Australian Government
Department of Agriculture

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# Senate Rural and Regional Affairs and Transport References Committee

## Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector

**Submission from Department of Agriculture**

Provided on 26 November 2014

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# Glossary

| | |
|---|---|
| ACNC | Australian Charities and Not-for-profits Commission |
| AEC | Australian Electoral Commission |
| AECL | Australian Egg Corporation Limited |
| AGWA | Australian Grape and Wine Authority |
| AGWA Act | *Australian Grape and Wine Authority Act 2013* |
| AHA | Animal Health Australia |
| AMLI Act | *Australian Meat and Livestock Industry Act 1997* |
| AMPC | Australian Meat Processor Corporation Limited |
| APL | Australian Pork Limited |
| ASIC | Australian Securities and Investments Commission |
| AWI | Australian Wool Innovation Limited |
| CRC | Cooperative Research Centre |
| CRDC | Cotton Research and Development Corporation |
| CSIRO | Commonwealth Scientific and Industrial Research Organisation |
| DAL | Dairy Australia Limited |
| DP Act | Dairy Produce Act 2001 |
| EISP Act | Egg Industry Services Provision Act 2002 |
| EPPR | Emergency Plant Pest Response |
| FRDC | Fisheries Research and Development Corporation |
| FMRDS Act | *Forestry Marketing and Research and Development Services Act 2007* |
| FWPA | Forest and Wood Products Australia Limited |
| GRDC | Grains Research and Development Corporation |
| GVP | gross value of production |
| HAL | Horticulture Australia Limited |
| HIAL | Horticulture Innovation Australia Limited |
| HMRDS Act | *Horticulture Marketing and Research and Development Services Act 2000* |
| ISB | industry services body |
| LRB | levy recipient body |
| LiveCorp | Australian Livestock Export Corporation Limited |
| MLA | Meat & Livestock Australia Limited |

| | |
|---|---|
| NPV | net present value |
| NRS | National Residue Service |
| PGPA Act | *Public Governance, Performance and Accountability Act 2013* |
| PHA | Plant Health Australia |
| PI Act | *Pig Industry Act 2001* |
| PIRD Act | *Primary Industries Research and Development Act 1989* |
| R&D | research and development |
| RD&E | research, development and extension |
| RDC | Rural Research and Development Corporation |
| RIRDC | Rural Industries Research and Development Corporation |
| SFA | statutory funding agreement |
| spillover | non-excludability and non-rivalry mean that the benefits of research may spillover beyond the originators to others at no charge |
| SRA | Sugar Research Australia Limited |
| SRDS Act | *Sugar Research and Development Services Act 2013* |
| TFP | total factor productivity |
| WSP Act | *Wool Services Privatisation Act 2000* |

# Summary

Innovation through research and development (R&D) has been a key factor in the rural sector's productivity growth and contribution to Australia's prosperity. Australian agriculture is dependent on world markets, with over 60 per cent of Australian production exported. Global trade in agriculture is highly distorted by high tariffs, farm subsidies and non-tariff barriers. Australian Governments have supported rural industries' productivity and international competitiveness through rural R&D.

The Australian rural sector is largely made up of small family businesses, which have a low capacity to individually conduct or invest in R&D. There is limited incentive for private investment because it is difficult for a private investor to keep research benefits to themselves, and to stop people who did not financially contribute to the research from benefiting from it. Market failure such as this creates the case for Australian Government involvement in rural R&D and for the levy system. The Australian Government is a significant contributor to rural R&D in Australia, through its matching funding of industry levies generally up to 0.5 per cent of industry gross value of production (GVP).

In the Australian Government's recently released Agricultural Competitiveness Green Paper, the government stated its commitment to co-fund research, development and extension (RD&E) to deliver results on-the-ground that improve farm profitably and productivity. The Green Paper is seeking comments from stakeholders on the policy ideas outlined in it, including ideas around strengthening the R&D system, and improving rural research and development corporations (RDCs).

To further support agricultural productivity and profitability, and to assist the RDCs to deliver cutting edge technology, continue applied research, and focus on collaborative innovation and extension, the Australian Government has committed an additional $100 million over four years from 2014–2015. The Rural R&D for Profit Programme will fund collaborative RD&E to address specific priorities. The funds will be provided to the 15 RDCs on a competitive basis. The RDCs will be expected to partner with others in the rural R&D system, such as research agencies or individual researchers, producer groups or the private sector.

The rural levy system collects funds for more than R&D. Many rural producers also pay levies for marketing, plant and animal health and biosecurity programs, and residue testing activities. These levies play an important role in supporting rural industries through facilitating a national approach to animal and plant health, pest and disease preparedness and emergency response. Residue testing helps producers demonstrate good agricultural practice and conformance with residue limits both within Australia and in importing countries. Marketing can help grow demand for producers' products. And combining marketing and R&D can lead to synergies such as being able to factor in customer requirements into research programs. While the overall rural levy system is broad, this submission focuses on the rural levy system for R&D.

Many of Australia's rural industries value the levy system as a way of increasing their profitability, sustainability and competitiveness. There is no "one size fits all" model for the system, but the flexibility of the Australian model allows it to evolve and respond to industry needs.

In recent years, Australia's RDCs have experienced some changes. These include the creation of Sugar Research Australia from a merger of existing bodies, including the former Sugar RDC and the

creation of a new statutory RDC, the Australian Grape and Wine Authority from two existing bodies. The government is also working with the horticulture industry on its response to a major review of arrangements for delivery of R&D and marketing services. And in 2013, the Australian Parliament passed legislation to allow statutory RDCs to undertake marketing at the request of industry, allow government matching funding for voluntary contributions to all RDCs to encourage further private sector investment, and introduced funding agreements for statutory RDCs to drive performance improvements and increase transparency in the delivery of R&D services.

There have been many reviews of the rural R&D system (see Chapter 4). They have found the rural R&D model to be in the public's and producers' interest. Key strengths identified included the close links with industry encouraged by the co-investment approach, and the role the RDCs play in collaborating with other research funders and influencing research priorities. However, there are always opportunities to improve the system to ensure it is delivering the most benefits possible to the producers that pay the levies and the public.

It is rural industries that decide if they want a levy, how much it will be, how it will be collected, and what it will be used for. What role the levy payers play in decision making within an RDC varies between the RDCs. For industry-owned RDCs, levy payers can become members of the RDC and can exercise their rights as members within it. Levy payers cannot be members of the statutory RDCs, but each statutory RDC has its own consultative mechanism that gives levy payers an opportunity to contribute to the RDC's activities. The importance of ensuring levy payers can easily participate in the decision-making process within RDCs and the transparency of those processes has been highlighted recently through a separate inquiry by this committee into grass-fed beef levies.

