Submission by: O'Dwyer Horseshoe Sales Australia Pty Ltd

To: Senate Rural and Regional Affairs and Transport References Committee

Inquiry into Australian Horse Industry and Emergency animal disease response Agreement.

27th July 2010

Horseshoe Levy

Executive Summary / Conclusion

The Australian horseshoe industry covers less than 11% of the Australian horse population, therefore the number of horseshoes sold is simply too small to be a realistic collection point for a horse industry disease Levy. O'Dwyer Horseshoe Sales Australia Pty Ltd ("ODH") considers a horseshoe levy is problematic for the following reasons:

- Implementation of a horseshoe Levy does not satisfy the Levies Revenue Service – Levy Principles and Guidelines, released by the Department of Agriculture, Fisheries and Forestry. There are 12 principles outlined for the proposal of new Levies which must be met and not all are satisfied.

- Implementation of a horseshoe Levy will create a handmade product segment where farriers will make their own horseshoes from steel bars, that cannot be tracked and traced, ultimately avoiding paying any horseshoe Levy at all. As a member of the Mustad Hoofcare Global group, our experience from other Hoofcare markets suggest that handmade horseshoes are a significant part of many developed markets. The introduction of a horseshoe levy in Australia will no doubt have a large impact on the horseshoe market as handmade products will become cost competitive for farriers. The number of horseshoes being sold from Importers/Distributors will decrease by up to 30% to 50% of total annual volumes. This will have a major material affect on the total levy collections budget (based on 700,000 sets) by up to 30% to 50%.

- Implementation of a horseshoe Levy will also result in horseshoes and associated products no longer being as freely available in rural areas due to the complexities of selling horseshoes. Rural stores, that currently choose to stock Hoofcare products (including horseshoes) within Australia, currently turnover anywhere from $1,000 to $50,000 p.a. in sales revenue, of which horseshoes are a big part of that product mix. To stock Hoofcare products is a large commitment by rural retail stores as the product mix is significant. Introducing a Levy that cannot be passed on without a profit margin creates complexities with invoicing that will result in many resellers choosing to discontinue retailing Hoofcare products as the burden of administering a Levy will far outweigh the benefit. This will result in many farriers and horse owners being forced to purchase Hoofcare products from major capital cities, creating a supply disadvantage for rural customers, forcing horse owners to purchase horseshoes from farriers who will return to hand making their own horseshoes without incurring a Levy. Again this affect will contribute to the reduction of the collection base.

- Implementation of a horseshoe Levy will also create a competitive disadvantage on ODH in terms of re exporting to our Asia Pacific markets. ODH currently imports into Australia Hoofcare products from other Mustad Group companies located all over the world. ODH has a large distribution centre located in Kilmore, Victoria which it uses to fill orders and re export to our customers in the Asia Pacific region. A horseshoe Levy will make our exports to those countries uncompetitive and ODH will be forced to review its operations within Australia and, in all probability, ODH will move its distribution centre to Mustad New Zealand Ltd. ODH would then become a small retail operation servicing local customers on a needs only basis.

ODH is of the string opinion that other potential Levy collection points need to be evaluated thoroughly. There needs to be a clearly identified point where there is some compulsion on a horse owner to pay a Levy amount, and where there is as short a distance as possible between the Levy payer and the Levies Collection Service for auditing.

Based on ODH's expertise in the Hoofcare market there is no doubt that the introduction of a horseshoe Levy will reduce the collections base from 700,000 sets of horseshoes to between 350,000 to 490,000 sets per annum. This will make the collection base so small that it will:

1. Fail to achieve the desired Levy collection amount; and
2. It will bring a very small niche horseshoe supply industry to its knees, where it will no longer be commercially viable to invest in servicing the Australian Hoofcare market in any significant way.

ODH encourages the horse industry and Government to come to a viable and practical agreement to safeguard the health and welfare of Australia’s horse population.

