that growers, through the boards, have oversight into how their funds are being spent. Combined with opt out provisions growers also have the ability to withdraw their support if they believe that they can better manage biosecurity risks in other ways.

The 2010/2011 Annual Reports released by each of the Schemes report on successful programmes for the year, with healthy finances and strong industry support, indicating that growers have positive expectations of the Schemes after the first year of operation. The Sheep and Goat IFS acknowledge their success in setting up for the first time a state-based contribution collection from the sales of sheep and goats, and due to this the careful scrutiny they had to employ with their programmes. Grains, Seeds and Hay are proposing a contribution from hay that is currently exempt from any collection while the Cattle IFS has established a support mechanism for research and development into cattle industry issues.

The cost, revenues and reserves of the Schemes are shown in Table 1. While the revenues of the Schemes appear modest when compared to the gross value of each industry, the value of the Schemes is most likely to be in the capacity of each to reduce the impact of an incursion or outbreak of a threat if it occurs—the insurance value.

Table 1 **Summary of 2010/11 income and expenditure: by IFS**

Scheme	Revenue 2010-11 revenue (net op out)	Programme expenditure	Administration cost	2010-11 closing balance
Cattle	\$208,727	\$20,081	\$13,496	\$5,859,715
Grain, Seeds and Hay	\$1,906,375	\$2,989,206	\$36,118	\$3,001,778
Sheep and Goats	\$518,532	\$403,696	\$24,024	\$147,492
<b>Total</b>	<b>\$2,635,634</b>	<b>\$3,412,983</b>	<b>\$73,638</b>	<b>\$9,008,985</b>

Data source: IFS 2010-11 Annual Reports

To date the majority of producers have elected to continue to financially support the Schemes. However, it must be noted that the Schemes have only been in place for one full financial year at the time of this review and therefore

any quantitative impact assessment (by producers or the formal review process) would be premature.

The conclusions of this review are that after nearly two years of operation the IFSs are operating successfully in terms of grower acceptance (measured by the low and declining rate of opt out), but we believe that there is room for improvement. The improvements we have suggested reduces the risk that the programs are a result of a shift of costs from the Government to WA producers and better align the programs with sound and widely accepted cost recovery principles.

The report makes recommendations as to the governance of the Industry Management Committees (IMCs) to clearly define the roles and responsibilities of committee members; the goals of the IFSs; formalisation of the engagement process with service providers, notably DAFWA; and development of communication protocols particularly with conveying decision making processes to and from the Minister.

The report notes that the implementation of a cost recovery model for biosecurity management has made little difference to the operation of pre-existing Schemes. This is not an unexpected outcome and is largely a result of the infancy of the Schemes. The recommendations made to the operations of the Schemes will go toward achieving this outcome. These recommendations aim at increasing the transparency of the Schemes and aim to improve the economic efficiency delivered by the programs.

The review also recommends a number of changes to the regulations which aim to tighten definitions, reduce the instances of non-payment of contributions, reduce the level of fines to reflect the severity of misdemeanours, and to loosen reporting requirements of collectors of contributions. These include:

- The introduction of a more formalised communication system between the Minister and the IMCs outlining the reasoning behind decision making. All communication from the IMCs to the Minister should be signed by the IMC Chair.
- The funding criteria for each control or eradication programme should be defined to determine what actions should be funded by an individual grower, what is the funding responsibility of an IFS, and when public funds are appropriate.
- The governance and administration of the IMC should be formalised regarding the appointment of IMCs, short and long term planning, communication protocols, relationship with DAFWA programme managers and in reporting back to members.





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## Industry funded biosecurity management in Western Australia

- Additional information should be provided to growers opting out of a Scheme so they can better understand when they are no longer supported by an IFS, how they can opt back into a Scheme and what the financial and responsibility consequences of opting out of a Scheme are.
- Changes to Regulations including reviewing the level of fines, addressing closed loop marketing systems, allowing growers to opt back into a Scheme if a new programme is introduced, and other administrative issues designed to improve definitions and the clarity of the Regulations.

# 1 Introduction

The Department of Agriculture and Food Western Australia (DAFWA), on behalf of the Industry Funding Schemes (IFSs) established under the *Biosecurity and Agriculture Management Act 2007* (BAMA), has engaged ACIL Tasman to review the regulations, operations and benefits of the three existing IFSs that commenced operation from 1 July 2010.

These three IFSs represent the areas of Grains, Seeds and Hay, Sheep and Goats, and Cattle. Each scheme is overseen by an Industry Management Committee (IMC) responsible for deciding the biosecurity programmes to fund, the actions of those programmes and the means and rate of funding for them.

## 1.1 Terms of reference

The three sets of *Biosecurity and Agriculture Management Industry Funding Scheme Regulations 2010* require the Industry Management Committees (IMCs) after the first year of operation, to commission an independent review of the regulations; and a review of the operation of the Schemes and of the benefits to industry of monies spent under each IFS.

The major deliverable is a review report, with recommendations and containing:

- a review of the three sets of regulations;
- a review of the operations of the three Schemes ; and
- a report on the benefits to the relevant industries of the Schemes.

## 1.2 Approach

In our view the majority of the value in the IFS operated biosecurity programmes lies in their insurance value. That is, the Schemes monitor pests, diseases and weeds, and maintain the capacity to respond to outbreaks or incursions if and or when they occur. Like other forms of insurance, the premiums are paid in the hope that the policy never has to be called on.

Therefore an assessment of the biosecurity Schemes lies in:

- an assessment of the scale and scope of the risks faced by each sector contributing to the scheme
- the capacity of the scheme to limit the damage done by the pests being 'insured' against (within the jurisdictions within the Schemes operate in)
- the counterfactual, which in this case is the effectiveness and efficiency of other forms of insurance available to Western Australian livestock, grain

and hay producers. It is our view that in this case the most likely form of alternative insurance would be self-insurance by producers themselves.

There are also important policy aspects of the Schemes that will need to be considered. The policy objectives of the Schemes should be to increase economic efficiency not raise revenue or shift costs to producers. The extent to which economic efficiency has been improved requires a consideration of:

- Are biosecurity risks and the costs of managing this risk better aligned than before?
- What incentives to better manage biosecurity risk have the Schemes posted for producers?
- Are the scale and scope economies being achieved by contracting the operations of the Schemes to DAFWA?

This report reviews the regulations, operations and benefits of the three Industry Funding Schemes, drawing recommendations for each so as to assist the Schemes in directing more efficient and transparent committees and programmes.

## 2 Scale and scope of biosecurity impacts

The scale and scope of biosecurity impacts section will look at each of the weeds or diseases that currently have a control or eradication programme associated with them under the *Biosecurity and Agriculture Management Act 2007* (BAMA) and the *Agricultural and Related Resources Protection Act 1976* (ARRPA). The aim is to analyse these biosecurity threats in terms of the impact they could possibly have, or already do have, upon the industry involved. This analysis sets up the ability to judge the magnitude of the threat against the current efforts of the programmes.

### 2.1 Skeleton weed

Skeleton weed (*Chondrilla juncea*) is a perennial plant of European origin. It was accidentally introduced into Australia in 1910 and first found in Western Australia in 1963. Since 1974 it has been the subject of eradication programmes and still today is widely searched for, having its own programme under the Grains, Seed and Hay IFS.

Skeleton weed economically impacts cropping enterprises by reducing crop yield through competition for moisture, nitrogen and light. It can also cause damage to machinery, as the wiry stems of the plant and the sticky latex within them, cause machinery to seize (Atkins, Jasper, & Manning, 2009).

Yield losses of up to 80 per cent can occur in densely infested crops (DAFWA, 2007). Molnar et al. (1967) reported yield losses in excess of 70 per cent in heavily infested areas. The average wheat yield in Western Australia from 2006-2010 is 1.7 t/ha and if the losses due to skeleton weed were at 70 per cent this would translate to losses of 1.2 t/ha (ABS, 2012).

In the report to Grain Growers from the Grains, Seeds and Hay IMC (2011) there was 836 hectares declared infested with skeleton weed at the end of the season. Utilising a loss of 1.2t/ha this would imply that just over 1,000 tonnes of grain was at risk this season. This would represent a worst case scenario, as this yield loss is associated with heavily infested areas.

Producers have the ability to implement on-farm management practices that can reduce the biosecurity risks of skeleton weed, as listed below. These individual actions represent the producers' self-insurance mechanism.

- the use of clean, certified seed
- allowing only clean equipment or vehicles onto property
- only purchasing fodder and organic fertilisers from a reliable source

- accepting new sheep in a shorn state only
- maintaining stock in a holding paddock for at least 24 hours after arrival and monitor this area. (Delane, Edwards, & Gwynne, 2007)

## 2.2 Three-horned bedstraw

Three-horned bedstraw (*Galium tricornutum*) is another European origin plant that has the ability to significantly impact cropping yields through its competitive climbing nature, and to contaminate fodder and grain with its seeds (Moore, 2011). Over roughly the last 10 years there have been several outbreaks of bedstraw at the locations of Boddington, Mt Barker, Cordering, Hines Hill and Cranbrook.

Its presence in Western Australia at the moment is small and so it is targeted for eradication. In the 2010/11 season there were four known bedstraw-infested properties (DAFWA, 2011). Two of these properties have small infestations that were close to eradication in 2010/2011.

In 2003, DAFWA undertook economic analysis of bedstraw, revealing a cost to farmers of weed control and foregone yield of as much as \$596 million over a 12 year period should bedstraw become widespread in Western Australia.