The Department of Agriculture works with the RDCs with respect to their obligations under legislation and statutory funding agreements (SFAs) with the Australian Government. The department has developed a range of tools to assist the RDCs in meeting these obligations including levy principle guidelines and an RDC accountability framework. But ultimately, the RDC boards are responsible for decision-making and accountability to their levy payers.

The RDC system is dynamic, not static, and it has evolved through a process of continual review, renewal and improvement to ensure that it better delivers value for money, and transparency and accountability to all stakeholders.

# 1 Rural research and development in Australia

## Government support for rural R&D

The Australian rural sector comprises a diverse range of industries, some are large corporations and many others are owned and operated by small family businesses. The rural sector's structural characteristics mean that market failure in the provision of socially optimal levels of R&D is likely to be more severe than in other sectors of the economy, as the incentive for individual businesses to invest in R&D on their own is less. It is also difficult to apply property rights to the technology and knowledge from R&D in the rural sector. Government intervention through statutory levies addresses this market failure and under-investment by providing industry with a means of collectively investing in R&D that will benefit the industry (DAFF 2010).

Other forms of public support and interventions for business R&D, such as the R&D tax incentive and intellectual property rights, are not well suited to the myriad of small producers within the rural sector. In 2007–08, 2 968 companies claimed the tax offset (less than 1.0 percent of companies), of which only 67 were from the agriculture, fisheries and forestry sector with total claims of $9 million for the sector (ATO 2008).

Public funding for rural R&D also recognises the high level of spillovers—non-excludability and non-rivalry mean that the benefits of research may spillover beyond the originators to others at no charge—that are of benefit to the broader economy and community. While there is empirical evidence of high returns and spillovers from investment in rural R&D, and some spillovers beyond the rural sector can be quantified by conventional methods, other environmental and social spillovers to the community are not readily measurable.

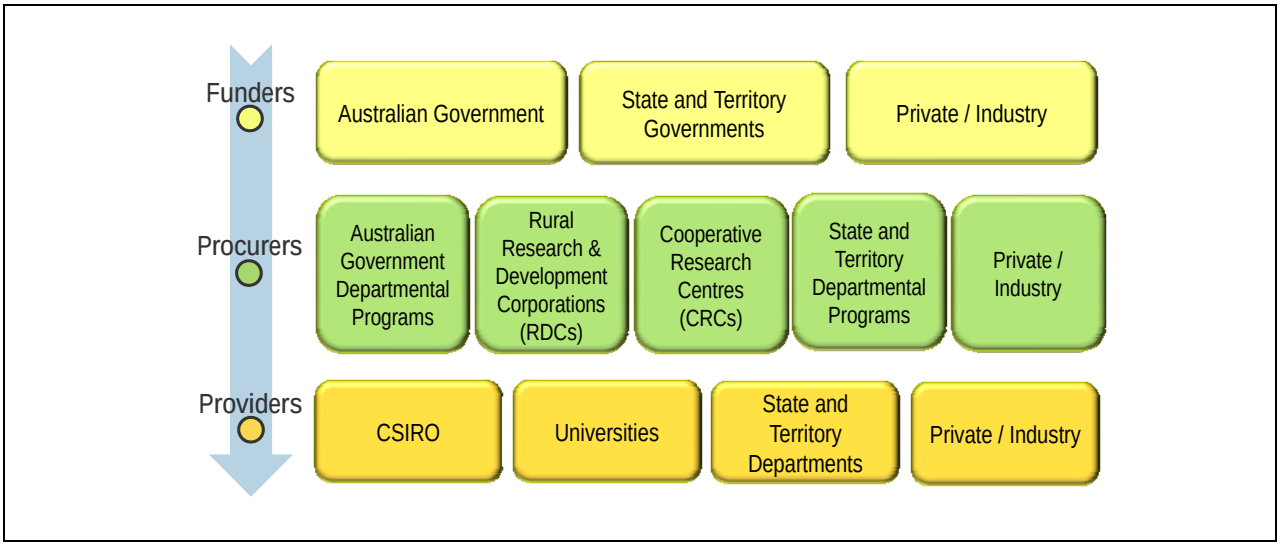
The current levy and matching funding arrangements, through the RDC model, allows the government to encourage rural R&D. More detail about each RDC is provided in the Attachments (see Attachment A – RDC profiles).

## Rural R&D funding and delivery framework

Innovation has been a key factor in the rural sector's long history of productivity growth and contribution to Australia's prosperity, with productivity growth being strong compared to other sectors in the economy (BRS and ABARE 2009). This has been supported by ongoing investment in rural R&D, which continues to be of importance to the rural sector.

Australia's current rural R&D system is complex with a variety of formal and informal linkages between R&D funders and providers, extension service providers and industry users. Figure 1 shows that Australia's research activities are conducted by a range of public and private research organisations. It is, however, only a partial representation of the R&D delivery framework because it omits the extension providers, end-users, feedback loops and inter-relationships between entities.

**Figure 1 Rural R&D funding and delivery framework**

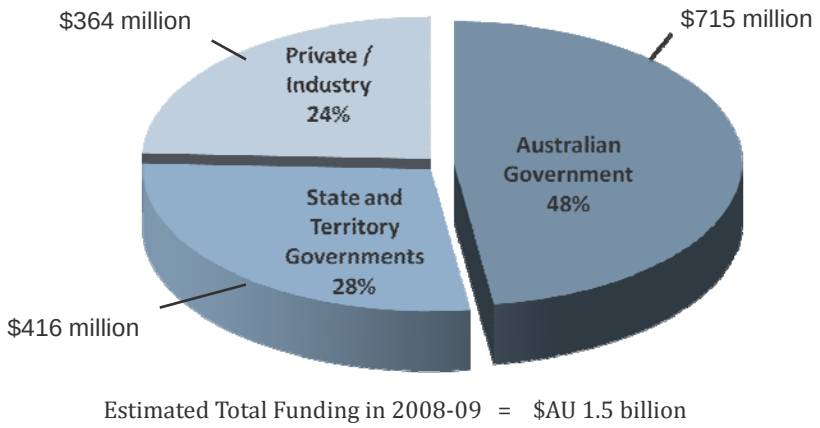



At the request of industry, the Australian Government collects and distributes levies from rural producers to collaboratively fund R&D. The government provides matching funding for eligible R&D expenditure with a ceiling cap (0.5% GVP for most RDCs; 0.75% for Fisheries Research and Development Corporation (FRDC)). Agricultural industries and individual companies also commission their own research.

Australian Government matching funding for rural R&D recognises that public good is derived from improvements in sustainable and healthy food and fibre production, and that rural R&D investment helps create an internationally competitive, profitable and sustainable agricultural sector. The model also provides a mechanism for collective investment in, and benefit from, rural R&D for an agricultural sector that is numerically dominated by small farm businesses.

