Crawford School of Public Policy

TTPI

Tax and Transfer Policy Institute

The biosecurity protection levy: Principles for design

TTPI – Policy Brief 3/2024
February 2024

Saša Vanek
Tax and Transfer Policy Institute
Crawford School of Public Policy, Australian National University

Robert Breunig
Tax and Transfer Policy Institute
Crawford School of Public Policy, Australian National University

** The authors acknowledge financial support from the National Farmers' Federation. All opinions in the piece are those of the authors and any errors are the responsibility of the authors.*

Tax and Transfer Policy Institute
Crawford School of Public Policy
College of Asia and the Pacific
+61 2 6125 9318
tax.policy@anu.edu.au

The Australian National University
Canberra ACT 0200 Australia

www.anu.edu.au

CRICOS Provider No. 00120C

The Biosecurity Protection Levy: Principles for design

I. Introduction

The 2023 federal budget announced a $1 billion increase in Commonwealth biosecurity funding, part of which is to be made up by the new Biosecurity Protection Levy (BPL). The proposed Levy has faced significant opposition from primary producers, and bodies including the Productivity Commission have identified weaknesses in the policy case for the Levy. From a first principles perspective, the Tax and Transfer Policy Institute (TTPI) believes this resistance is justified. Biosecurity threats can be viewed as a negative externality associated with the free movement of goods and people. While the latter is a good thing, there are potential negative impacts to people outside the markets which determine the free movement of goods and people. In such cases, there are two economic approaches to externalities, neither of which align with the strategy to derive payments from "those who receive significant benefits" (Department of Agriculture, Fisheries and Forestry (DAFF) 2023). Fortunately, there are policy alternatives to ensure Australia's biosecurity remains protected.

In this policy brief we examine:

- The BPL policy
- Externalities, from a first principles perspective
- Productivity Commission critiques of the BPL
- TTPI assessment of critiques
- Policy alternatives

II. The Biosecurity Protection Levy

First announced in the 2023 federal budget, the BPL proposes a new model for funding Australia's biosecurity initiatives. The BPL proposes to raise $50 million annually from the 2024-25 financial year. The new model is grounded in "shared responsibility" (DAFF 2023), arguing that primary producers, as significant beneficiaries of biosecurity, should contribute to maintaining biosecurity protection at Australia's borders. Alongside taxpayers, importers, and international travellers, it is proposed that producers will contribute 6 per cent of Commonwealth funding through the BPL (DAFF 2024), which will apply to all agricultural, fisheries and forestry producers.[1]

In February 2024, DAFF announced changes to the Levy design.[2] In place of the original 10 per cent charge on 2020-21 agricultural levy rates, the BPL will be based on the average Gross-Value-Product (GVP) of each industry sector as a proportion of overall GVP (DAFF 2024). As an example, if the GVP of a primary production industry sector is 5 per cent of total GVP, producers in that sector would contribute 5 per cent of BPL revenue (DAFF 2024). The calculation of contributions will be based on a 3-year average of GVP data. For an industry which generates 2 per cent of total GVP, producers within that industry would collectively contribute 2 per cent of BPL revenue. The DAFF fact sheet about the revised policy (see footnote two) then somewhat confusingly states "Rates would then be set accordingly in relation to the levied products within sectors." The policy is scheduled to be implemented by 1 July 2024.

[1] For context, it is important to note that producers already make extensive contributions to biosecurity funding through funding for Animal Health Australia, Plant Health Australia, the Rural Research and Development Corporation and billions of dollars of other contributions and management costs.
[2] See: https://www.agriculture.gov.au/biosecurity-trade/policy/sustainable-biosecurity-funding#furtherinfo