## 2.3 Bovine Johne's disease (BJD)

Bovine Johne's disease (BJD) is a chronic wasting disease of cattle with no available treatment options. Western Australia has a BJD Free Zone status, meaning that there are no infected, or suspected infected, animals in the State. This allows producers in Western Australia to trade freely within the State and around Australia. Most of Australia is free of, or has very low levels of BJD, however it is estimated that 25 per cent of the Victorian dairy herd and less than 2 per cent of their cattle herd are infected (DPI, 2010).

The Department of Primary Industry in Victoria report that *"in 1996, BJD has been estimated to cost the Victorian beef and dairy industries \$7.5 million per year. Of this, \$5.8 million was attributed to direct productivity losses, while the costs of disruption to interstate and international sales of cattle made up the remaining \$1.7 million. This estimate did not include the costs associated with testing to allow movement to different zones. No allowance was made for the affect BJD may have had on land values"* (2010).

## 2.4 Enzootic bovine leucosis (EBL)

Enzootic bovine leucosis (EBL) is an infectious viral disease of cattle, whereby some infected animals develop cancer of the white blood cells. There are currently no available or known treatment options. Both beef and dairy cattle are susceptible, but the economic significance of the disease is in dairy cattle as

it is perceived that milk or dairy products may become contaminated with EBL and pose a threat to human health (DAFWA, 2011).

The last known case of EBL in dairy herds in Western Australia was in 2008, which was successfully eradicated. EBL is present in low levels in the State's beef cattle herd, and the dairy herd is considered free of the disease (DAFWA, 2011). The programme in place under the *Cattle Industry Compensation Act* 1965 and the current Cattle IFS is important so that the State can continue to claim disease free status, provide evidence of a programme to any importing countries who may require it, and to assist in rapid response in the event of an outbreak.

In 2010/2011 Western Australia produced 362 million litres of whole milk from a dairy herd of 63,000 head (ABARES, 2011). The value of exported dairy products from Western Australia in 2010/2011 totalled \$15 million dollars, including cheese, cream and butter (DAFWA, 2012).

## 2.5 Virulent footrot

Virulent footrot (*Dichelobacter nodosus*) is a contagious infection of the feet of sheep and goats. It causes varying degrees of damage to the horn of the foot, resulting in lameness and significant loss of body condition and wool production (Morcombe, 2012). Other issues associated with the disease include the welfare of the animal and the risk of it spreading to neighbouring flocks.

In Western Australia between 0.5 - 1 per cent of the flock is infected (Morcombe, 2012). This low level is attributable to the success of past government funded programmes since the late 1940s when more than 15 per cent of the State's flock was infected (DAFWA, 2011). ABARES (2011) report 14.7 million sheep and lambs in Western Australia as at June 2010, suggesting that between 73,500 and 147,000 sheep have the disease. Sheep flock numbers are currently at an historical low, meaning that the number of infected sheep is also low.

The Sheep and Goats IFS reported that as at the 30th of June 2011 there were 23 properties in quarantine for virulent footrot (DAFWA, 2011).

On-farm management practices that can be applied to reduce the risk of introducing, or reintroducing, virulent footrot include;

- ensuring all fences and gates, external and internal, on the farm are secure to make sure that you can contain a localised infection on your farm and prevent any infected animals from entering
- closely inspect livestock before purchasing, avoiding mixed lines and preferably buying directly from the property (avoid saleyards)



- insisting that transport is thoroughly cleaned prior to loading animals
- isolate introduced livestock for as long as possible before mixing or joining, regularly checking for any suspicion. (DAFWA, 2008)

## 2.6 The 'value' of the Schemes' biosecurity programmes

It is evident that there are some serious potential costs to the respective industries should the identified weeds and diseases take hold in Western Australia. Although there is not a Western Australia economic analysis available for each, such as the three horned bedstraw economic analysis mentioned, from gauging the size of the industries or examples from other States the potential can be approximated.

Another way of putting the Schemes into perspective is to look at their costs in comparison to the value of the industry itself. The costs of the programmes under each of the Schemes, particularly the Cattle and Sheep and Goats IFSs, are insignificant in comparison to the value of each of the industries to the State. Table 2 shows the Scheme's expenditure on programmes for 2010/11 and also the export value of those industries to Western Australia in 2010/11. This table has been included to show the contributions of the Schemes and the gross value of their associated export industry, highlighting the relatively small cost of protecting these high value industries in WA.

Table 2 **IFS programme expenditure and the value of exports to the industry in Western Australia: 2010/11 (\$)**

Industry Funding Scheme	Scheme programme expenditure	Value of export industry
Cattle	\$20,081	\$391,000,000
Grains, seed and hay	\$2,989,206	\$2,699,000,000
Sheep and goats	\$403,696	\$559,000,000
<b>Total</b>	<b>\$3,412,983</b>	<b>\$3,649,000,000</b>

Data source: *IFS 2010-11 Annual Reports*, (DAFWA, 2012)

It must be noted that there is also the insurance value of the Schemes to be accounted for. That is, the capacity of each to reduce the impact of an incursion or outbreak should it occur.

## 2.7 Managing biosecurity risks

To be able to assess the programs we must first define clearly what the Schemes can and cannot be held accountable for. The Schemes operate within the state borders. The major role in preventing exotic weed, pest or disease outbreaks is played by the Australian Government (that is, national) agencies, such as AQIS at the border and pre-border (prior to reaching the Australian

border). This could be regarded as the “pre-border phase of an outbreak” in the Figure 1.

Thus by operating within the state borders the Schemes cannot influence the risk of an exotic incursion (other than those coming in from another state). The Schemes can only limit the damage done by a pest, weed or disease once it has arrived and/or once it become endemic. The value of the management of the disease is therefore in three parts:

- Early detection
- Rapid response
- Control of weeds pests or diseases once they have become endemic

The impact of a pest or disease outbreak is show in Figure 1 by the solid line. The dotted line is the impact of the disease where it has been detected earlier and control measures implemented. The example of the spread of classic swine fever in Box 1 shows the exponential.

The probability of early detection is increased by disease surveillance activities carried out during regular surveillance activities to manage endemic pests and diseases under current programs. The Schemes are likely to enable an outbreak or incursion into Western Australia to be detected more quickly, thereby reducing the geographical spread of the pest or disease and ultimately the cost of the outbreak that is borne by industry and government. Even a small reduction in time taken to detect a disease can significantly reduce the impact of a weed, pest or disease<sup>1</sup>.

However, once detected the capacity to respond quickly is also important. A significant value of the Schemes is their ability to be able to rapidly deploy resources to manage an incursion or outbreak of an endemic disease should it occur. This does not mean that the Schemes need to maintain extensive physical resources, rather the Schemes value is increased if, in the event of an outbreak:

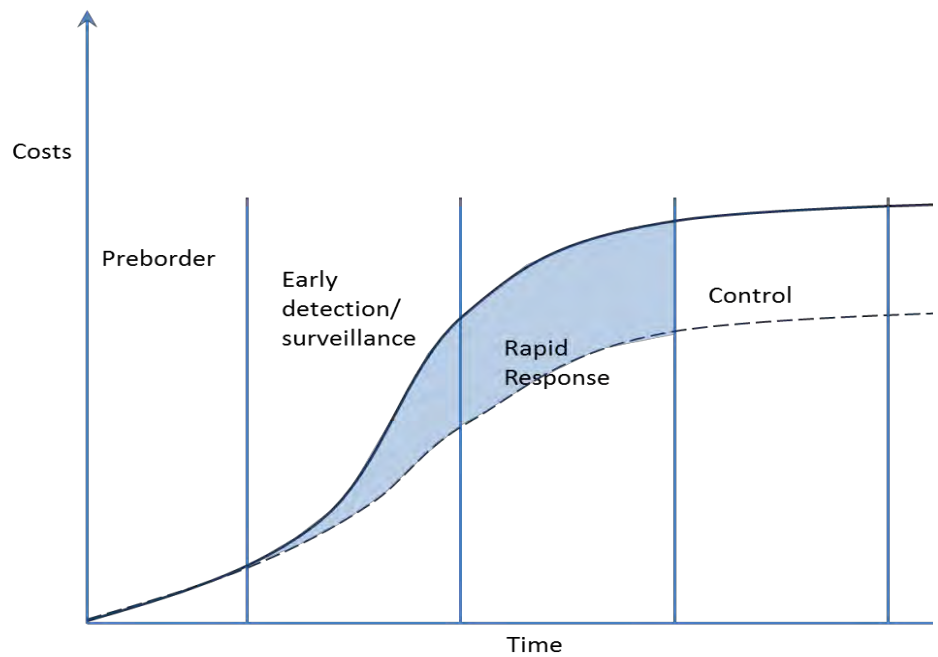
- Call on growers to increase contributions to fund a response (to the extent it cannot be covered by existing reserves)
- Design an effective response strategy (or call on a contingency plan developed earlier)
- Contract and deploy suitably qualified personal and organisations into the field
- Monitor and make changes to the response as required.

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<sup>1</sup> According to ABARE (2005), a week’s delay in the detection of a FMD outbreak in Australia for example is likely to result in the slaughter of an additional 3.68 million animals (beef cattle, dairy cattle, sheep and pigs) under a stamping-out disease management strategy.

Thus a significant value of the Schemes is not just their capacity to manage notified pests and diseases, but to utilise the structures of the Schemes to respond to new risks as they emerge.