Approximately $1.5 billion of public and private funds are invested each year in rural R&D in Australia (Figure 2). This represents almost 4 per cent of the farm gate value of agricultural produce (ABS 2010). Funding is distributed among RDCs, Cooperative Research Centres (CRCs), the Commonwealth Scientific and Industrial Research Organisation (CSIRO), universities, private providers and other government programs. In recent years, the Australian Government has contributed around $700 million (approximately $450 million in levies and $250 million in matching funding) to rural R&D each year to improve the productivity, sustainability and competitiveness of rural industries.

**Figure 2 Estimated total funding sources for Australian rural R&D in 2008–09**




## Rural Research and Development Corporations (RDCs)

The current statutory RDCs were established in 1989 as a partnership between industry and government to jointly fund R&D for agricultural industries to improve productivity, sustainability and product quality. Over time, some statutory RDCs have transitioned to industry-owned RDCs, placing a greater level of responsibility on industry for the management of the investment of public funds. There are currently five statutory RDCs and 10 industry-owned RDCs. Section 2 provides further detail on the RDCs and their role in rural R&D.

## Cooperative Research Centres (CRCs)

CRCs are partnerships between publicly-funded researchers (usually at least one Australian university) and end-users either from the private, public or community sector. Since their establishment in 1991, 200 CRCS have produced key outcomes that have been applied across Australian industries, including agriculture. There are currently seven CRCs of direct relevance to agriculture – seafood, pork, sheep, dairy, invasive animals, plant biosecurity and poultry.

## Universities

There are currently 13 Australian universities that offer degree courses in agriculture or related agricultural areas which make up the Australian Council of Deans of Agriculture. Like CSIRO, universities may be commissioned by RDCs to carry out rural R&D.

## Commonwealth Scientific and Industrial Research Organisation (CSIRO)

CSIRO is Australia's national research agency, working across a range of primary, secondary and tertiary industries. Although independent of government, CSIRO receives significant government funding, and has achieved many breakthroughs for the Australian community and industries. Structured around national research flagships, the CSIRO currently has four flagships relevant to agricultural productivity – biosecurity, food and nutrition, agriculture, and land and water.

# Australia's rural research and development priorities

Rural R&D falls within a broader national research and development framework. The Australian Government's *Strategic Research Priorities* (Department of Industry 2013) (currently under review) aim to drive investment in areas that are of immediate and critical importance to addressing the societal challenges facing Australia. The priorities identify five societal challenges and most of them are relevant to rural R&D:

- living in a changing environment
- promoting population health and wellbeing
- managing our food and water assets
- securing Australia's place in a changing world
- lifting productivity and economic growth.

At the agricultural industry level, the *Rural Research and Development Policy Statement* (Australian Government 2012) provides guidance to researchers on priorities and key challenges that need to be faced over the next five to ten years. They are the result of consultation between the Australian Government, state and territory governments, industry, research funders and providers, and include:

- boosting productivity and adding value to rural production
- effective operation of supply chains and markets for existing and new products
- supporting effective natural resource management
- building resilience to climate variability and climate change
- protecting Australia from biosecurity threats.

At the individual industry sector level, the *National Primary Industries Research, Development and Extension Framework* (DAFF 2011) encourages collaboration and promotes continuous improvement in the investment of R&D resources. There are currently 22 commodity-based or cross-sectoral strategies that sit under the framework—all are approved but at various stages of implementation. The framework and commodity-based strategies are developed by industry and agreed by state, territory, the Australian Government and research institutions.

# 2 The RDCs

There are 15 RDCs in total—five statutory RDCs and 10 industry-owned RDCs. Differences between these two groups are outlined below.

## Statutory RDCs

The five statutory RDCs are owned by the government and are controlled by boards appointed in accordance with statutory requirements. Statutory RDCs are Australian Government entities, with Directors appointed by the Minister for Agriculture, based on recommendations from a selection committee. Statutory RDCs are overseen by the Minister for Agriculture and the board is accountable to the Minister for their performance. Legislation also requires that the RDCs address meetings of peak industry bodies.

Four statutory RDCs are established under the *Primary Industries Research and Development Act 1989* (PIRD Act) and associated regulations. They currently provide R&D for the benefit of grains, cotton, fisheries and other rural industries. Following legislative amendments passed in late 2013, they can also provide marketing services if industry requests the service and raises a marketing levy. These industries are yet to make a request for the relevant statutory RDC to undertake a marketing function.

On 1 July 2014, the Australian Grape and Wine Authority (AGWA) commenced operation replacing the Grape and Wine RDC and the Wine Australia Corporation. AGWA provides R&D, marketing and regulatory services, such as licensing exporters and issuing export permits, for the grape and wine industry. AGWA must comply with the *Australian Grape and Wine Authority Act 2013*.

All statutory RDCs must comply with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), including relevant rules issued by the Minister for Finance under the PGPA Act. Further reporting and accountability obligations are also included as part of their statutory funding agreements (SFAs) signed with the Australian Government.

Statutory RDCs are funded by industry levies, voluntary contributions from industry and states and Australian Government matching funding. Some RDCs have additional funding streams, including: sale of intellectual property; dividends from investments; annual appropriation ($9.449 million for Rural Industries Research and Development Corporation (RIRDC) in 2014–15); and service provision (AGWA provides regulatory and marketing services on a user-pays basis). The enabling legislation and the SFAs prevent the statutory RDCs from using levies or matching funding for agri-political or industry advocacy activities.

Table 1 provides information on the statutory RDCs in relation to their establishment date, legal framework and a breakdown of the estimated levy collection and expenditure for 2014–15.

**Table 1 Summary information for the five statutory RDCs (amounts for 2014–15 are estimates as used in the Portfolio Budget Statement)**

| Statutory RDCs | Date established and legislation | Levy 2014–15 ($m) | Matching funding 2014–15 ($m) | Voluntary contribution 2014–15 ($m) | Other income 2014–15 ($m) | Expenditure 2014–15 ($m) |
|---|---|---|---|---|---|---|
| AGWA | 2014 under AWGA Act | 16.625 | 11.569 | | 6.473 | 34.664 |
| CRDC | 1990 under PIRD Act | 8.618 | 8.513 | | 3.313 | 24.178 |
| FRDC **a** | 1991 under PIRD Act | 0.900 | 17.387 | 7.881 | 1.282 | 27.439 |
| GRDC | 1990 under PIRD Act | 104.733 | 68.917 | | 13.710 | 213.100 |
| RIRDC **b** | 1990 under PIRD Act | 4.036 | 3.214 | 2.259 | 1.113 | 20.071 |

**a** FRDC receives income from States/Territories that is classified as voluntary contributions
**b** RIRDC also receives Appropriation from the Australian government ($9.449m in 2014–15)

# Industry-owned RDCs

The industry-owned RDCs are independent corporate entities with their own boards, established under the *Corporations Act 2001* and declared as industry services bodies by the Minister for Agriculture under industry-specific enabling legislation. Horticulture Australia Limited (HAL), which is owned by industry representative bodies, has recently transitioned to a new company with levy-payer ownership called Horticulture Innovation Australia Limited (HIAL).

