



ABN: 77 797 945 686
Reg. No. IA10436

262 Argyle Street
Hobart Tas 7000
Tel: 03 62311 229
Fax: 03 62 311 929
Email: office@cherrygrowers.org

14 October 2014

Jane Thompson
Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Cherry Growers Australia Inc submission to the

***Inquiry into the industry structures and systems governing the imposition
of and disbursement of marketing and research and development (R&D) levies
in the agricultural sector.***

Dear Madam

Thank you for the invitation for Cherry Growers Australia (CGA) to provide a submission to the above inquiry and its Terms of Reference. I have circulated your email to our industry contacts database on 19 September 2014, so the CGA Board hopes others will provide a submission too.

In brief the Australian cherry industry produces and is levied approximately on between 10,000 to 15,000 tonnes each season. We are looking to grow this levy figure on the back of increasing production to 15,000 to 20,000 tonnes of cherries in the next 5 to 10 years.

Our industry does have quite strong seasonal variations due mainly to climatic factors and production issues but many growers are looking at new technologies and improving production management matters so we can have a more consistent annual crop into the future. The industry is also looking to expand over the next 15 years out to 2030 to meet increasing demand especially from the Asian region where 80% of our exports go now.

The industry currently has three levies:

- 3.97 (Cents /Kilogram) for Research and Development that is matched \$ for \$ by the Federal Government;

- 3.0 (Cents /Kilogram) for Marketing and Promotional activities , that is not matched by the Federal government; and
- 0.03 (Cents /Kilogram) for Plant Health and Biosecurity matters that is matched \$ for \$ by the Federal Government.

Our industry has also embarked on a process to review our levies with the options listed below. This process has been put on hold pending this inquiry and how the Levy Policy Collection Program and Processes are structured into the future.

The CGA Board has suggested that the new levels be:

5.97(Cents /Kilogram) for Research & Development (incorporating Market Access)
0.03 (Cents /Kilogram) for Biosecurity
1.0 (Cents /Kilogram) g for Marketing and Promotion

Levies raised can be seen in the table below prior to any levy collection costs or HAL Corporate Cost Recovery being taken out.

Levy	10,000 tonnes	12,500 tonnes	15,000 tonnes
Current	Levy raised	Levy raised	Levy raised
Research and Development and Biosecurity 4 cents/kg	\$400,000 matched \$400,000 Total \$800,000	\$500,000 matched \$500,000 Total \$1,000,000	\$600,000 matched \$600,000 Total \$1,200,000
Marketing and Promotion 3 cents/kg	\$300,000 not matched	\$375,000 not matched	\$450,000 not matched
Proposed			
Research and Development (Market Access)and Biosecurity 6 cents/kg	\$600,000 matched \$600,000 Total \$ 1,200,000	\$750,000 matched \$750,000 Total \$1,500,000	\$900,000 matched \$900,000 Total \$ 1,800,000
Marketing and Promotion 1 cent/kg	\$100,000 not matched	\$125,000 not matched	\$150,000 not matched

There has been a further suggestion that perhaps the Marketing and Promotion Levy be reallocated so that a the full 7 (Cents /Kilogram) go into the Research and Development Levy.

As mentioned previously this process has been put on hold pending the outcomes of the HAL review and restructure and also this inquiry.

CGA would like to provide the following information in relation to each Term of Reference where applicable:

A. an audit of reports, inquiries and reviews relevant to this inquiry;

Nothing to provide.

B. the basis on which levies are imposed, collected and used;

Since the Department of Agriculture went to a cost recovery model after the 2011/12 financial year and the Australian Cherry Industry had a 450% increase in collection fees for 2012/13. Since then the industry has fought hard to have the costs reduced for collection services by the Levy Revenue Services (LRS), for about 336 collection points, see below:

- \$21,779 in 2011/12;
- \$102,262 in the 2012/13 season;
- \$57,566 in the 2013/14 season from a proposed figure of \$69,125; and
- \$47,800 as forecast for 2014/ 15 a figure that could be reduced to about \$40,000.

The industry believes that we need to continue to work with the LRS to reduce these costs and this will occur though the increased use of electronic platforms for levy declarations and payments and the discussion on thresholds to continue to collect levies.

The industry believes we need to have the levies collected by one organisation. Ongoing discussions with the LRS have revealed that they are open to have the levies collected as the legislative body set up by the Federal government to do so.

