



4 November 2011

Australian Mushroom Growers Association Ltd
Locked Bag 3
2 Forbes Street
Windsor NSW 2756

By email: devos.avalon@gmail.com

Dear Sir,

**Re: Submission in response to the National Agaricus Mushroom Levy Discussion Paper
– Australian Mushroom Growers' Association Ltd**

This submission is made by Costa Exchange in response to the National Agaricus Mushroom Levy Discussion Paper – Australian Mushroom Growers' Association Ltd (AMGA) which contains a proposal to increase the Agaricus Mushroom Levy (levy).

Costa Exchange currently grows approximately **30%** of the total volume of mushrooms produced in Australia per annum.

Costa Exchange contributes approximately **30%** per annum of the total levy collected by the AMGA.

Costa Exchange directly and indirectly employs **1,200** employees across 8 sites in Victoria, New South Wales, Queensland and Western Australia.

Current Levy paid by Costa Exchange

The current levy rate is **\$2.16 per kg**, with a volume cap of 370,000kg (increased from 250,00kg as from 1 July 2011).

Costa Exchange is the only mushroom grower with a production volume that is greater than 370,000 kg.

By way of background, in financial year 2010, Costa Exchange paid **\$540,000** in spawn levy which was the maximum payable under the cap.

At a spawn levy of \$2.16 per kg and a production cap of 370,000 kg, Costa Exchange will pay approximately **\$799,200** in spawn levy for the 2011 financial year - an increase of **\$259,200** on the previous financial year. We make this point to highlight the fact that there has already been an increase in the revenues for the AMGA this financial year.

Proposed new Levy rate and impact on Costa Exchange

The AMGA notes at page 4 of the discussion paper that it is *'...adamant the current (levy) rate is insufficient to adequately fund the Industry's 2011 – 2016 Strategic plan and thus insufficient to stimulate the demand growth critical to match production forecasts'*.

The AMGA's proposal is to increase the levy from its current rate of \$2.16 to \$4.32 per kg of mushroom spawn.

If the AMGA were to be successful in securing approval from those eligible to vote on the proposal and subsequently the Federal Minister for Agriculture, based on the current cap of 370,000 kg, Costa Exchange would pay an annual spawn levy of **\$1,591,000**.

This would be an increase of **\$791,800** or approximately double the amount of levy currently being paid by Costa Exchange.

Costa Exchange wishes to make it clear that it does not object to the imposition of a levy per se, particularly where such a levy is used for research and development purposes which deliver a real benefit to the Australian mushroom industry, including Costa Exchange.

However, Costa Exchange strongly opposes any increase to the levy as Costa Exchange does not believe it would result in any identifiable benefit to its business and by definition the mushroom industry.

Our opposition has been consistent with the position that Costa Exchange has openly communicated to HAL, the AMGA and via the MIAC over an extended period of time.

The Tasmanian Market Test Program

As a participant in MIAC, Costa Exchange supported the Tasmanian Test Market Program, however Costa Exchange does not believe it is credible to use the results of the Tasmanian program as a marketing vehicle for increasing the level of mushroom consumption across the Australian mainland.

There does not appear to be data that demonstrates that there would be a sustained uplift in mushroom consumption Australia wide and that such an uplift would be long term.

In direct discussions with the AMGA, Costa Exchange requested statistical information regarding the AMGA's social media (facebook, twitter) and the internet to assess the effectiveness of alternative forms of technology and media in promoting and increasing mushroom consumption.

This data has not been forthcoming at the time of completing this submission and therefore, Costa Exchange reserves its right to make further comments on this point in the future and whether it is deserving of having increased levy funds expended on it.

Impact of an increased Levy on capital investment – research & development/marketing

1. Supply and demand

The discussion paper refers to *'MIAC determining that the only responsible action was to prepare a plan that squarely addressed the potential oversupply and placed the industry in the best possible to maintain return and manager risks.'*

The reference to 'potential oversupply' is not supported by any factual evidence in the discussion paper. Costa Exchange contends that far from there being potential or actual oversupply, there is actually an equilibrium position between demand and supply.

Therefore the cost of a doubling of the levy to increase consumer demand would be significant for Costa Exchange and other growers with potentially a negligible benefit in respect to increased sales.

Any increase to the levy is capital that Costa Exchange is unable to expend on improving the productive capacity of its own business, including any expansion.

2. Packaging formats

The submission makes reference to the proposed levy increase being used to:

'Investigate options for alternative mushroom packaging and formats and communicate the findings to producers'.

It is once again unclear as to how the expenditure of (increased) levy funds would benefit Costa Exchange and the industry.

Costa Exchange has developed its own pre-pack market through expending its own capital which also resulted in market capacity expanding for the standard 4kg box that the smaller farms supply.

This has contributed in an increase to the average price of mushrooms and directly benefited others in the industry, yet Costa Exchange is compelled to subsidise the industry with no account taken of such expenditure when determining the levy payable by Costa Exchange.

3. Market research

Costa Exchange already expends its own funds in order to satisfy the market and product development requirements of its retail customers. This activity includes market research, product development and consumer insight studies.

Increasing the levy to expend funds on television and radio advertising campaigns will not be accepted as a substitute for such retailer requirements, but Costa Exchange will incur an additional cost without a tangible benefit.

Costa Exchange believes a critical element missing from consideration is the extent to which the major retailers in Australia invest in their own marketing and promotion and the impact such investment has on the current and future growth of the industry.

Conclusion

Costa Exchange is in a unique position given its size and share of the mushroom industry to positively impact the future sustainability of the mushroom industry off the back of its own activities which must be taken into account when considering any uplift in the current levy.

In addition, any increased levy will also restrict the capital that Costa Exchange can expend through increasing production in order to meet the forecast increase in consumption.

It is our intention to participate fully in the consultation process to ensure our views are given their proper consideration before any final determination is made.

Yours faithfully



George Haggard
Chief Operating Officer
Costa Exchange