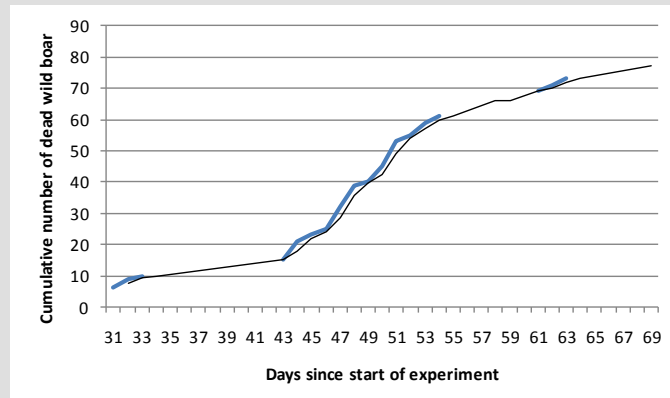
Figure 1 **Impact of the schemes in managing exotic and endemic diseases**



Source: ACIL Tasman

### Box 1 **Spread of Classical Swine Fever**

Classical Swine Fever was introduced into a population of wild boar in a forest plantation of 44-6 km<sup>2</sup> in Pakistan. The initial host population was estimated by drive and count census to be 465 and it was assumed that they were susceptible. One wild boar was injected with live virus and released. The number of wild boar found dead ultimately totalled 77 and was tabulated for days after introduction (see graph below).



In the graph, the blue line represents the raw data while the black line represents the 2-day moving average.

This experiment illustrates the S-shaped disease cost curve shown previously in Figure 1.

Source: Hone, Pech and Yip (1992)

### 3 Cost recovery and cost recovery principles

The intent of the development of the Schemes was to set up structures by which producers could choose to fund biosecurity programs that were inherently of a private good nature. There are a set of well-established principles that guide the establishment and operation of government cost recovery policies.

The following section of this report is guided by the Commonwealth Government's cost recovery principles. We believe that if the programs do not conform to the basic cost recovery principles of: oversight and reporting by and to contributors; improving economic efficiency, and good governance, the Schemes are likely to risk being accused of shifting costs from the Western Australian Government to Western Australian livestock, grain and hay producers.

#### 3.1 Cost recovery guidelines

To ensure the efficiency of a cost recovery process, we have used as a guide the OECD's *Best Practice Cost Recovery Guidelines for User Charging for Government Services* (OECD PUMA, 1998). In addition to the OECD guidelines, we have also applied the principles established by the Productivity Commission (PC) in 2001 (Productivity Commission, 2001).

The overarching recommendation from both the PC and the OECD, is that cost recovery should be implemented for economic efficiency reasons, not merely to raise revenue (Productivity Commission, 2001, p. xxix). That is, cost recovery should be used to post incentives that lead to the most efficient use of resources. This principle is echoed in the Beale Review's consideration of biosecurity cost recovery:

The principle that those who create the need for regulation should bear its costs is well established. Cost recovery achieves this by charging businesses and consumers directly for the government-provided products that they consume.

This has both efficiency and equity dimensions (Beale, Fairbrother, Inglis, & Trebeck, 2008, p. 194).

In efficiency terms, cost recovery ensures that consumers of a product being regulated face what is referred to as its 'full social cost'. This enables consumers to make informed decisions about whether to consume more or less of the product in comparison with other products which may have lower biosecurity risks and hence lower associated regulatory expenditure (Beale, Fairbrother, Inglis, & Trebeck, 2008, p. 195).

In addition to the overarching principle that those who create the risk should be charged to manage it, charges should also be linked to demand, to ensure that costs are covered as demand increases. In this case, the most likely increase in demand for the Schemes is a change in the total number of livestock, as surveillance, monitoring and compliance are directly linked to that figure.

The OECD recommends cost recovery policies should be assessed against 9 principles. They involve:

1. Clear legal authority
1. Consultation with users
2. Determine full costs
3. Effective and efficient collection system
4. Improve and monitor organisational performance
5. Treatment of receipts
6. Appropriate pricing strategies
7. Ensure competitive neutrality
8. Recognise equity considerations

There is potential for “free riders” of the Schemes if the costs are not recovered appropriately or other policy measures are not taken to deal with this problem. This has been raised as an issue with ACIL Tasman during consultations and some recommendations have been put forward to reduce the extent of free riders (see section 6).

Free riders are those that benefit from the existence of a Scheme, but are not subject to the charging mechanism and hence do not contribute to its costs. The existence of free riders can make a fee-for-service charge inefficient, to the extent that free-riders impose costs on the system that are then charged to others.

Free riding should only be corrected for when the costs to the existing contributors exceed the benefits, and there is clearly identified group of beneficiaries that can be encouraged to contribute. Ensuring that the costs are recovered from a broad base of users of the services is one way of dealing with free riders.

In regard to exports:

Efficiency considerations also mean that exporters must consider the costs of meeting biosecurity regulations imposed by importing countries, some of which are incurred in Australia. These costs may influence exporters to decide which export markets they should target. They also provide a motivation for those paying the relevant fees (such as customs agents, shippers or exporters) to probe the basis of cost recovery



determinations and advocate more efficient ways of reducing costs and risks (Beale, Fairbrother, Inglis, & Trebeck, 2008, p. 195).

In equity terms, cost recovery means that those Australians who use or consume high risk, high regulatory cost imports, do not ask their fellow citizens to pay. Equally, it means that Australian exporters who earn income from overseas markets because of regulatory services provided by the Australian government are not asking Australian taxpayers to fund the health and biosecurity protection of the citizens of other countries (Beale, Fairbrother, Inglis, & Trebeck, 2008, p. 195).

A strong theme of the Productivity Commission's cost recovery principles is that cross-subsidisation between industries and between livestock producers should be avoided. In its report, the Productivity Commission defined a cross-subsidy as something that occurs when one group of users pays for more than the costs of the services it receives, and the surplus is used to offset the cost of services provided to other users (Productivity Commission, 2001, p. 117). According to the Productivity Commission, cross-subsidies have many adverse consequences:

Cross-subsidies between different processes or different users may permanently disadvantage one group relative to another. Those who pay the subsidy may restrict their use of the product, reducing desirable consumption that would have taken place if products were appropriately priced. Conversely, those who receive a subsidy may be encouraged to use too much of the product. There may also be 'flow-on' effects where the cross-subsidised services are inputs to other activities. (Productivity Commission, 2001, p. 119)

Each of these is considered in more detail in the following sections of this report.

## 4 Industry Funding Schemes

### 4.1 Overview

There are currently three Industry Funding Schemes for the Grains, Seeds and Hay; Sheep and Goats; and Cattle industries which were set up in June 2010 under the *Biosecurity and Agriculture Management Act (BAMA) 2007*. The aim of the Schemes is to assist industry in fighting biosecurity threats, which primarily impact on that industry but are not covered under national biosecurity arrangements.

The IFSs replace the former Acts, such as the *Cattle Industry Compensation Act 1965* and the *Plant Pests and Diseases (Eradication Funds) Act 1974* (Skeleton Weed), which were repealed when Schemes came into effect. The new regulations allowed for the first time a state-based contribution to be collected on the sale of sheep and goats for an IFS to be established for those animals.

The management of each IFS is overseen by an Industry Management Committee (IMC) also established under BAMA. Each IFS has its own enabling regulations specific to each industry but is essentially managed and operated in the same way. The only exception is a recent amendment to the Regulation 21(1) governing the Grains, Seeds and Hay IFS which allows for a more expanded system of compensation.

This expanded system of compensation became necessary with the eradication actions taken under the bedstraw programme. The DAFWA programme managers believed that in order to achieve eradication on the properties infested it was necessary to take further quarantine action than the BAMA/ARRPA stipulated which led to a loss of income for the grower(s). The expanded compensation allows for loss of income as a result of actions or measures taken under an approved programme. Previously the regulations only allowed for compensation as a result of the person's produce or other related thing being infected or infested with a specified pest; or as a result of actions or measures taken under BAMA/ARRPA to control a specified pest.

Producer contributions to the IFS are mandatory however there is a choice for producers to "opt out" of the Scheme and have their annual contributions refunded in full. Participants in the Scheme are entitled to benefits such as assistance in managing or eradicating a threat and compensation.

Apart from industry contributions, Schemes are also able to seek funds from others sources such as Meat and Livestock Australia. To date, no Scheme has applied for such funds.

Contributions collected from producers will be used by the relevant IMC for the control or eradication of any Declared Pest which is prescribed within the enabling regulations. To become prescribed they must be listed under BAMA.

Funds can be used for a range of activities such as the purchase and application of chemical treatments, the costs of searching for declared pests and diseases, measures to encourage early reporting of new pest and disease incursions, agreed compensation to affected producers and so on as agreed by the IMCs.

## 4.2 Sheep and Goats IFS

The Sheep and Goats IFS is governed by the *Biosecurity and Agriculture Management Industry Funding Scheme (Sheep and Goats) Regulations 2010*.