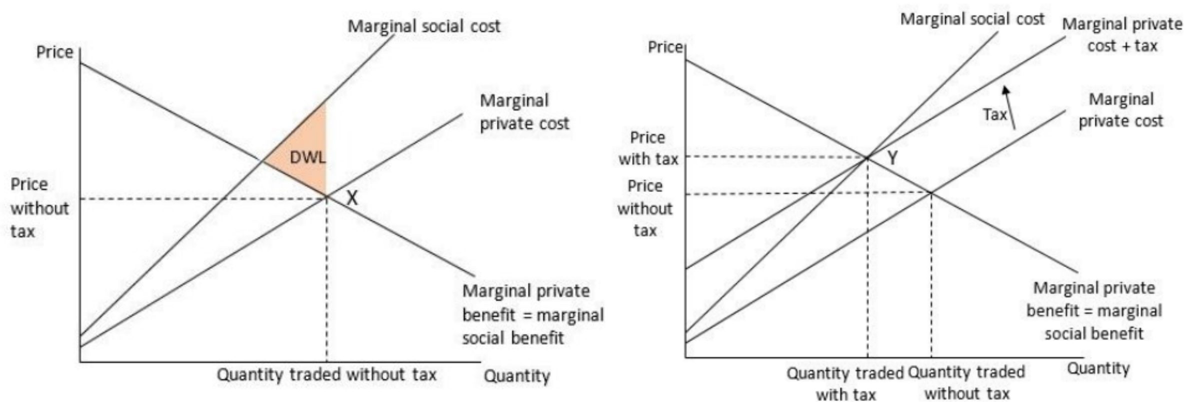
III. Externalities

An externality can be understood as an indirect benefit or cost to non-market participants, which arises as a result of another party's activities. In this case, the market price does not capture the full value or cost (TTPI 2019). In the absence of externalities, price fully reflects the costs and benefits of the activity. In the presence of externalities, there are additional (social) costs and benefits beyond the private costs and benefits that the market prices.

Because the true value or cost is not captured, the costs and benefits of trade for society (referred to as the social cost and social benefit) differ from those of the individuals involved in the trade (referred to as the private cost and private benefit), which leads to a deadweight loss being created. See Figure 1. Where deadweight loss exists, social wellbeing is not maximised.

There are two economic theory approaches to addressing externalities. The first is charging those who create the harm to pay for the external damages, as is the case with a carbon tax, for example. The second approach applies to externalities which create positive spillovers for society as a whole, in which case, addressing the externality should be funded through general revenue streams. An example of this is funding education through taxes. The positive spillovers of education benefit society in general and as such are funded through general revenue.

Figure 1: Taxing a negative externality (TTPI 2019)



Both approaches to taxing externalities align the social and private costs and benefits. The effect is to eliminate deadweight loss, increasing the efficiency of the economy whilst simultaneously allowing the government to raise revenue and increase social well-being (TTPI 2019).

IV. The Productivity Commission's critiques

The Productivity Commission's recent report, *Towards Levyathan? Industry levies in Australia* (PC 2023), investigates the proliferation of levies in the contemporary policy setting. In 1960 there were four industry levies in Australia; at the time of the report's release, there were 248. While originally designed to gather funding for collective services within a specific sector, the report finds that levies are not always applied according to their traditional purpose and can compromise the efficiency of the tax system (PC 2023). It can be difficult to raise new taxes or implement tax reform and levies are often an expedient and relatively invisible way to raise revenue.

Towards Levyathan conducts a case study investigating the strength of the public policy case for the proposed BPL (PC 2023). It is however important to note that this analysis was conducted before the Levy rate was set with reference to average GVP, rather than 2020-21 agricultural levy rates. Assessing the BPL through its sectoral public good framework, the Productivity Commission

identified eight warning signs that weakened the stated policy case for the proposed Levy. The first critique questions why primary producers are singled-out as beneficiaries of biosecurity. In reality, the benefits of biosecurity extend to the broad community. Where public benefits exist, funding is normally drawn from general revenue streams. Second, the report highlights that the policy rationale for additional intervention is unclear. Third, there is potential for individual sectors to face levy costs which exceed the benefits they receive. The report also highlights that if we consider biosecurity to be a sectoral public good, it is unlikely to be funded at a lower cost by an industry levy than it is through general revenue. Further, there is widespread industry opposition to the Levy, which suggests that biosecurity is not a sectoral public good, as the policy suggests. It is anticipated that Levy payers will be unable to monitor and influence how proceeds are used and will not be able to vote to continue or discontinue the levy. This will limit the ability of policymakers to ensure Levy proceeds are being directed towards activities which are of value to primary producers.

V. TPPI assessment

All of the Productivity Commission's critiques are valid and we agree with them. In light of recent adjustments to the tax base of the BPL, TTPI has assessed the updated policy using the Productivity Commission's (2023) sectoral public goods framework again, to test if the policy case stands up to critical scrutiny.

1. *Are there public goods that all businesses in a sector could benefit from?*
   Yes (pass)
2. *Is the levied sector the only sector that will benefit from the funding of the public good?*
   No (warning sign)
3. *Does the sector face a 'free-riding' challenge when trying to collectively fund sectoral public goods?*
   Unclear (warning sign)
4. *Are the economic benefits of the sectoral public good greater than the costs of the industry levy?*
   Unclear (warning sign)
5. *Can the sectoral public good be funded at lower cost by an industry levy than through general revenue?*
   Unlikely (warning sign)
6. *Could the levy raise more money than needed for the stated policy response?*
   No (pass)
7. *Could the design of the industry levy create barriers to entry for the sector?*
   Unlikely (pass)
8. *Is the levy imposed on an efficient tax base?*
   Unclear. Applying the levy to GVP rather than 2020-21 agricultural levies is an improvement, but better yet would be to apply the levy in a way that matches the benefit received by different sectors (warning sign)
9. *Is there widespread industry support for the levy?*
   No (warning sign)
10. *Will levy payers be in a position to monitor and influence how levy proceeds are used?*
    Unlikely (warning sign)
11. *Will levy payers be able to regularly vote to continue or discontinue the levy?*
    No (warning sign)

The updated policy raises eight warning signs—the same as the initial policy. This is cause for concern.