The boards of industry-owned RDCs are elected by members or appointed in accordance with their constitution and are accountable to the Minister for Agriculture through SFAs. Industry-owned RDCs are also directly accountable to their members under normal Corporations Law principles, including the preparation and distribution of annual reports. The Australian Securities and Investments Commission (ASIC) oversees compliance with these requirements. Industry-owned RDCs are also required, under their SFAs, to meet with the government and industry every six months and to provide copies of annual reports to the government. As registered charities, Dairy Australia Limited (DAL), Forest and Wood Products Australia (FWPA) and HAL/HIAL must also comply with the *Australian Charities and Not-for-profits Commission Act 2012* and associated regulations—the Australian Charities and Not-for-profits Commission (ACNC) oversees their compliance.

Both the enabling legislation and the SFAs prevent the industry-owned RDCs from using levy or Australian Government matching funding to engage in agri-political or industry advocacy activities. Australian Pork Limited (APL) is the only exception, where section 9(2) on the *Pig Industry Act 2001*, as defined in their SFA, enables APL to undertake industry advocacy.

Table 2 summarises information on the industry-owned RDCs in relation to their establishment date, legal framework and provides a breakdown of the estimated levy collection and expenditure for 2014–15.

**Table 2 Summary information for the 10 industry-owned statutory RDCs (amounts for 2014–15 are estimates as used in the Portfolio Budget Statement)**

| Industry-owned RDCs | Date established and legislation | Levy 2014–15 ($m) | Matching funding 2014–15 ($m) | Voluntary contribution 2014–15 ($m) | Other income 2014–15 ($m) | Expenditure 2014–15 ($m) |
|---|---|---|---|---|---|---|
| AECL | 2003 under EISP Act | 6.565 | 1.927 | | 0.306 | 8.915 |
| AMPC | 2007under AMLI Act **a** | 16.745 | n/a **b** | | 1.554 | 22.029 |
| APL | 2001 under PI Act | 13.980 | 4.800 | | 0.279 | 19.545 |
| AWI | 2001 under WSP Act | 44.046 | 13.000 | | 11.009 | 80.055 |
| DAL | 2003 under DP Act | 32.870 | 19.921 | | 1.711 | 62.251 |
| FWPA **d** | 2007 under FMRDS Act | 5.030 | 3.040 | | 0.200 | 8.420 |
| HAL/HIAL | 2001 under HMRDS Act | 41.795 | 42.500 | 13.887 | 7.833 | 106.578 |
| LiveCorp | 2004 under AMLI Act **a** | 4.010 | n/a **b** | | 0.258 | 4.265 |
| MLA | 1997 under AMLI Act | 95.401 | 49.983 | | 36.249 | 186.357 |
| SRA **c** | 2013 under SRDS Act | 21.000 | 5.500 | | 1.521 | 34.007 |

**a** AMPC and LiveCorp were both established prior to these specified dates but were not RDCs
**b** Matching funding for both AMPC and LiveCorp is received via MLA which carries out the R&D programs for both RDCs
**c** SRA also receives a contribution from QDAFF ($4.050m in 2014-15)
**d** FWPA also receives voluntary contributions from the states

# Purpose of the RDCs

The RDCs commission and manage targeted research and foster uptake and adoption based on the identified needs and priorities of both industry and the Australian Government. Some RDCs also provide marketing services to industry and one RDC is a research provider.

The RDCs are governed by independent boards and are accountable to the minister through legislation and SFAs entered into with the Australian Government. The government shares strategic direction (including the setting of national strategic goals) and priority setting for R&D activities with the RDCs.

In 2013–14, the Australian Government provided over $250 million in matching funding to the 15 RDCs.

A strength of the RDC model is that it allows flexibility for each industry to adapt the model over time to respond to industry needs. As a result, some RDCs have developed a particular focus, for example:

- Sugar Research Australia Limited (SRA) is a procurer and provider of research.

- APL can undertake advocacy.
- FWPA and FRDC have levy equivalents paid by the states who are significant owners of the resources and can't be levied by the Australian Government.
- RIRDC focuses on new and emerging industries and national issues.
- AGWA has regulatory and marketing roles, in addition to R&D.

## Governance

The RDCs acknowledge the need for best practice corporate governance and a high level of transparency in the management and expenditure of all public monies, including levies. At the core of the R&D model is the need for RDCs to deliver services in an efficient and effective manner, regardless of the industry settings.

The key features of the RDC model are:

- expert, independent, skills-based boards
- participation by industry and farmers in priority setting, planning, delivery and adoption of R&D and marketing outcomes
- planning – three to five-year strategic plans and annual operating plans
- dual accountability to industry and government.

The ownership structure for the RDC largely determines who oversees them and their accountability mechanisms. The key accountability frameworks for the RDCs are set out in the PIRD Act, the AWGA Act, the PGPA Act, the *Corporations Act 2001* and the SFAs (see Table 3).

In recent times, the passage of the *Rural Research and Development Legislation Amendment Act 2013* represented a significant step towards aligning the accountability framework of the statutory RDCs with the industry-owned RDCs. In particular, it established uniform SFA requirements across all RDCs. These will be negotiated and agreed by 1 July 2015.

## Table 3 RDC accountability framework

**Statutory RDCs**

**PIRD Act**

- RDCs must prepare five-year R&D plans for approval by the minister.
- RDCs must, each year, prepare an annual operating plan.
- RDCs must consult with relevant stakeholders when drafting these plans.
- RDCs must report to the parliament, the minister and its representative organisations on its R&D activities and the impact of these activities on the RDCs applicable primary industry.
- Annual reports must include particulars on R&D activities coordinated or funded and an assessment of the extent to which R&D plan objectives have been achieved.
- The minister must table the annual reports of any RDC's Selection Committee.
- Individual RDC SFAs are required to be agreed by 30 June 2015. These agreements are yet to be negotiated and are expected to contain similar requirements and provisions to the industry-owned RDCs' SFAs for the expenditure of levy and matching funding.