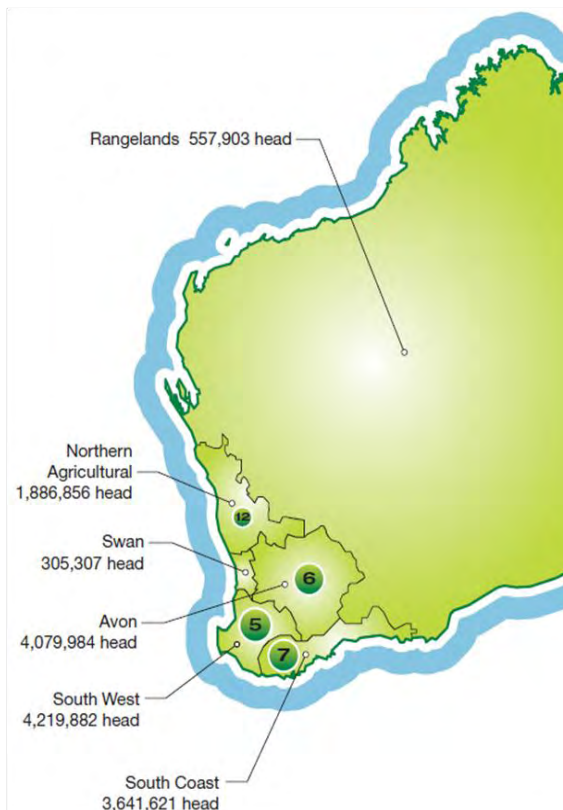
Specified pests included in the Regulations are:

- Virulent footrot (*Dichelobacter nodosus*)

The area of operation is defined as all local government districts excluding Broome, Halls Creek, West Kimberley, Wyndham-East Kimberley, Ashburton, Carnarvon, Coolgardie, Cue, Dundas, East Pilbara, Exmouth, Laverton, Leonora, Kalgoorlie-Boulder, Meekatharra, Menzies, Mount Magnet, Murchison, Ngaanyatjaraku, Port Hedland, Roebourne, Sandstone, Shark Bay, Upper Gascoyne, Wiluna and Yalgoo. This agricultural area included is roughly a line from Northampton to Esperance. It was applicable for the 2010/2011 programme and again for the 2011/2012 programme.

The area of operation covers the majority of sheep producers in the State. Figure 2 shows the distribution of sheep in Western Australia as at June 2010 by natural resource management region. Approximately four per cent of the State's flock is found in the Rangelands which essentially covers the area excluded under the Sheep and Goats IFS.

Figure 2 **Distribution of sheep in Western Australia**



Data source: (Meat and Livestock Australia, 2011)

Participants in the Scheme in 2010/2011 were required to pay a contribution rate of 12 cents for every head/ carcass sold within the approved area of operation for the virulent footrot programme. This rate of contribution was applicable for 2010/2011 and again in 2011/2012.

Unlike the other two IFSs that in essence replaced pre-existing grower or part grower funded biosecurity management programmes, the Sheep and Goats IMC had to determine an initial rate of contribution. This rate was calculated on a programme cost basis, utilising the cost of the proposed programme and an estimate of sale transactions for the year. In addition, this calculation had to take into account the fact that the collection process would not include a full year due to legislation not commencing until August 2010, and that a large number of sheep had already been moved to the east in response to the drought. As the 2010/11 season turned out, the enduring drought conditions saw the continued decline of the Western Australia flock and the Sheep and Goats 2010/11 IFS closed with a surplus of just over \$147,000.

Contributions to the IFS are collected by stock agents and processors, who forward the monies to the IFS on behalf of the producers. There have been some issues with individual collectors' systems differentiating between participating and non-participating areas. This has particularly been the case in

the Northern agricultural region, where pastoral areas not included in the Scheme are having the contribution deducted because everyone in the collectors system is subject to it. For example, sheep sold from Wiluna (pastoral area) are outside the agricultural area of operation but are being included under some collectors' systems. There are processes in place for reimbursement of contributions such as these taken in error, however there is still a need to correct this issue to lessen the transaction costs and make the process more efficient. Further issues with the systems of collection are discussed in Section 6.5.2 Closed loop marketing systems and some of the regulation issues are highlighted in 6.5.4 Specific changes, Table 12.

A future priority of the Sheep and Goats IMC is to develop a process for responding to proposals submitted to them requesting funding for industry projects.

### 4.3 Cattle IFS

The Cattle IFS is governed by the *Biosecurity and Agriculture Management Industry Funding Scheme (Cattle) Regulations 2010*.

Specified pests scheduled in the Regulations for the cattle industry are:

- Tuberculosis (*Mycobacterium tuberculosis*)
- Bovine Johne's disease (*Mycobacterium paratuberculosis*)
- Enzootic bovine leucosis (*Bovine leucosis virus*).

All areas in Western Australia are covered by the annual program in the Regulations, and the contributions collected are being used to fund control programmes of bovine Johne's disease, enzootic bovine leucosis and tuberculosis.

Participants in the Scheme in 2010/2011 were required to pay a contribution rate of 20 cents for every head/ carcass sold within the State. This rate of contribution was applicable again in 2011/2012.

Contributions to the cattle IFS are collected by stock agents and processors, as per the Sheep and Goats IFS. There are not the same collection issues associated with cattle as the area of operation includes the whole State, however still applicable is the discussion in Section 6.5.2 Closed loop marketing systems and regulation issues highlighted in section 6.5.4 Specific changes, Table 13.

Aside from the two disease control programmes, the cattle IFS has provided funding for the National Livestock Identification System (NLIS) during 2011/2012 in the form of an NLIS advisor operating a Western Australia specific helpdesk. Other efforts by the fund include support mechanisms for

research and development addressing cattle industry issues. It is expected that the process for this support mechanism will be finalised and operational for 2012/2013.

#### 4.4 Grains, Seeds and Hay IFS

The Grains, Seeds and Hay IFS is governed by the *Biosecurity and Agriculture Management Industry Funding Scheme (Grains) Regulations 2010*.

Specified pests scheduled in the Regulations for the Grains, Seeds and Hay industry are:

- Bedstraw (*Gallium tricornutum*) and
- Skeleton weed (*Chondrilla juncea* L.)

The area of operation is defined as all local government districts excluding Broome, Halls Creek, West Kimberley, Wyndham-East Kimberley, Ashburton, Carnarvon, Coolgardie, Cue, Dundas, East Pilbara, Exmouth, Laverton, Leonora, Kalgoorlie-Boulder, Meekatharra, Menzies, Mount Magnet, Murchison, Ngaanyatjaraku, Port Hedland, Roebourne, Sandstone, Shark Bay, Upper Gascoyne, Wiluna and Yalgoo. This agricultural area included is roughly a line from Northampton to Esperance. It was applicable for the 2010/2011 programme and again for the 2011/2012 programme.

Participants in the Scheme in 2010/2011 were required to pay a contribution rate of 30 cents per tonne of grain or seed sold within the approved area of operation. Of this 30 cents, 27 cents went to the skeleton weed programme and the remaining three cents to the bedstraw programme. This rate of contribution was applicable for 2010/2011 and again in 2011/2012.

Contributions to the Grains, Seeds and Hay IFS are collected through qualified receivers, that is, those individuals/entities purchasing 500 tonnes or more of grains, seeds and/or hay (in combination) in a given year who have been required to register with the IFS/ Director General of DAFWA. There is a lot of work involved with maintaining this register and for little apparent return. A change to the regulations with respect to the definition of a chargeable transaction would remove this need. This is discussed further in 6.5.4 Specific changes, Table 11.

From the 1st July 2012 the Grains, Seeds and Hay IFS will start taking contributions from the sale of hay. This will be a 15 cent per tonne contribution on sales to receivers who purchase 500 tonnes or more of grains, seeds and/or hay (in combination), and will not be applicable on the sale of straw.



## 5 Operation of the Industry Funding Schemes

The following sections examine the key aspects of each of the IFSs in terms of the operation and performance of the IMCs, the IFSs, and the biosecurity programmes. Where appropriate, recommendations have been identified but not expanded on. These recommendations are discussed in greater detail in Section 6.

### 5.1 The makeup and activities of the advisory committees

The management of each IFS is overseen by an Industry Management Committee (IMC). These committees were established under the *Biosecurity and Agriculture Management Act (BAMA) 2007* and their functions are governed by the BAMA as well as the relevant enabling regulations for each IFS.

#### 5.1.1 Committee makeup

Committee members are comprised of a majority of contributing producers, and others with appropriate industry expertise and knowledge. Members must be full participants of the Scheme for which they are appointed. The Minister for Agriculture and Food appoints IMC members after inviting nominations. At least one member of the IMC *appointing committee* must be appointed in agreement with the Western Australian Farmers Federation and one in agreement with the Pastoralists and Graziers Association of Western Australia.

Apart from a vacancy on the Cattle IMC that was recently filled, all Committee members were appointed on the same day for the same three year period. The Chair for each IMC is appointed by the Committee members with no stipulations in the regulation regarding the method of their appointment, duties or term of office. It is understood at present all Chairpersons are elected on a rotational basis.

Current IMC members are listed in Table 3.

Table 3 **Industry Management Committee members**

	Grains, Seeds and Hay	Sheep and goats	Cattle
Chair	Mr Barry Large	Mr Jeff Murray	Mrs Ruth Webb-Smith
Committee members	Mr David Auld	Mr Peter Batten	Mr Michael Campbell
	Mr Tim Cattle	Mr Neil Jackson	Mr Craig Forsyth
	Mr Chris Gillam	Mr David Jarvie	Mr John Giumelli
	Mr David Leake	Mr Will Scott	Mr David Jarvie
	Mr Peter Thompson	Mr David Slade	Mr Geoff McLarty
	Mr Brian Young	Mr Max Watts	Mr Jim Motter

#### Box 2 **Recommendations**

The term of office for IMC committee members is changed so that new committee members are appointed while some existing committee members remain appointed. This is to allow the transfer of acquired knowledge between committees.

A mechanism should be introduced to govern the appointment, term of office and duties of a Chairperson.