Beyond these issues, the revised policy's approach of setting the Levy according to industry GVP is at odds with standard tax practice. Normally taxes would be applied on net proceeds, where production costs have first been subtracted from gross revenues. An even sounder approach would be to calculate the Levy in relation to the biosecurity benefit and risk profiles of each industry. This would contribute to alleviating some of the sectoral inequality concerns raised by primary producers and the Productivity Commission. Alongside efficiency concerns, the policy decision of a levy raises questions regarding policy planning and justification. The decision to levy primary producers, a narrow section of the community, could be explained by wanting to limit opposition to raising biosecurity funds (PC 2023), rather than a "shared responsibility" model (DAFF 2023). Should policymakers elect to maintain the BPL, further industry consultation and input is likely to be required, in keeping with the traditional design of industry levies.

Overall, the government's package to implement the BPL does not pass critical scrutiny.

VI. Policy alternatives

Given the list of weaknesses of the proposed BPL, an alternative policy approach is desirable. From a first principles perspective, there are two versions of optimal policy in this case, both of which are already in place. The first approach is to charge those who create the externality. Biosecurity threats can cause harm to the environment, animal or plant health, and human health on a nationally significant scale, and usually arise as a result of the activities of parties such as importers and travellers (DAFF 2015). Because the market does not capture the cost of biosecurity hazards, a tax on those who create the most biosecurity risk could be introduced to align the marginal private cost with the marginal social cost, creating an efficient market outcome.

Alternatively, biosecurity can be viewed as a public good, with biosecurity protection representing a benefit to all Australians through environmental protection, food-security, and disease risk mitigation. If viewed as such, biosecurity protection activities can be justifiably funded through general revenue, i.e. through all of the members of Australian society. If set at the appropriate level, the tax will correct for the social benefits provided by biosecurity, thus eliminating the deadweight loss associated with the externality, creating an efficient market outcome.

In the absence of any government intervention in this market, it is likely that domestic producers would take action to protect themselves from biosecurity threats, which represent a major threat to their business. On this basis, some contribution from domestic producers may be warranted, but it should be much better aligned with the risk borne by different sectors within domestic production. We note that the agricultural industry has supported contributing additional funds to Commonwealth biosecurity activities via appropriate means.

VII. Conclusion

First announced in the 2023-24 federal budget, and set to be introduced in July, the BPL has faced criticisms from producers and policy observers alike. The Productivity Commission's recent report on levies clearly identifies the potential weaknesses of the proposed BPL. First principles analysis of externalities by TTPI accepts and builds on these critiques. Based on these critiques, there is reason to consider two alternatives for what optimal biosecurity funding policy might look like, both of which already exist in conjunction in the Australian policy setting. The first is to increase charges for those who create the biosecurity threats, such as importers and travellers, and the second is to further fund biosecurity protection through general revenue, given that the benefits flow to all Australians.

Bibliography

Department of Agriculture, Fisheries and Forestry. 2015. "The Biosecurity Act 2015." Agriculture.gov.au. Department of Agriculture, Fisheries and Forestry. https://www.agriculture.gov.au/biosecurity-trade/policy/legislation/biosecurity-legislation#your-obligations.

Department of Agriculture, Fisheries and Forestry. 2023. "Introduction of the Biosecurity Protection Levy: Consultation Paper." Department of Agriculture, Fisheries and Forestry. Canberra: Department of Agriculture, Fisheries and Forestry. https://haveyoursay.agriculture.gov.au/biosecurity-protection-levy/widgets/414465/documents.

Department of Agriculture, Fisheries and Forestry. 2024. "Biosecurity Protection Levy design fact sheet." Department of Agriculture, Fisheries and Forestry. Canberra: Department of Agriculture, Fisheries and Forestry. https://www.agriculture.gov.au/biosecurity-trade/policy/sustainable-biosecurity-funding#furtherinfo

Productivity Commission. 2023. "Towards Levyathan? Industry Levies in Australia." Productivity Commission. Melbourne: Productivity Commission. https://www.pc.gov.au/research/completed/industry-levies.

TTPI. 2019. "Good Tax Policy: Taxing Negative Externalities, Tax Fact #4" Tax and Transfer Policy Institute. Canberra: Tax and Transfer Policy Institute. https://taxpolicy.crawford.anu.edu.au/taxpolicy-publications/tax-facts