If the Australian Cherry Industry can manage to have the annual cost of collecting the levies below 5% of total levies collected, the industry would be pleased with that outcome.

We have even suggested in the CGA submission to the HAL Review (Question 9) in March 2014 that a new approach to levies be looked a. This could be in the form of a single levy for the industry and for it to be more flexible to change over time :

“QUESTION 9

(From the CGA Response to the ACIL ALLEN Review of HAL

What are your views about the present system for collecting horticulture levies and ability of members to make voluntary contributions?

“CGA thinks the system is cumbersome to say the least and there needs to be considerable discussion between HAL, DOA and industries on ways to improve the system, for example:

- *Look at the collection of levies for more effective approaches especially now as DOA are doing this on a cost recovery basis and even to have LRS funded totally by consolidated revenue inside DOA, so fees are charged or have fee collection as part of a single levy collected per industry see below;*
- *There should be a reduction in the number of collection points and for all of this to be done electronically.*
- *The system lacks flexibility within a short time (ie from one season to the next) to make changes. This makes it difficult for industries to adapt investment in R&D and Marketing to meet the rapid change occurring in some industries and the Australian Cherry Industry is a case in point.*
- *Even if the levy amount to be collected is the same (eg for Cherry Industry currently the levy is 4c/kg for R&D and 3c/kg for Marketing. If this was to change to 6c/kg for R&D and 1c/kg for marketing) we still need to go through a 12-18 month process and be signed off by the Minister. We should be able to make the change without having to go through this process but a much more rapid process.*
- *There should be matched \$ for \$ be it for Research and Development and Marketing as currently the process discriminates against marketing and investment in that area.*
- *Perhaps there could be a single levy for each commodity funding for:*
 - *research and development*
 - *marketing and promotion*
 - *plant health (as required)*
 - *export and trade(as required)*
 - *covers the HAL Corporate Cost Recovery*
 - *covers the LRS collection fee and*
 - *other aspects industry might like to include that are particular to their industry.”*

The Australian Cherry industry is certainly interested in a levy review and vote on a 3 to 5 year basis and for this to be voted on by growers and levy payers electronically but to done so in a simplified manner, not the complicated and elongated process we have to go through now as indicated above even to change the levy amounts.

C. competing pressures for finite R&D funds;

There is an ever increasing pressure for the use of Research and Development funds and as part of this we are looking to work with our lead agency in the National Horticultural Research Network, the Tasmanian Institute of Agriculture (TIA). Other agencies in conjunction with TIA will also work on specific research or in multi industry projects across the temperate fruit industries and prioritise our needs over the next 10-15 years.

In September 2014 CGA wrote to TIA on the matter:

“As you know R&D funds are used in so many areas that might not be seen as traditional research. So we have

- *Fruit production and quality*
- *Biosecurity projects*
- *Market Access and activities to meet requirements*
- *Consumer Research and marketing*
- *Extension and communications projects*
- *Climate Change and environmental issues*
- *Consultation funding with HAL and*
- *Strategic Projects to invest in (the old Multi industry projects and Across industry projects).*

We as an industry just don't have the funds to manage all we need to do through the levies and VC's and we need to leverage extra funds and work on a range of collaborative projects.

We need to look to other avenues for funds as TIA does and has achieved good success (EG: the packaging project with Woolworths).

It would be good to meet to look and discuss options for the future and out to 2025 with the work TIA will be doing and ways to fund your work and other so called research work through:

- *ARC projects*
- *Other government grants*
- *Investments by companies and private investment into projects, perhaps even the need for a new business model to be set up by CGA*
- *Sponsorship*
- *New HAL model and what funds we can access and put into strategic projects and*
- *Increasing levy revenue by increased crop supply and increase in levy rates. “*

The new Horticulture Innovation Australia Limited (HIAL) model announced on 7 October 2014 will see the need for CGA to become a service provider seeking revenue from a range of sources.

For a growing industry, like the Australian Cherry Industry we do need more funds put into the industry directly by matching levies \$ for \$ and other funding sources as indicated above.

Sure we can work on collaborative projects with other industries, but there will always be specific projects relating to cherries only.

Perhaps there should be bigger tax incentives for companies to invest in R&D so that the levy stream of funding can be leveraged up by this?