**AGWA Act**

- AGWA must prepare initial and then 5-year Corporate plans for approval by the minister.
- AWGA must consult with each representative organisation before preparing a Corporate plan.
- AGWA must, each year, prepare an annual operating plan.
- AGWA must report to the parliament, the minister and the representative organisation on its grape or wine R&D activities and the impact of these activities on the on the grape industry or wine industry.
- AGWA must convene an annual general meeting if requested by a representative organisation of 10 or more eligible producers.
- Annual reports must include particulars on R&D activities coordinated or funded and an assessment of the extent to which R&D plan objectives have been achieved. The annual report must also detail the operations of the Geographical Indications Committee.
- An SFA is required to be agreed by 30 June 2015. These agreements are yet to be negotiated and are expected to contain similar requirements and provisions to the industry-owned RDCs' SFAs for the expenditure of levy and matching funding.

**PGPA Act**

- RDCs must prepare annual performance statements, for inclusion in its annual report, that provide information about the entity's performance in achieving its purposes.
- RDCs must prepare annual reports and audited financial statements for each financial year and provide these to the responsible minister for presentation to parliament.
- RDCs must establish an audit committee.
- RDCs must establish and maintain appropriate systems of risk oversight and management and internal control.
- RDCs must keep the responsible minister informed of activities of the entity and of significant issues and decisions.

**Industry-owned RDCs**

**Corporations Act 2001**

- RDCs are accountable to their members and must keep members informed of company operations.
- RDCs must prepare annual reports and provide these to members and to ASIC or the ACNC (DAL, FWPA and HAL/HIAL only).

**Industry-specific legislation**

- The minister must table the SFAs of Dairy Australia Limited, Forest and Wood Products Australia, LiveCorp and Sugar Research Australia Limited.
- The minister must table SFA compliance reports for LiveCorp and Dairy Australia Limited.
- The minister must table the annual reports of LiveCorp and Dairy Australia Limited.
- The *Rural Research and Development Amendment Bill 2014*, has been introduced to Parliament that seeks to repeal all of these requirements in industry-specific legislation.

**SFAs**[1]

- RDCs must establish accounting systems, processes and controls to adequately manage funds and contributions.
- RDCs must meet at six-monthly intervals with the department.
- RDCs must report annually on their compliance with the SFA.
- RDCs must report to the department on matters that materially impact their ability to meet their objectives or comply with the SFA.
- RDCs must undertake periodic independent performance reviews
- The SFAs set out expected content of strategic plans, annual operating plans and annual reports.
- RDCs must consult with the department and industry in the preparation of their strategic and annual operating plans
- RDCs must seek the department's approval of their strategic plans and consultation plans (where a consultation plan is required).

[1]Recent changes to the PIRD Act require that all RDCs, including statutory authorities, must have a SFA in place by 1 July 2015.

# Statutory Funding Agreements (SFAs)

SFAs are essentially the same for all industry-owned RDCs, with small variations based on industry needs. There is little difference in accountability, transparency and governance requirements across the industry owned RDCs as they are all spending public monies. SFAs are required by legislation to enable payments to industry-owned RDCs and ensure that the funds are spent for the purposes for which they were appropriated. The SFA sets out the contractual arrangements between the Australian Government and the industry-owned RDCs and is used to ensure an appropriate and consistent accountability framework is applied in the spending of public monies.

SFAs applying to industry-owned RDCs for the delivery of marketing and R&D services have been in place since 1998. Access to statutory levies and Australian Government matching funding is provided by the Australian Government in return for the delivery of industry services for the benefit of industry and the community in general. SFAs have evolved to reflect government and industry expectations regarding prudent spending of public monies and the efficient and effective delivery of services.

- The first generation SFA was developed in 2004 to take account of the government's response to the Senate Inquiry on *Australian Wool Innovation Limited - Application and expenditure of funds advanced under Statutory Funding Agreement dated 31 December 2000* (The Senate 2004). This template was used to ensure an appropriate and consistent accountability framework applied across all industry-owned RDCs and also promoted continuous improvement in the management of public monies.
- The second generation SFA was developed in 2010 in response to the desire to improve industry-owned RDC performance and corporate governance arrangements. The amendments increased the governance, planning and reporting benchmarks for all industry-owned RDCs. This template was applied to all SFAs with the exception of DAL, who requested to move directly onto the third generation SFA.
- The third generation SFA was developed in 2013 in response to the Australian Government's *Rural Research and Development Policy Statement* (Australian Government 2012). The template also incorporated recommendations contained in the government's response to the Productivity Commission Inquiry on *Rural Research and Development Corporations* (Productivity Commission 2011), and the Rural Research and Development Council report on *National Strategic Rural R&D Investment Plan* (RRDC 2012). Key features of the third generation SFAs are to improve the clarity and usefulness of SFAs as contractual documents and to implement further governance and accountability improvements. The third generation SFA was used to negotiate the initial SFA for SRA and it will be used for other industry-owned RDCs when their SFAs are due for renewal. It will also provide the basis for agreements with the statutory RDCs, which are legislatively required to be in place by 1 July 2015.

# 3 How the agricultural levy system works

Agricultural industries decide if they need a levy, how it will be collected, how much it will be, and who will receive the funds. The Australian Government's role is to support industries to do this by providing the legislative authority to impose and collect the levy on industries' behalf, and to disburse it to the organisations that are to receive it (known as the levy recipient bodies (LRBs)). The Australian Government collects levies under its constitutional taxing powers.

## Levy System

Within the levy system, there are four key participants.

**Levy payers** – they are the producers (as defined in the legislation) who are liable to pay the levy. In some levies, processors (e.g. cattle and livestock slaughter levies) and exporters (e.g. live animal export charge) are defined as producers. They are responsible, usually through national industry representative bodies, for developing levy proposals and any changes to them.

**Intermediary agents** – the agents are usually responsible for lodging levy returns and making levy payments to the department on behalf of producers. They have legal authority to recover these payments from the producers. The levy payers decide, in the process of developing proposals, how best to pay the levy and what is most efficient for them. In nearly all cases, this leads to the use of intermediary agents. Intermediaries should also be consulted during the development of the levy proposals as the implementation will usually impose administrative and cost burdens on them for which they receive no direct benefit.

**Department of Agriculture** – ensures the levy proposals satisfy the relevant legislation and the *Levy Principles and Guidelines* (DAFF 2009) (reproduced at Attachment C). The department's main roles include providing assistance to industries developing proposals, providing advice to the minister regarding proposals, implementing proposals approved by the government (including developing legislation), the collection and distribution of the levies to the levy recipient bodies and the assessment and payment of Australian Government matching funding.

**Levy recipient bodies** – they receive the levies collected by the department and are responsible for spending the money in line with the legislative purpose of the levy and agreed strategic investment plans. They include the RDCs, the National Residue Survey, Animal Health Australia and Plant Health Australia.

The roles and responsibilities of the four principle players in Australia's levies system are illustrated in Figure 3 and further described in this section.