### 5.1.2 **Committee activities**

The role of an IMC is to determine which pest and disease threats require action, how best to deal with the threats, and what contributions will be needed from industry to address the threat.

The terms of reference of each IMCs is to:

- represent the best interests of industry and the contributors to the Scheme
- provide effective governance over the Scheme
- discharge the functions prescribed by BAMA and the enabling Regulations
- undertake other functions as the Minister or the Director General may request.

There are no goals, objectives or outcomes required of IMCs and this had been raised by producers and brought to the attention of those who participated in the consultation (pers comm: Jeff Murray, Chair, Sheep and Goats IMC; Dale Park, President, WAFarmers; Alan Hill, Directory of Policy, WAFarmers; Barry Large, Chair, Grains Seeds and Hay IMC).

The IMC must produce an annual report on the operation and effectiveness of the Scheme under section 11(3) of the Regulations. To date, one annual report for each IFS has been produced for the 2010/11 financial year. These reports included high level information regarding committee members, activities,

programmes, financial details and future plans. There is little information that can be used by contributors to assess the effectiveness of the Scheme such as number of affected properties, expenditure per activity, expenditure per property and so on. Some producers had raised the issue of the need for a more detailed annual reporting system together with outcome based standards against which to report. This type of business model would also assist IMCs to more clearly define their own role. (pers comm: Jeff Murray, Chair, Sheep and Goats IMC; Dale Park, President, WAFarmers; Alan Hill, Directory of Policy, WAFarmers; Barry Large, Chair, Grains Seeds and Hay IMC)

IMC members attend meetings, workshops and teleconferences in order to conduct their business. In 2010/11 each IMC held around 5 meetings and 1 workshop. The number of teleconferences varied between IMCs with the Grains, Seeds and Hay IMC holding 4 and the Cattle and Sheep and Goat IMCs holding one teleconference. In 2011/12, the number of events has declined as evidenced in Table 4 with the Grains, Seeds and Hay IMC meeting more often than the other IMCs.

Table 4 **IMC meetings, teleconferences and workshops 2010/11 – 2011/12**

	2010/11			2011/12*		
	Meetings	Teleconferences	Workshops	Meetings	Teleconferences	Workshops
Grains seeds and hay	5	4	1	5	2	1
Sheep and goats	5	1	1	3	0	0
Cattle	4	1	1	4	1	0

Data source: DAFWA. Note: \* to 1 June 2012 only.

### Attendance record

Attendance at all IMC meetings is high with half of all meetings for the Grains, Seeds and Hay IMC and the Cattle IMC recording full attendance and one third of the Sheep and Goats IMCs recording full attendance. The attendance record of each of the IMCs for the 2010/11 to 2011/12 is presented in Table 5.

Table 5 **IMC meetings and attendance record 2010/11 – 2011/12\***

	Grains, Seeds and Hay	Cattle	Sheep and Goats
Number of meetings	10	8	8
Attendance record*	7 apologies over 5 meetings	6 apologies over 4 meetings	6 apologies over 5 meetings

Data source: DAFWA. Note: does not include vote in absentia forms received. \* to 1 June 2012 only.

### Box 3 **Recommendations**

Information in annual reports to be more detailed with emphasis on grower related information such as number of affected properties, number of surveillance efforts, expenditure per property and so on. This will allow contributors to better track the progress of their funds.

- The committee should set simple measurable objects for the funds that will allow an:
- Assessment of the performance of each Scheme and the committees
- Guide negotiations of service provisions with DAFWA and others
- Encourage greater interest in the development of potential third party service providers

## 5.2 Financial performance

The finances for each of the Schemes are presented in Table 6 for 2010/11 and 2011/12 financial years. Given that the Schemes have only been operating for a short period of time and the data for 2011/12 is only until March 2012, it is difficult to make any comparison between years. All Schemes are carrying a positive bank balance.

Consultation found that the pre-existing programmes for skeleton weed, bovine Johne's disease and enzootic bovine leucosis are generally operating as they were before. It has not been possible to determine whether programme costs have changed since the introduction of the Schemes because there is no comparative data, however, anecdotal information from DAFWA suggests that the same level of expenditure is being incurred for a similar level of service.

In terms of funds collected, the skeleton weed programme is now operating under a smaller budget than it previously was. Under the skeleton weed programme, growers contributed 30 cents per tonne of grain and under the Grains, Seeds and Hay IFS, this contribution rate has remained the same however only 27 cents per tonne contributing to the skeleton weed programme and the remainder to the bedstraw programme. Therefore, there has been a decline in funds collected for this programme.

For the cattle industry, the Cattle Industry Compensation Fund required the collection of 20 cents per head from livestock owners with agents and processors collecting the majority of funds. Under the IFS, funds are collected by agents and processors. The bovine Johne's disease and enzootic bovine leucosis surveillance programmes continue to operate under the same budget as they did previously.

All industries have experienced an increase in costs in terms of the expenses incurred in running the IMCs. These costs vary considerably between IMCs as illustrated in Table 6 which shows committee expenses of \$36,118 for the

Grains, Seeds and Hay IMC, \$24,024 for the Sheep and Goats IMC, and \$13,496 for the Cattle IMC in the inaugural year of operation. For the Grains, Seeds and Hay IMC these higher running costs are due to the larger number of meetings held.

Table 6 **IFS finances: 2010/11 to 2011/12 (\$ per annum)**

	Grains, Seeds and Hay		Cattle		Sheep and Goats	
	2010/11	2011/12*	2010/11	2011/12*	2010/11	2011/12*
Funds collected	\$1,919,304	\$2,231,509	\$208,765	\$72,646	\$522,439	\$472,179
Interest	\$131,056	\$44,199	\$257,296	\$125,775	\$2,773	\$5,140
Previous funds	\$3,976,742 (Skeleton Weed Programme )	na	\$5,427,231. 40 (Cattle Industry Compensati on Fund)	na	\$50,000 (DAFWA)	na
Total income	\$6,027,102	\$2,275,708	\$5,893,292	\$198,421	\$575,212	\$477,319
Opt out funds reimbursed	\$12,929.38	na	\$37.60	na	\$2,907.61	na
Committee expenses	\$36,118	\$27,057	\$13,496	\$8,410	\$24,024	\$7,218
Programme expenses						
<i>Skeleton Weed</i>	\$2,903,286	\$1,573,835				
<i>Bedstraw</i>	\$85,920	\$59,029				
<i>Virulent footrot</i>					\$353,696**	\$166,981
<i>BJD/EBL</i>			\$20,081**	\$36,731		
Total expenses	\$3,038,253	\$1,659,921	\$33,614	\$45,141	\$380,6271	\$174,199
Balance***	\$2,988,848	\$615,787	\$5,859,677	\$153,280	\$194,584	\$303,120

Note: \* to 31 March 2012 only. \*\* Programme expenses not realised until 2011/12 however included in 2010/11 which is the year they were incurred. \*\*\* does not include opt out reimbursement for 2011/12

Source: DAFWA

### 5.3 Opt out rates

Producers have the option of opting out and subsequently of having their contribution reimbursed. This data is presented in Table 7 which shows the number of producers who opted out in each year of operation of the IFSs as well as the value of contributions reimbursed in 2010/11. Note that reimbursement information is not available for 2011/12 as funds are not reimbursed until the end of the financial year.

In 2010/11, there were a total of 120 opt outs however as some producers opted out of multiple Schemes, the total number of producers that opted out was only 61. In 2011/12, this figure dropped dramatically to a total of 45 opt outs which represented 24 producers.

In 2010/11 there were 24 producers that requested reimbursement representing a total of \$15,874.59 across all three Schemes. This is equivalent

to 43,098 tonnes of grains and seeds, 19 head of cattle and 24,230 head of sheep and goats.

Anecdotal evidence suggests that the reasons for opting out are various and range from budgetary concerns, questions over the need for such a Scheme, and grower apathy. There was also a suggestion that some sheep and goat producers opted out as a form of protest at having to contribute funds whereas in the past programmes were taxpayer funded.

The low level and dramatically falling rate of opt outs suggests an overwhelming grower acceptance and support of the Schemes and the need for biosecurity measures to protect agribusiness in Western Australia.

A comment from the consultation process was that those producers who had opted out were unaware of the clause that would not allow them back into the Scheme for a period of 2 years (Sheldon Mumby, Director, Pastoralists and Graziers Association).

Table 7 **Rate and value of opt out option: 2010/11 and 2011/12 here**

	Grains, Seeds and Hay		Cattle		Sheep and Goats	
	2010/11	2011/12*	2010/11	2011/12*	2010/11	2011/12*
Funds collected	\$1,919,304		\$208,765		\$522,439	
Producers opted out	45	16	29	12	46	17
Opt out funds reimbursed*	\$12,929.38	na	\$37.60	na	\$2,907.61	na
Producers reimbursed	10	na	3	na	11	na
Unit of production reimbursed	43,098 tonnes	na	19 head	na	24,230 head	na

Source: DAFWA Note: \* not available until after 30 June 2012

#### Box 4 **Recommendations**

Improve producer awareness of the qualifying period for allowance back into the Scheme after opting out.

Include a formal statement of the point at which opting out is finalised (notification or refunding of fees) and the consequences in regard to not having compensation as a consequence of opting out.

## 5.4 Consultation oversight of contributors interests

Section 11(2) of the Regulations of each of the Schemes requires that IMCs must from time to time, and at least once in each financial year, consult owners directly or through representative organisations or both, for the purpose of ascertaining views in the industry concerning the operation of the Scheme and the performance by the IMC of its functions under the Regulations.