D. the opportunities levy payers have to influence the investment of the levies;

In the Australian cherry industry we attempt to get as much grower input into the investment of levies. In an email, I personally sent to the Minister for Agriculture's office in September 2014, I indicated that in relation to some criticism that Peak Industry Bodies were not in touch with their growers:

"I think there is a huge misconception out there at PIB's are not in touch with their growers and are doing things their own way.

Can I say from my time with Cherries (since 4 January 2011, that is not the case and the CGA office made up of me and a part time admin and finance person are the engine house of all we drive to achieve and you will find that with many of the small industries that collect levies under \$1.5m per annum that is the case .

The CGA office runs on about \$200,000 per annum that includes funds from CFA, and Projects we manage for the benefit of the industry and income from other sources and the turnover in Australia of the industry is \$150m and likely to grow to \$200M in next 5 years , especially if we can tap into some of the larger protocol countries such as China, Thailand and Taiwan for all growing regions not just Tasmania. So its not a bad return.

We work all the time with our growers and value their input on all the committees we have and their feedback on a range of matters.

We have the

- *CGA Board*
- *Cherry Export Working Group*
- *Cherry IAC and sub-committees on Marketing and Research and Development*

These are made up 32 people, many are on one or two committees and provide time voluntarily. Only 3 out 32 (9%) are not directly involved in growing or working in the cherry industry

We work closely with all our member association in WA, SA, VIC, TAS and NSW (so about 350 members and growers) on all aspects of the industry and I am regularly asking them to represent us at State and National forums and events.

We seek full input into our R&D priorities through our close cooperation with our lead research organisation under the NHRN framework Tasmanian Institute of Agriculture one of the few industries that have made it a success through the NHRN.

We send out quarterly newsletters to nearly 600 people and fully maintain and update our website. We have just had over 100 delegates come to our conference in Melbourne and we run a national extension program.

Also the office and the CGA board are the drivers of the market access and market improvement issues that face us particularly in Asia, as you know with mixed results due to issues facing DOA, with lack of resources and the need to turn their culture around to be commercially orientated and drive the process like DFAT do.

All our projects are full accounted for and since I have been here we have gone from being a office that was not well run to one of the most efficient and accountable office in horticulture just ask HAL .

I also think this idea that levies are for the growers to spend is wrong too

The levies are a tax to be returned to the industry as a whole to benefit them, not by the big players just to push others around.

So if you pay \$70 (1 tonne) a year in levy or \$100,000 as some of ours do , we treat each levy payer equally to represent them and ensure they benefit from the tax they pay and look to leverage that with other funds .

We manage this too from some of our bigger growers, but we have to work for the whole industry on a range of projects.

I think it has been a few PIB' that have created this misconception and they should be brought into line.

Perhaps one of the things HAL could do and I have suggested this before is to come and talk to each PIB, about their future operations and where too from here after 1 November and have a flexible funding process to agree too with each industry, not just cut it off on 31 October. Sure we can just be a service provider but we also provide key consultation mechanisms to deal with Federal and State governments other key bodies like PHA and HAL and the commercial sector.

Also the annual call for projects should stop and industries in consultation build projects to better reflect their needs and do this on an open call basis.

We can't have a one size fits all model, the big guns in the PIB' are in a prime position to make a move on the smaller commodity offices and as your Minister has been strong on , he loves the price at the farm gate and the smaller players growing to boost domestic and export trade.

We need diversity and a best model for each industry to work with its growers moving forward to 2025."

The CGA Office and the CGA Board are always looking for input from our levy payers and growers through mail-outs and workshops, as well as feedback through our national development program as highlighted above and this should be maintained.

With HAL moving from a 43 member based organisation to a grower based organisation, (Horticulture Innovation Australia Limited [HIAL], from 1 November 2014 as announced by the Federal Minister on 7 October 2014), I think there will be a change across all of Horticulture in this area in the future as has occurred in other areas of agriculture and from grower based and grassroots processes such as Landcare.

E. the opportunities levy payers have to approve and reapprove the imposition of levies;

In Section B, I indicated that that we need to develop a new process to review levies so that increases, decreases and changes to levies to levy payers on a regular 3 to 5 year cycle and not go through the 12-18 month process we have to endure currently can be implemented.

The change in a particular industry could be rapid and on a seasonal basis, so change needs to occur quickly to match commercial realities that could occur.

We need a levy review process that can work in this way too, even on a seasonal variation. This would need to be controlled by the industry, growers and levy payers to manage the changes and vote on them.