**Figure 3 Roles and responsibilities in the Australian levies system**

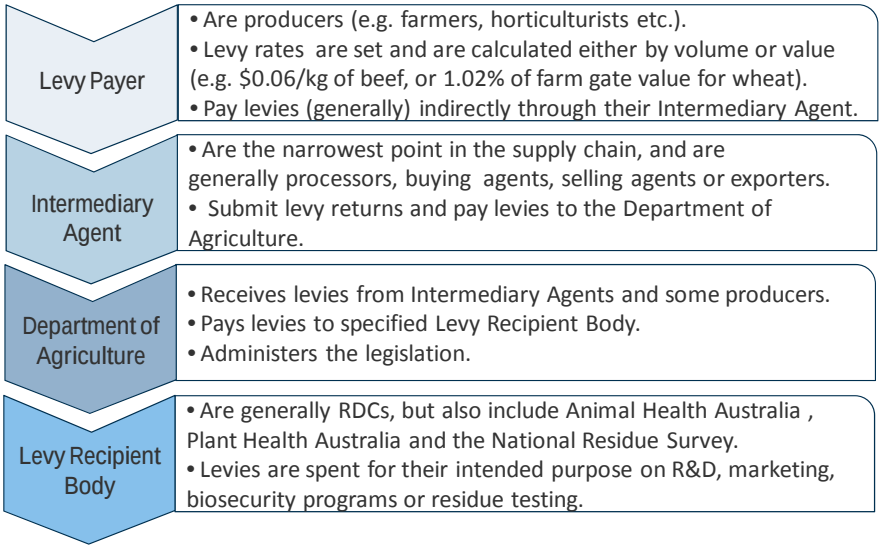
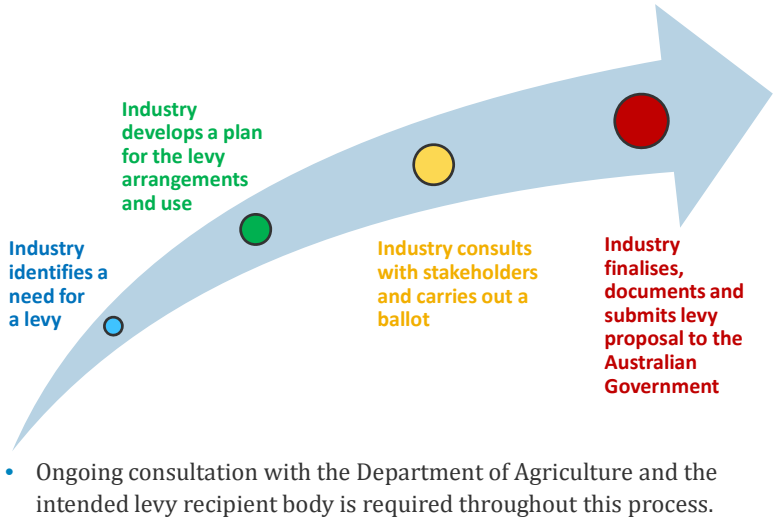



**Figure 4 The process for instigating a new levy is led by the industry**



# Role of levy payers

## Who decides to have a levy, how much it is, and who can stop it?

An industry drives all proposals about an R&D levy – whether it needs one, how it is to operate, how much it is, and whether to cease one. Figure 4 shows the key steps in the process of starting a levy but the same process applies to a proposal to change or stop a levy.

How members of an industry work together to agree on the need for a levy (or a change to an existing one) is decided by each industry. Usually peak industry bodies manage this process. Some industries do not have peak industry bodies, some have more than one, and some peak industry bodies are identified in legislation. The horticulture industry has separate peak industry bodies for many of its component commodities.

There is a statutory requirement that the minister must declare at least one organisation to be a representative organisation (RO) for each statutory RDC. The representative organisation has a consultative role in preparing strategic plans for investments. The department administers the guidelines (Department of Agriculture 2014a) to determine if an RO should be appointed for the PIRD and AWGA Acts. In deciding on an appropriate RO or ROs for the RDC, consideration is given to: structure and governance; membership; financial capability; and levy payer and member support. There are concerns in some industries that the representative organisations are not sufficiently representative to perform this role. Before the Australian Government agrees to an industry's levy proposal (either a new levy or a change to an existing one), the industry must demonstrate the levy is supported by the majority of that industry.

When considering the industry's levy proposal, the Australian Government assesses it against the *Levy Principles and Guidelines* (DAFF 2009). These principles include that the levy address a demonstrated market failure that justifies the use of the Australian Government's taxation powers, that the levy funds will not be used for agri-political activities, the scope of consultation on the proposal and the process for demonstrating industry approval, that red tape is kept to a minimum, and that imposition of the levy between levy payers is equitable.

Under the *Levy Principles and Guidelines* (DAFF 2009), the industry's proposal must also include details on:

- how the industry consulted on the levy proposal, and what the outcomes of that consultation were (eg. voting outcomes)
- what the product is that will attract a levy, and any exemption to the levy
- what the levy rate will be (calculated on quantity or value)
- who will pay the levy, if an intermediary will pay the levy on behalf of the producer and other aspects of the imposition and collection mechanism
- a plan for how the funds will be used (e.g. industry strategic plan)
- who the levy funds will go to (i.e. which levy recipient bodies).

**Box 1 Examples of the consultation process to establish or change a levy**

**Wool and Dairy**

For the wool and dairy produce levies, the relevant legislation sets out a consultation and ballot process to be used for reviewing the levy rates. This involves periodic polls (every 3 years for the wool levy and 5 years for the dairy produce levy) where levy payers vote on future levy rates. Australian Wool Innovation (AWI) and DAL, as the relevant RDCs, are responsible for the polls. Voter participation in these polls varies from poll-to-poll and industry-to-industry. In 2012, the majority of DAL levy payers voted to increase the levy rate by 10 per cent. The voter participation rate was 42 per cent in 2012, compared to 53 per cent in 2007 and a number of issues were identified that might have contributed to this reduction (e.g. concerns in relation to pre-poll road show, consultative committee, insufficient time to consider options, no provision to vote electronically, equity around voter entitlement). In contrast, levy payers from AWI voted to retain the existing levy rate in 2012 and the voter participation rate of 42 per cent was an increase on the 2009 poll, at 33 per cent. The estimated average cost per poll can be as high as $1 million. The dairy industry is currently reviewing the usefulness of the poll.

**Onions**

Onions Australia levy payers recently voted on changing their R&D levy, reducing their National Residue Service (NRS) to zero, and introducing new Emergency Plant Pest Response (EPPR), Plant Health Australia (PHA) and marketing levies. A ballot of levy payers was held by the Australian Electoral Commission (AEC). Of the 244 growers, 47 levy payers participated in the vote. In light of the low participation rate and a marginal positive vote, Onions Australia collated testimonial letters from 14 large growers, who represented the majority of onion production in Australia, to testify their support for the proposal.