Submission

ODH is owned by the Mustad International Group of Companies that are predominantly involved in servicing the Equestrian Hoofcare Industry. Mustad International Group is the largest Global supplier of horseshoes, horseshoe nails and related farrier tools, and ODH is the largest supplier of Hoofcare products in the Australian horse industry.

There are no longer any Australian manufacturers of mass-produced horseshoes. The only horseshoes made in Australia today are those made by individual farriers for specific purposes in their own businesses.

ODH emphasises that it fully supports the proposal for a disease Levy of some description for the Australian horse industry. This provides horse owners with a degree of certainty that there will be Government assistance to respond to any exotic disease outbreak. ODH does not consider that a disease levy associated with horseshoes is a suitable collection mechanism for the horse industry.

ODH's opposition to such a Levy being introduced on horseshoes is that such a move will be devastating not only for suppliers like ODH, but also for our competitors and the professional and amateur farrier industry in Australia which run their respective businesses tending to the hoofcare needs of horses.

The Market

It is a widely accepted assumption, based on incomplete data, that the Australian domesticated horse population is about 1 million horses. According to ODH's extensive market knowledge there are 700,000 sets (1 set = 4 shoes so a total market of 2.8 million individual horseshoes) sold annually in Australia. Assuming 1 horse is shod (new shoes applied) every 8 weeks on average (6.5 times per year) that equates to 107,692 horses wearing shoes regularly or 10.8% of the total estimated domesticated Australian horse population. This clearly does not cover the majority of the horses in Australia; it is a very small percentage of the horse population.

Interestingly, in a recent survey in USA, only 12% of respondents indicated that they shoe horses on all feet on a regular basis. The vast majority of respondents (62%) never have shoes applied to their horses, as is the case in Australia.

ODH's experience over the past 15 years is that the number of horses being shod on a regular basis in Australia is consistently declining by about 2% annually. There are many reasons for this decline including increasing popularity of a philosophy of bare foot trimming and a deliberate choice not to use horseshoes; changed economic conditions; drought, and the continuing aftermath of the 2007 outbreak of equine influenza.

Guideline Failure

According to the January 2009 publication 'Levies Revenue Service – Levy Principles and Guidelines' released by the Department of Agriculture, Fisheries and Forestry there are 12 principles outlined for the proposal of new Levies which must be met. ODH will not go into detail on these Guidelines as it is sure the Senate Rural and Regional Affairs and Transport References Committee is fully aware that a horseshoe Levy does not meet the 12 principles outlined in these guidelines and, in particular:

1. A horseshoe cannot be claimed to be a product of the horse industry. metal, aluminium or plastics are products produced outside of the horse industry.
2. Horseshoes do not cover the whole/majority of the industry. ODH's market knowledge suggest that only 10.8% of horses wear horseshoes.

A horseshoe Levy clearly contravenes these guidelines.

Price Sensitivity and Handmade Horseshoes

There is real price sensitivity at the retail end of the horseshoe supply chain. ODH's current experience is that as little as a 40 cent increase per set of horseshoes (or 10 cents per shoe) can trigger negative feedback and a noticeable dip in sales, particularly in drought affected regions of Australia, (which has been most of the eastern seaboard in the last decade).

The current retail price (excluding GST) of a set of four steel horseshoes ranges from approximately $10 to $20 per set, or $2.50 to $5.00 per horseshoe. The clear majority of horseshoes sold are no more than $11 per set. To impose a Levy to make any significant impact on raising funds to payback the Federal Government for money spent on an outbreak like equine influenza is simply not feasible.

For example, after the recent outbreak of equine influenza in 2007, it would be conceivable that about $100 million of eligible costs was spent on assisting the horse industry. If a payback period of 10 years was required, this would mean that a Levy on horseshoes would come in at $11.43 per set of four horseshoes (assuming a payback of 80% of the eligible costs over 10 years and continued sales of 700,000 sets annually). This would result in a set of horseshoes costing $21.43 per set (based on a $10- set of shoes), effectively more than doubling the retail price of horseshoes.