F. the transformation of R&D and marketing into increased returns at the farm gate, including the effectiveness of extension systems;

Sometimes it is hard to quantify the full return to the farm gate from the levy funds expended and this is an area that needs further work to be done but it is not all about economic return.

In the cherry industry over the past 5 years we have looked at really focussing in on key matters that will benefit growers in the industry, be they small producers or up to the large scale exporters and producers.

We have looked at projects that are linked and have made the results freely available to all in the industry. This includes its key stakeholders working with the industry and the retail sector in areas such as:

- CGA has a 5 year Strategic plan with sub components of
 - Research and Development
 - Marketing and Promotion
 - Export planning
 - Communication and extension

This is reviewed annually to change as required and in line with priorities to fund projects in to the future.

- Consumer research and consumer trends and preferences;

- Market access and trade projects, including our new Biosecurity Management Programme framework for exporters and pack houses to use and the requirements to meet global markets both protocol and non-protocol;
- We run a National Development Extension program that seeks input from the 20 growing regions across the country for workshops and information related to their areas;
- We fund multi industry projects looking at biosecurity matters and issues such as pollination, that could have severe impacts on the industry if not managed and researched for issues that could arise; and
- Looking at projects that are regional and national in their outcomes such as Climate Change.

G. collaboration on research to benefit multiple industry and research sectors;

Under the new HIAL model, this will occur more through the co-investment approach and with individual industries on key national projects such as:

- National Fruit Fly Strategy;
- Temperate Fruit Orchard Fund;
- Trade and Market Access Program; and
- Climate change etc.

This can be achieved through other industry groups within the horticulture sector working together with other key sectors of agriculture nationally where applicable.

H. industry governance arrangements, consultation and reporting frameworks; and

In this area, the review of HAL and the outcomes from this and the new HIAL model, will help to dictate this area into the future across horticulture.

CGA has come from being a very under performing national body to one where we pride ourselves on the:

- Timely reporting of the projects that we manage either for the industry or as partners in others
- Seek full consultation on projects and programs with the growers and other stakeholders in the industry
- Look to provide strong corporate and committed governance across all our project and committees we operate that make decisions on levy and other funds expended and
- Work with the industry and other key stakeholders to ensure we continue to push the industry forward to seek better returns and profit margins either by selling fruit on the domestic or in over 30 export markets currently.

The CGA Board has also looked at other models of governance we can adopt so we can in the future meet the changing needs of our industry. Currently we have a National office and Board made up of a member from each State and an Executive and the national office works with the 5 state bodies that deal with cherries issues in each State.

There has been talk of going to a single national body but one of the key strengths of our industry are the growing regions and the specific needs of our growers in those regions so we need to work for their benefit from the local area up.

Perhaps for the long term benefit of the temperate fruit industry state associations should follow the example set by Fruit Growers Tasmania in regards to how they operate across commodities and with national peak bodies.

However, it may be time to take stock of national organisations and offices so for example in the temperate fruit areas we look to have a single national body that represents:

- Cherries
- Apples and Pears
- Summerfruit
- Nashi Pears

Perhaps there needs to be some incentives for these to be formed, with growers being in control of the levies they raise, it is a challenge to manage for the future.

I. any other related matter.

As the current CEO and someone who has worked in agriculture for 20 years in a State agency, on national projects and also provided advice to State Ministers in Tasmania I personally believe that for:

- the benefit of the Australian cherry industry;
- other industries in the horticulture sector; and
- for all the other sectors of Agriculture;

that the levy system be fully retained and reviewed on a 5 to 10 year basis to meet the needs of Australian Agriculture as it changes over time and to meet the challenges both economically, environmentally, socially and politically that we face for domestic and export markets.

The ability to raise, collect and utilise levy funds matched by the Federal Government underpins so much that we can gain now and into the future, particularly as our farmers are not subsidised as we see in so many other parts of the globe such as European Commission countries, Japan and Asia and the United States of America.

Levies and the support from the Federal Government and in some cases extra support from the State Governments provides assistance to the Australian agricultural sector. It also

ensures we can move forward and compete on global markets and also provide products to our domestic consumers.

On behalf of the CGA Board, I would like to make available the National President of CGA, Andrew Smith and I to present a verbal submission to the Inquiry if that opportunity is made available as part of this process?

If you require any further information on the aspects I have raised please contact me on my details below.

Yours sincerely

Simon Boughey
Chief Executive Officer
Cherry Growers Australia Inc.