Consultation occurs through a variety of means including press releases, distribution of brochures at field days and other events, presentations by IMC members, press interviews, advertisements and maintenance of a dedicated web site. A summary of that activity by year of operation is presented in Table 8. In addition, IMC members are chosen not only for their skills but also their networks within the industry. As such, there is a degree of informal consultation through a committee member's usual day to day business activities and other committee activities. All Chairpersons reported that they conducted this type of consultation.

Table 8 **Total IMC consultation activity 2010/11 to 2011/12**

	2010/11	2011/12
Presentations at field days, and other events	2	2
Promotional material available at field days, conferences and other events	5	6
Presentations at industry meetings	1	10
Media releases	4	3
Press interviews	3	2
Advertisements	0	4

Data source: DAFWA

## 5.5 Operation of biosecurity programmes

At present there are five biosecurity programmes operating across the three IFSs. These are:

- skeleton weed control programme
- bedstraw eradication programme
- enzootic Bovine leucosis surveillance programme
- bovine Johne's disease surveillance programme
- virulent footrot control programme.

The annual cost of operating these programmes is presented in Table 6. All programmes are currently delivered by DAFWA.

All programmes existed in some capacity prior to the introduction of the IFSs. All consultations found that all pre-existing programmes have continued to provide the same level of service as existed before with no obvious change in service provision.

There has been limited evidence of some financial efficiency improvement of the schemes to date. The financial efficiency improvements in evidence so far are:

- The skeleton weed programme is now operated with a 27 cent per tonne contribution compared to a 30 cent per tonne contribution under the previous administration which has resulted in changes in program delivery.
- The collection of contributions for the cattle industry has shifted from one of the responsibility of the grower under the previous Cattle Industry Compensation Fund to the agent or processor under the current Scheme.

Under the principals of cost recovery, the operation of the Schemes should become more economically efficient as the IMC over time, aligns the operations of the Schemes with the way growers can manage the risks at lowest cost. That is, the Schemes should create incentives for producers to better manage the risks of endemic and biosecurity risks.

There is some evidence of this occurring:

- An increased flexibility (pers comm Ruth Webb Smith, Chair, Cattle IMC) in the delivery of programmes that allows a greater level of grower input (through the IMC members) and the ability for the industries to respond to any Declared Pest prescribed within the enabling Regulations
- This included some change in the focus of programmes. For example, the skeleton weed programme has now changed the searching methods and the requirement to search when a property has been declared to have skeleton weed is now removed. These changes were a directive of the IMC and they have led to improved efficiency of the programme
- The Sheep and Goat IMC decided not to fund a lice program under the Scheme based on the belief that lice are best controlled by individual property owners

Whilst the Schemes remain in their infancy and as such improvements in the economic efficiency of the biosecurity programmes might be too soon to measure, their future should be one of greater authority of the IMCs in terms of decision making and the operation of the programmes.

## 5.6 Relationship with the Minister of Agriculture and Food

The Schemes are enacted by the WA Parliament under *BAMA* and confer compulsory producer contribution powers to the IFSs. While these are not levies, as the producer can voluntarily opt out, they remain powers provided by Parliament to the IFSs. Therefore it is import to ensure that there are oversight powers of the Parliament, via the Minister to ensure that the IFSs and the IMCs are discharging their responsibilities in regard to these powers.

This establishes the role of the Minister in the regulations where the IMCs must obtain Ministerial approval for:

- setting of the level of contribution

- the geographical area from which the contributions are collected
- appointing and removing Committee members
- threats to be addressed and the nature of the programmes to address those threats.

This involvement is summarised in Table 9.

However, the regulations are silent on the basis on which the powers of the Minister and the IMCs are based. There is no specification as to what the IMCs or the Minister must take into account when the IMCs seek approval or the basis on which that approval is assessed by the Minister. This creates a situation where the IMCs and the Minister have a high level of discretion in regards to the decisions they are making which leads to a potential lack of transparency in the Schemes and with their engagement with the Minister.

Not only are the Regulations silent on the basis upon which the IMCs and the Minister assess potential changes to the Schemes, there is also no formal protocol for communication between the Minister and the IMCs. It is understood that the IMC recommends a decision, without supporting information, to the Minister and that the Minister then makes their decision. The Minister is not formally required to provide reasoning or evidence for their decision.

There is also potential for a conflict of interest to arise if the communications between the DAFWA secretariat and the Minister are not clearly delineated from communications coming from DAFWA (the major service provider to the Schemes) to the IMCs.

Examples were provided—the most recent being the decision not to expand the Sheep and Goats IMF collection zone—where the Minister had announced a decision but no formal explanation had been provided for the decision. Likewise, examples were provided where the IMCs had provided no explanation of the reasoning for a recommended decision to the Minister. This lack of process was raised during consultation as a concern (pers comm: Sheldon Mumby, Director, Pastoralists and Graziers Association; Jeff Murray, Chair, Sheep and Goats IMC; Dale Park, President, WAFarmers; Alan Hill, Directory of Policy, WAFarmers; Barry Large, Chair, Grains Seeds and Hay IMC; David Jarvie, Veterinarian, Wellard Rural Exports) which should be addressed.

Several of the Chairs, including the Chair of the Sheep and Goats IMC felt that a formal criterion for communications between the IMCs and the Minister, both ways, would improve transparency and efficiency of the IMCs (pers comm: Jeff Murray, Chair, Sheep and Goats IMC).

Table 9 **Summary of the common operations of the funding Schemes**

Key activities of the funds and advisory committees	Requires Ministerial approval	Managed directly by IMC
Setting of the contributions		
Inclusion of regions for contributions		
Appointing and removing committee members		
Diseases and threats to be managed or eradicated		
Nature and extent of programmes for control or eradication		
Setting compensation		
Governance		
Electing a chair		
Setting funding priorities		
Engaging and managing service providers		
Representing industry and contributors to Scheme		
Consulting with industry and contributors		
Reporting to contributors		

#### Box 5 **Recommendation**

Formal criteria for communication between the IMC and the Minister particularly as it relates to decision making. Criteria to include reasoning and evidence for decision making and how it would benefit/dis-benefit industry.

The Minister to provide the IMC with the reasoning for a decision within a specified time, where this decision is consistent with the cost recovery principles of the Schemes.

A framework for the basis of changes to the level and extent of contributions and other IMCs decisions requiring Ministerial approval be developed and agreed to between the IMCs and the Minister. The framework should specify what information is required from both parties, what information has to be taken into account, the time in which the decisions are to be made and reasons for the decision.

## 5.7 The relationship with service providers

### 5.7.1 DAFWA (secretariat)

DAFWA provides secretariat services to each IMC in the form of policy advice, direction regarding compliance with Regulations, meeting co-ordination, general administrative issues, financial management, maintenance

of websites, and liaison with the Minister. DAFWA has estimated the value of this contribution at around \$153,000 per annum.

Consultation found that all IMCs regarded the level of service from DAFWA for secretariat services as very high.

Table 10 **DAFWA secretariat financial contribution to Schemes (per annum)**

	Full time equivalent staff member	Value (\$)
Executive, IMC policy, secretariat	1.0	\$100,000
Administrative (incl. financial management)	0.4	\$40,000
Ongoing maintenance of websites	0.1	\$10,000
Printing , travel	na	\$3,000
<b>Total</b>		<b>\$153,000</b>

Data source: DAFWA

### 5.7.2 DAFWA (programme management)

In terms of the operation of the biosecurity programmes, DAFWA is responsible for writing the individual programmes for the chosen threats being targeted. These are presented to the individual IMCs who then make a decision upon, or any amendments, to the programmes. DAFWA's role hereafter continues in the implementation and running of the programmes, including reporting back to the IMC on a regular basis and upon yearly completion of the programmes.

Generally speaking, IMCs accept the recommendations of DAFWA programme staff. However, there are instances where DAFWA advice has been declined. This occurred most recently when the Sheep and Goats IMC decided against the introduction of a lice 'best practice' program to the Scheme, as presented by DAFWA to the IMC.

Consultation found that some producers felt that there appears to be a lack of definition around the role of DAFWA in relation to the services to be provided to the IFSs (pers comm Dale Park, President, WAFarmers; Alan Hill, Directory of Policy, WAFarmers; Jeff Murray, Chair, Sheep and Goats IMC;). This is of particular concern as it can lead to a less efficient programme being directed.

Another concern with respect to this lack of role definition is that as the level of public funding for DAFWA continues to diminish, it is possible that so too the amount of resources that can be provided to the IFS diminishes. It is unclear as to the contractual arrangements that exist between DAFWA, as the

service provider, and the IFSs. Also unclear is the value of this service that DAFWA provides. In the skeleton weed programme 2010-2011 Report to Grain Growers (2011) there is reference to how funds were spent for the 2010/11 programme and with respect to DAFWA it states;

*"The approved budget included an amount of \$200,000 towards the estimated \$430,000 of in-kind support provided by the Department of Agriculture of Food, covering expenses such as staff overhead costs and financial, personnel and operational management. These funds were paid back to the Grains IFS account by the department in March 2011."*

This makes the service that DAFWA is providing not only structurally advantageous, but also cost advantageous. Although the above statement provides a budget estimate of in-kind support from DAFWA there is no record of the realised amount, or exactly in what form that support was. DAFWA's services are structurally advantageous due to their own activities closely complementing the priorities of the IFS and due to their historical role in the area of biosecurity and technical services in Western Australia.