Such a Levy amount would not only be inflationary, it would destroy the relatively small horseshoe supply industry as farriers would return to making their own shoes by hand. At a price of $21.43 per set, it will be feasible for farriers to buy the steel and make the horseshoes themselves and avoid paying a horseshoe Levy. This will result in a likely 30% to 50% reduction in the sale of horseshoes to somewhere between 350,000 to 490,000 sets per annum, further limiting the number of payers with a very narrow collection base, and ultimately not achieving the purpose the Levy originally was intended to fulfil.

The process of auditing Levy collections and remittances would rapidly become unrealistic and unworkable if farriers returned to making their own products from off the shelf steel bar which is impossible to track and trace.

Less Availability

A Levy must be passed on to the end user without a profit margin being added to the sale price of the product. This is a very complex situation that will force many resellers to abandon selling Hoofcare products due to the complex administrative nature of selling horseshoes.

The average turnover of Hoofcare products in a rural store within Australia is $1,000 to $50,000 p.a., of which horseshoes are a big part of that product mix. A major concern is the handling of the invoicing of such a Levy that will require such stores to charge their customers a sale price (inclusive of GST), plus a Levy for each set (or piece) of horseshoes they have purchased. Many of these stores will have to invest in amending their Enterprise Resource Planning ("ERP") systems to accommodate the invoicing of a horseshoe, plus GST, plus a Levy.

Many resellers will weigh up the investment required to accommodate the administration of this Levy against the overall profit contribution of Hoofcare products in their operations and realise that the cost to upgrade their ERP outweighs the benefit of stocking Hoofcare products.

Such a situation will result in many farriers and horse owners being forced to purchase Hoofcare products from major capital cities, creating a supply disadvantage for rural customers, forcing horse owners to purchase horseshoes from farriers who are hand making their own horseshoes without incurring a levy.

Competitive Disadvantage

ODH not only services the Hoofcare industry within Australia, but also redistributes Mustad Group Hoofcare products to its sister company in New Zealand, and to various customers in Thailand, Indonesia, Malaysia, Singapore, Philippines, Hong Kong, Macau, China, Korea and Japan.

The financial impact on ODH paying a Levy on the import of horseshoes into Australia will be

1. Cashflow – there will be a devastating cashflow hole created at ODH as it remits GST and the Levy imposed on the importation of horseshoes that are to be re-exported to the abovementioned countries.
2. Competitive Disadvantage – a Levy imposed on horseshoes imported into Australia and then re-exported will make ODH uncompetitive with its competitors in the Asia Pacific region effectively killing ODH's export distribution business.

Both financial impacts will result in ODH having to move its regional headquarters in Australia to Mustad New Zealand Ltd, where there is no such financial impact on the importation of horseshoes.

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This will result in further job losses at ODH and ODH will become a small retail operation servicing local customers on a needs only basis.

Other Products

The proposal of introducing a horseshoe Levy on steel and aluminium horseshoes is also discriminatory and very narrow minded. The proposal does not take into account new forms of hoof protection which includes, plastics, urethanes, hoof boots and any new technology that may be an alternative to a steel or aluminium horseshoes. Although, ODH admits it is almost impossible to catch such products, they will no doubt have the affect of further reducing the total number of horseshoes sold within the industry and therefore materially reducing the Levy collection base and ultimately not achieving the purpose for which such a Levy was intended.

Many proponents in favour of a horseshoe Levy within the horse industry already do not use horseshoes. ODH finds it alarming that many participants and organisations within the horse industry are the loudest proponents of a horseshoe Levy when they are, in fact, not using horseshoes or are using alternatives to horseshoes where a horseshoe Levy does not apply.

ODH does not support the introduction of a horseshoe Levy.

Dan O'Dwyer

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