**Mangoes**

The Australian Mango Industry Association recently voted on changes to their EPPR and PHA levies. A production-based vote received marginal majority support in favour of the changes. The voting entitlement was one vote each with an additional vote for each 2 000 mango trees capped at 20 votes per enterprise. The mango levy proposal originally included increases to the marketing and R&D levies. In response to a relatively high level of objections from levy payers, these increases were later removed from the proposal, even though they had received majority support.

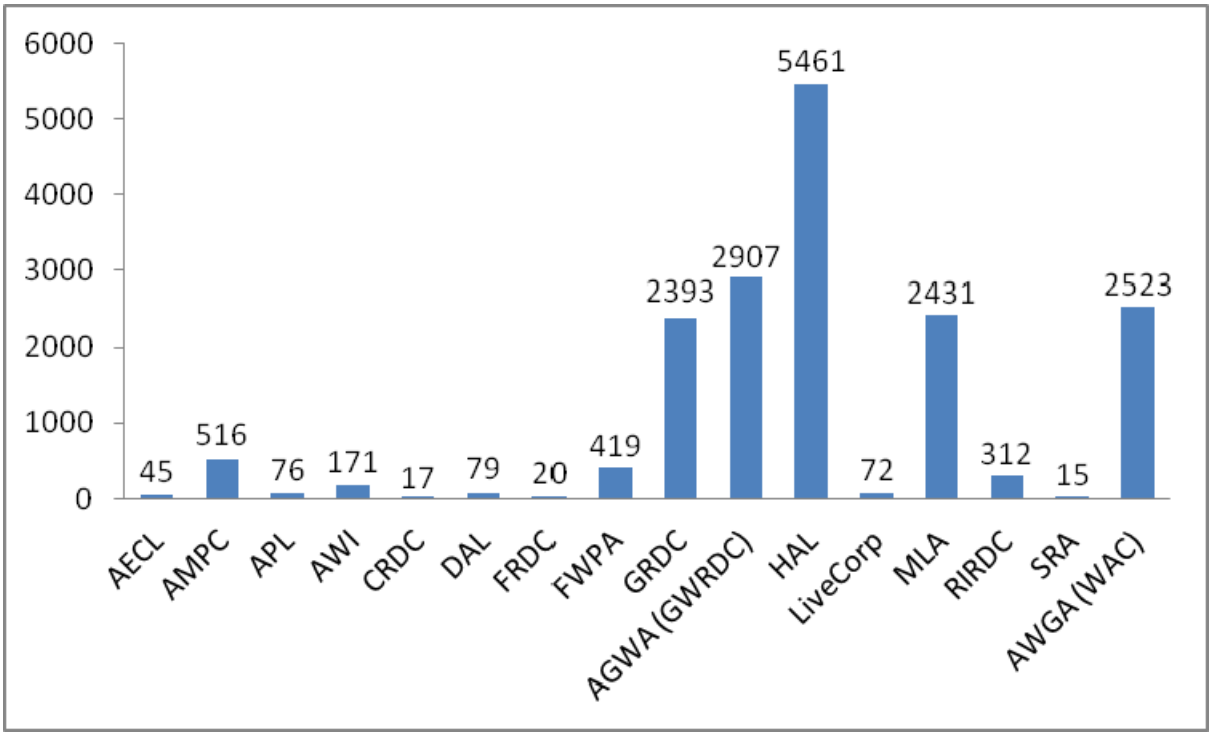
# Role of intermediaries in collecting the levy

Usually, intermediary agents collect the levy from the levy payers. Under the *Primary Industries Levies and Charges Collection Act 1991*, the intermediaries are liable to pay the levy on behalf of producers but have legal authority to recover it from producers. Intermediaries lodge monthly, quarterly or annual levy returns, either in hard copy or online, with payment, to the department. When an intermediary deducts the levy from the proceeds of sale or recovers the levy from the producer, they must give the producer a receipt or other written statement acknowledging the payment of the levy.

Intermediaries may be required to carry out significant amounts of administrative activity and incur costs in meeting their obligations to lodge returns and make payments. In all but one case, they do not receive any direct compensation for undertaking these activities. The one exception is for intermediaries paying the nursery levy who receive a small payment which is managed by HAL/HIAL. The department is not involved in these payments.

The distribution of collection points per levy recipient body is illustrated in Figure 5, drawn from the Department of Agriculture's *Report to Levies Stakeholders* (Department of Agriculture 2014c).

**Figure 5 Number of collection points associated with each RDC**




## Role of the department

The core support that the government provides is a legislative framework which enables levies to be imposed on industry members and funds to be collected and disbursed to RDCs and other levy recipient bodies.

The legislation makes a distinction between an excise duty (levy) and a customs duty (charge). An excise duty is a tax imposed on a step in the production, manufacture or distribution of goods to the point of consumption within Australia. A customs duty is a tax imposed on the export of goods from Australia or the import of goods into Australia. Under Section 55 of the Constitution, two Acts are required if comparable levies and charges are to be imposed on a commodity that is produced and traded domestically as well as exported and imported (CIE 2000).

A levy is created and administered under three principal pieces of legislation: an imposition Act, a collection Act and a disbursement Act. These are supported by regulations and other legislative instruments. The legislative framework for the primary industries levies is outlined in Box 2.

**Box 2 Legislative framework for primary industries levies**

**Imposition Acts** — changes to the imposition of levies are made in the regulations of these Acts.

- *National Residue Survey (Customs) Levy Act 1998*
- *National Residue Survey (Excise) Levy Act 1998*
- *Primary Industries (Customs) Charges Act 1999*
- *Primary Industries (Excise) Levies Act 1999*

**Collection Act** — changes to the collection of levies are made in the regulations of this Act.

- *Primary Industries Levies and Charges Collection Act 1991*

D**isbursement Acts** — levy disbursement for each industry-owned RDC is covered by a specific Act, as for AWGA. Disbursements for other statutory RDCs are covered by regulations under the PIRD Act.

- *Australian Grape and Wine Authority Act 2013*
- *Australian Meat and Live-stock Industry Act 1997*
- *Dairy Produce Act 1986*
- *Egg Industry Service Provision Act 2002*
- *Forestry Marketing and Research and Development Services Act 2007*
- *Horticulture Marketing and Research and Development Services Act 2000*
- *Pig Industry Act 2001*
- *Primary Industries Research and Development Act 1989*
- *Sugar Research and Development Services Act 2013*

**Financial Management Acts** — apply to all industry-owned RDCs.

- *Corporations Act 2001*
- *Public Governance, Performance and Accountability Act 2013*

**Charities Act** — applies to DAL, FWPA and HAL/HIAL, as registered charities:

- *Australian Charities and Not-for-profits Commission Act 2012*

In 2013–14 there were 97 statutory levies imposed over 73 commodities. Changes to levies took effect on 1 July 2014 in relation to onions, mushrooms, mangoes, pig slaughter and forest growers. The queen bee levy and export charge ceased to be active on 1 August 2014.