The issue around role definition may be that there is a carryover from the relative autonomy that DAFWA had in the past with respect to their role in managing biosecurity. This only emphasises the need for role definition under the new *Biosecurity and Agriculture Management Act 2007*. Not only is there a need for this from the side of the service provider, but the same follows for the IMCs themselves.

An internal review of the 2011 bedstraw programme by DAFWA assesses that the programme has been successful in its control and continuing eradication of known bedstraw infestations, but acknowledges that there is a strong need for controls and procedures to be put in place to decrease the risk of on-farm and off-farm spread and for an approved plan for a longer-term strategy for eradication.

Those programmes, such as skeleton weed, EBL and BJD, that have rolled over from historic programmes are more likely to have procedures in place, or at least lessons learnt from past experiences to help them out. However some formal procedures and defined roles would also be valuable.

DAFWA's services to the IFSs are driven by individual divisions within DAFWA, not a separate biosecurity body itself. Heavily involved with looking after the Grains, Seeds and Hay IFS is the Director for Invasive Species and a Senior Research Officer, from the Agricultural Resource Risk Management division. Involved with the Cattle, and Sheep and Goats IFS is the Director and Chief Veterinary Officer from the Livestock Biosecurity division. On top of this there are numerous other programme managers, advisors and support officers. It appears that there is no single body, or person, that all business is

directed through, but that all those involved with the programmes have the ability to contact the IMCs at their discretion. There was also a concern that DAFWA may have been benefiting from the IFS funds, in the sense that the people committed to working on the Scheme's programmes may have also been using that time for other programmes not associated with the IFSs.

Furthermore, there is no clear operational plan for each programme. It was noted that DAFWA supplied a basic project plan at the beginning of the year outlining activities, resources, labour and budget along with quarterly and annual activity statements. Producers had expressed an interest in receiving reporting that included additional details including the number of man hours expended (pers comm Jeff Murray, Chair, Sheep and Goats IMC; Dale Park, President, WAFarmers; Alan Hill, Directory of Policy, WAFarmers; Barry Large, Chair, Grains Seeds and Hay IMC).

#### Box 6 **Recommendations**

Future business is directed through the DAFWA secretariat, or one central body to keep track of communications and decision making (note. all stakeholder contact with the IMCs is currently directed through the secretariat).

DAFWA to document the services they provide to the IFSs and the time associated with this. This would sit well with DAFWA's push toward becoming an economic agency and would aid in realising the true costs of the programmes to the industry and DAFWA itself.

Define the roles of the service provider and the IMCs themselves (under BAMA there is no sub regulation for the way the committee has to act). This would require a clear statement of the roles of DAFWA and the Schemes in dealing with biosecurity risks and management. The basis of the definition of the roles of the Schemes and the WA Government should be based on:

- Cost recovery principles
- Demonstrable market failure (where the Schemes do not fully correct for the market failures such as free riders)
- Correcting for policy or intervention failures.

The Schemes need to be assessed by each IMC in consultation with DAFWA to assess the capacity of each Scheme to deal rapidly with a new outbreak or biosecurity risk. This assessment should take into account:

- The resources of each Scheme and their capacity to secure additional contributions for affected producers
- The ability to deploy resources (where what and whom)
- The capacity to monitor the situation and advice the Minister and growers regularly on progress and critical issues.

### 5.7.3 **Other service providers**

Under the Regulations IMCs are able to source information and services from other service providers. To date this has not occurred and has therefore not



been reported. A clear statement of the role of the IMC and DAFWA, and a publicly available strategic plan for each IMC should allow greater scope for third party providers to assess demand for services and tender with the IMC.

The IMCs should also publish the contract terms and conditions, and performance for the services provided by DAFWA at present. This would increase the transparency of the Schemes and encourage third party providers to compete to provide future services.

## 5.8 Conclusions

All of the IFSs were considered to be operating successfully particularly in this start-up period. There was general industry acceptance of the Schemes evidenced by the low and falling rate of opt out. However, opt out rates probably reflect an expectation of the future success of the Schemes rather than performance to date. This is particularly so for the sheep and goat industry which in the past has not had to contribute its own funds to address biosecurity.

There are however some areas where operation can be improved and this relates to:

- greater definition of the roles and responsibilities of the IMC including its chair and members
- improved planning for programmes which would assist in better defining the relationship between the IMC and DAFWA
- improved communication between the Minister and the IMC which would help to improve transparency and accountability in decision making
- improved reporting procedures which would assist industry in evaluating the performance and effectiveness of the Schemes.

These changes are considered relatively minor and are addressed in the Recommendations presented in Section 6.

## 6 Recommendations

The following recommendations identify changes to processes and regulations for consideration.

### 6.1 Formalise and make transparent engagement between the IMCs and the Minister

Consultation repeatedly revealed the need for a formal procedure to document the decision making processes of the IMCs and the Minister (pers comm Jeff Murray, Chair, Sheep and Goats IMC; Dale Park, President, WAFarmers; Alan Hill, Directory of Policy, WAFarmers; David Jarvie, Veterinarian, Wellard Rural Exports). The level of discretion that the Minister holds over final decisions is high, making it essential that:

1. The IMC present a clear case for their decision based on agreed principles
2. The Minister responds to the request within a specified time and in an agreed format

Formal reporting and communication techniques need to be established and utilised, so as to provide clear communication and feedback between the IMCs and the Minister and to have robust protocol around decision making. At all times a clear distinction must be maintained between correspondence from DAFWA (providing the IMC secretariat) and the IMCs. To this end all correspondence between the IMC and the Minister needs to be signed by the relevant chair or appropriate delegate.

This protocol is critical to avoid any conflicts of interest arising from DAFWA communicating with the Minister as the service provider to the IMCs, and DAFWA communicating with the Minister as the secretariat of the IMCs.

With respect to interactions with the Minister, areas where formal reporting could be implemented include;

- when submissions for changes to contribution areas, programme approval, rates of contribution and so on are passed up to the Minister
- when the Minister makes decisions upon IMC submissions.

In either case there needs to be clearly defined criteria for how decisions were made, what evidence was used to make the decision and how the decision will benefit industry, and be consistent with cost recovery principles.

## 6.2 Define programme funding criteria

The IMCs need to develop and publish a set of funding criteria to determine what is funded by:

- individual producers
- the IMCs
- what can be reasonably expected to be publicly funded.

When considering a funding proposal each IMC should consider whether the problem is most economically efficiently dealt with by the producer, by a subgroup of producers (using the zoning decision making capabilities of the IMCs), the public (through the WA Government).

The guideline should be based on sound market failure, cost recovery principles and be published so to post incentives for growers to better manage risks where they know it is their responsibility and not that of the IMCs or the WA Government.

## 6.3 IMC governance and administration

Consultation revealed a need for a more clear operating procedure for the IMCs and the operation of the biosecurity programmes. This will assist in making the operating processes more efficient and to provide a more professional and strategic approach to the way the IFSs are managed day to day, and in the long-term.

There is a need for an operating protocol for each IMC that sets out:

### Appointment of IMCs

The terms and conditions of governing the term of office of committee members should be formally established. This should build on those set out in the Regulations to include:

- the appointment of new committee members while some existing committee members remain in office. This is to allow the transfer of acquired knowledge between committees
- a mechanism be introduced to govern the appointment, term of office and duties of a Chairperson.

### Planning

A clear set of goals for each IMC needs to be established that identifies threats, the approach to each threat (control, eradication etc) and the planned effort (insurance value) to address the threat.

These goals should be reflected in the selection criteria for the IMC membership, evaluation of the Schemes and in the relationship with third parties particularly service providers.

This will give the IMC members greater awareness of what the programmes need to achieve in the short and long-term providing greater ability for members to participate in programme setting and ensuring that the needs and wants of industry are being met.

### **Communication protocols**

There needs to be more formal communication protocols, particularly with the Minister with all communication with the Minister signed by the IMC Chair. This is discussed further in Section 6.1.

### **Relationship with DAFWA**

A more formal relationship needs to be made with DAFWA on a programme level. The relationship should be set on a contractual basis with clear terms of reference, programme deliverables, reporting framework and programme performance criteria. Contracts should be set on a fixed price basis and should reflect the objective and goals of each Scheme.

### **Reporting**

Consideration should be given to expanding the detail of information in annual reports with emphasis on grower related information such as number of affected properties, number of surveillance efforts, expenditure per property and so on. This will allow contributors to better track the progress of their funds.

Annual reports should ensure that the real value of the funds, threat management and insurance value is clearly articulated, recognised by growers and maximised by the institutional arrangements within the funds and DAFWA.

## **6.4 Opt out process**

Growers need to be given more detailed information about the consequences of opting out. The following information needs to be highlighted:

- Once a grower chooses to opt out, they are then deemed to have opted out of all current programmes under that Scheme.
- Once a grower has opted out regardless of whether they have paid contributions or not, they will no longer be entitled to any form of assistance from the Scheme.

- Growers must still make payment of contributions with these contributions only refunded after the end of the financial year on receipt of a separate application for refund of contribution at the end of the financial year.
- If a grower opts out, their liability as owner or occupier, to control any infestations of the pests/diseases to which the Scheme(s) relate, if they are found to be present on their property does not change.
- The decision to opt out of the Scheme means that the grower will no longer be entitled to any form of assistance from the Scheme and will be obliged to carry out such control fully at their own expense.
- If a grower opts out and then wants to opt back in, they must contribute to the Scheme for two consecutive financial years, before regaining any eligibility for assistance from the Scheme.

## 6.5 Changes to Regulations

### 6.5.1 Level of fines

The Regulations prescribe fines for various offences such as for making a false statement, failing to deduct a contribution, failing to provide written advice to a producer of their contribution, or failing to advise DAFWA in writing of contribution amounts. These fines are all \$20,000 for the Sheep and Goats IFS and Cattle IFS and range from \$10,000 to \$20,000 for the Grains, Seeds and Hay IFS.

Most fines specified in the Regulations apply to administrative misdemeanours that require collectors of the contributions to comply with certain conditions, mainly related to reporting within a defined timeframe. It is recommended that a review of the size or of these fines or nature of the penalty is undertaken by DAFWA staff as they appear high compared to the misdemeanour. Specific note is made in the following section (Section 6.5.2) of fines relating to the failure to advise of change of address.

As well as a review of the level of fines, it is also recommended that the related timeframe for reporting requirements be reviewed. Most notable is the requirement for collectors of contributions to report to contributors to DAFWA within 30 day. It is recommended this requirement be relaxed to allow collectors more time to comply with Regulations and to ease the administrative burden on collectors. Specific note of this recommendation is made in the following section (Section 6.5.2).

### 6.5.2 Closed loop marketing systems

There is a loophole in the Regulations in the case of closed loop marketing systems particularly as it relates to the livestock industries. When growers and contractors enter into this type of business arrangement, the ownership of

livestock does not change. Under Regulation 15 contributions are eligible to be paid when a chargeable sale is made to a processor or an agent. Under a closed loop marketing system it is often not deemed to be a chargeable sale as the livestock are owned by the processor/agent and a contribution is therefore generally not paid.

This gives rise to the opportunity for large numbers of livestock to avoid contributions particularly if the agent/processor is involved in the export of livestock. During consultation the concern was raised that these types of business models posed a higher biosecurity risk as, in the case of livestock, sires were transported from property to property therefore increasing the opportunity for the spread of threats. It was therefore important that Regulations be altered to address this loophole to specify the inclusion of livestock produced under this business model.

#### Box 7 **Closed loop marketing systems**

Closed loop marketing systems is a business model where a processor vertically coordinates elements of the production and processing steps in the supply chain. Vertical coordination may be a simple contract or the provision of capital technology or other inputs in exchange for some or all of the outputs produced.

In practice the processor supplies the technology to produce this output to a grower who is contracted to return their some or all of production to the processor/agent which is then used in their downstream processing or subsequent sale. An example is a grain marketer that owns some sort of quality trait such as a gene technology which they provide to growers in return for the purchase of their crop. The grain marketer is then able to market the crop using that quality trait. In the case of livestock, a processor/agent might provide growers with a sire that has a particular trait in return for the offspring of that sire.

The relevance of this for the IFSs is that the exchange of inputs and outputs is not through an open market and therefore difficult to capture in transaction based collection systems.

It is recommended that Regulation 15 of the Sheep and Goats, and Cattle Biosecurity and Agriculture Management Industry Funding Scheme Regulations be reviewed to address the opportunity for contributions to be avoided under closed loop marketing systems. Consideration could be given to amending the Regulations to expand the definition of chargeable sale. Another approach would be amending the Regulations to apply to all livestock or carcasses transferred out of Western Australia. This would apply to exports and transfers of stock to the rest of Australia. In our view the later would be cheaper to administer and enforce.

These changes would assist in increasing potential total contributions (operators of these business models would still have the option of opting out) and creating a more fair collection system, and better aligning the contributions and the biosecurity risks. It would also assist in identifying and managing biosecurity risks.

### **6.5.3 Allowing opt ins when a new programme is introduced**

Consideration should be given to the situation where a new programme to address a new threat is added to the IFS during the year. Those growers who have opted out of a Scheme should be notified of the new programme and given the opportunity to opt back into the Scheme if they wish, at the full cost of the Scheme. There should be no qualifying period for the receipt of assistance under the new programme.

Consideration needs to be given as to whether the qualifying period should apply to the already existing programmes. In these cases, consideration should also be given to retrospective payments of two years on already existing programmes to avoid administrative confusion.

### **6.5.4 Specific changes**

The following sections outline recommendations for specific changes to each of the Biosecurity and Agriculture Management Industry Funding Scheme Regulations by Regulation number. They are a collection of changes accumulated by the IMCs during the course of the operations of the Schemes and collated by the Secretariat.

We have reviewed these and support them.





Table 11 **Changes to Regulations by regulation number: Grains, Seeds and Hay**

Regulation	Proposed amendment	Benefit
Regulation 3 Terms Used	Remove “straw” from the definition of “hay”  Change definition of “chargeable transaction” from “the sale of qualifying produce by a grower to a registered receiver” to a “qualified receiver”	Contribution already paid on the seeds/grains of plant.
Regulation 14 (3)  If the name, principal place of business in the State or other registered details of a registered receiver changes, the registered receiver must, within 30 days, give the Director General notice of the changes.  Penalty: a fine of \$10 000	Remove or reduce penalty for failure to advise of change of address  Remove Regulation 14 regarding the requirement for Qualifying Receivers to register. If adopted, changes to Regulations 3 and 16 would also be required	Penalty high.  Less administrative effort for Receivers and DAFWA.
Regulation 16 (2)  Within 30 days of the end of each calendar month, a registered receiver is to —  (a) pay to the Director General all amounts it has deducted during that calendar month in accordance with subregulation (1); and  (b) give to the Director General a statement in writing in such form as the Director General may require, setting out each amount it has deducted, and such details of each chargeable transaction in respect of which it has made deductions as the Director General may require.  Penalty: a fine of \$20 000.	Replace reference to 30 days from end of calendar month with a requirement to pay on a quarterly basis  Relax requirement to detail each chargeable transaction	Less administrative effort for collectors.  Less administrative effort for collectors.

Table 12 **Changes to Regulations by regulation number: Sheep and Goats**

Regulation	Proposed amendment	Benefit
Regulation 15 (2), (3), (4), (5), (6) and (7)	Amend to include exporters as well as agents. Note that the definition of exporters would need to be included in Regulation 3 Terms Used	Improve collections.
Regulation 15 (3)  Within 30 days of the end of each calendar	Replace reference to 30 days from end of calendar month with a requirement to pay on	Less administrative effort for collectors of contribution.



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month, a cattle processor or a cattle agent is to — pay to the Director General all amounts it has deducted during that calendar month in accordance with subregulation (1) or (2)	a quarterly basis.	
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Table 13 **Changes to Regulations by regulation number: Cattle**

Regulation	Proposed amendment	Benefit
Regulation 15 (2), (3), (4), (5), (6) and (7)	Amend to include exporters as well as agents. Note that the definition of exporters would need to be included in Regulation 3 Terms Used	Improve collections.
Regulation 15 (3) Within 30 days of the end of each calendar month, a cattle processor or a cattle agent is to — pay to the Director General all amounts it has deducted during that calendar month in accordance with subregulation (1) or (2)	Replace reference to 30 days from end of calendar month with a requirement to pay on a quarterly basis.	Less administrative effort for collectors of contribution.
Schedule 1 – Specified Pests	Add Cattle tick ( <i>Boophilus microplus</i> ) and Liver fluke ( <i>Fasciola hepatica</i> ) to list of Specified Pests.	

## A Consultations

Table 14 provides a list of those consulted together with their title and the organisation they represented. Stakeholders were invited by DAFWA to contribute to the consultation process. Most consultations were face-to-face and held over a two day period at the DAFWA head office. They were attended by Mark Barber, Antonia Hodby and Tess Metcalf of ACIL Tasman as well as Cathy Lyons and Rebecca Heath (for one day) from DAFWA. Telephone consultation was held with two respondents who were unable to attend the face to face meetings. All stakeholders were given the opportunity to provide supporting evidence and additional information directly to ACIL Tasman and/or DAFWA at their discretion. In addition, each of the IMCs contributed to a collated list of issues regarding the Regulations which was supplied to ACIL Tasman by the DAFWA secretariat.

All consultations found that the Schemes were considered to be efficiently managed and supported by growers.

Table 14 **Consultation**

Name	Title	Organisation
Dale Park	President	Western Australia Farmers Federation
Alan Hill	Director of Policy	Western Australia Farmers Federation
Viv Read	Director Invasive Species, Agricultural Resource Risk Management	Department of Agriculture and Food Western Australia
Ian Randles	Pastoral and Livestock Executive Officer	Pastoralists and Graziers Association
David Jarvie	Veterinarian & IMC member of Cattle and Sheep and Goats IFS	Wellard Rural Exports, Cattle and Sheep and Goats IMC
Cathy Lyons	Senior Policy Officer, Agricultural Resource Risk Management	Department of Agriculture and Food Western Australia
Rebecca Heath	IMC Executive Officer, Agricultural Resource Risk Management	Department of Agriculture and Food Western Australia
Barry Large	Chair	Grains, Seeds and Hay IMC
Ruth Webb Smith	Chair	Cattle IMC
Peter Morcombe	Chief Veterinary Officer, Livestock Biosecurity Division	Department of Agriculture and Food, Western Australia
Michelle Rodan	Director, Livestock Biosecurity Division	Department of Agriculture and Food Western Australia
John Dodd	Senior Research Officer, Agricultural Resource Risk Management	Department of Agriculture and Food Western Australia
Sheldon Mumby	Director	Pastoralists and Graziers Association
Jeff Murray	Chair	Sheep and Goats IMC

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