In 2013–14, the department processed a total of 50 531 levy returns (some have multiple commodities associated with one return) received from thousands of collection points. The number of collection points for each RDC is commodity based – i.e. if one intermediary lodges returns covering five commodities they will be counted five times. This is because cost recovery is assessed on a commodity-by-commodity basis. As commodities may have levy streams flowing into multiple levy recipient bodies, one agent may be counted in several different RDCs – e.g. Meat & Livestock Australia (MLA), Animal Health Australia (AHA) and NRS. The number of unique collection points is about 9 000.

Levy returns are lodged with the department and payments are made to the department by a range of intermediaries (processors, buying and selling agents and first purchasers) who recover the levy from producers, or from producers who have a direct liability to lodge returns and make payments.

The levy legislation imposes direct lodgement and payment responsibility on producers in a number of situations where there is no intermediary who could collect the levy. Examples include:

- where there is no practical intermediary in the market chain, such as in the wine and turf industries
- where producers sell goods directly to a purchaser, such as in direct producer-to-producer sales of cattle and livestock
- where producers export goods directly without the use of an exporting agent, such as occurs with wine and some horticultural products
- where a producer sells directly to a consumer, such as in roadside sales of cherries
- where a producer uses a commodity for their own purposes but there is still a levy liability, such as in on-farm grain use where the grain is initially processed.

The department does not systematically collect information directly from actual levy payers beyond the provision of the returns by producers in the types of situations outlined above. In most industries, the vast majority of levy is received through intermediaries.

Section 23 of the *Primary Industries Levies and Charges Collection Act 1991* enables authorised persons within the Department of Agriculture to request information relevant to the operation of that Act. This may include the identity of levy-payers from intermediaries; however, there are substantial cost and resource implications for the intermediaries to comply with such requests. As such, there have been very few circumstances which have led to the department exercising this power.

Both the statutory RDCs and industry-owned RDCs consult with, and are accountable to, government and levy payers. The extent and arrangement for consultation vary between the RDCs, and depending on needs, can be challenging where industries' representative bodies are not well organised or strong. As an additional measure, some RDCs are seeking to establish a register of levy-payers to improve transparency and accountability arrangements.

Legislated arrangements to collect producer information from intermediaries are in place to support the wool and dairy produce levy polls. Intermediaries are not compensated to undertake additional work to comply with these regulations.

The performance of the department's compliance activities to ensure completeness of collections and compliance by levy agents with their legislated obligations is set out in *Report to Levies Stakeholders* (Department of Agriculture 2014c). This document provides public information about the operational and financial performance of the department's levy collection and disbursement activities.

In 2013–14, the levies were disbursed to 19 levy recipient bodies (reduced to 18 from 1 July 2014) and resulted in $467 million, contributed by Australian primary producers, being forwarded to levy

recipient bodies along with the Australian Government matching funding for eligible R&D of approximately $250 million. The levy amounts paid per recipient body (Figure 6) and per commodity group (Figure 7) are illustrated below, drawn from the *Report to Levies Stakeholders* (Department of Agriculture 2014c).

**Figure 6 Total levy disbursed for each RDC in 2013–14 ($m)**

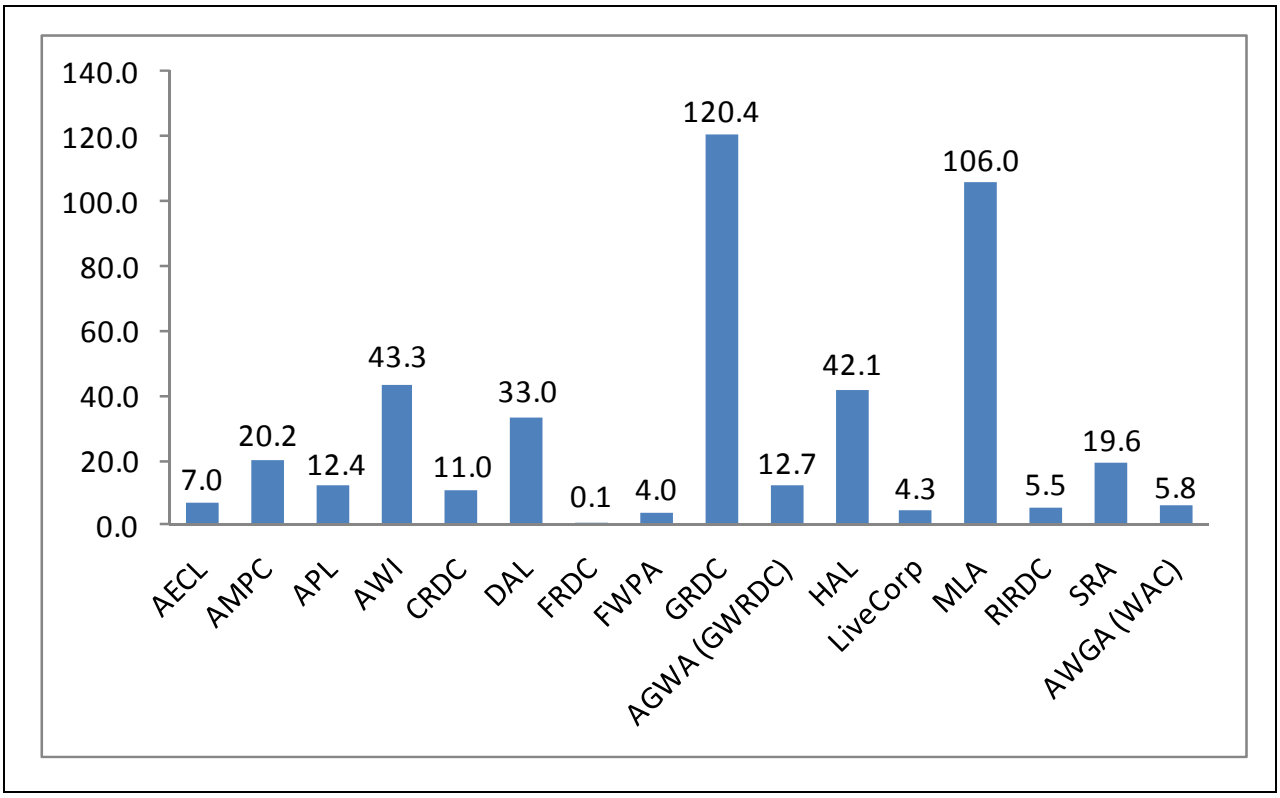
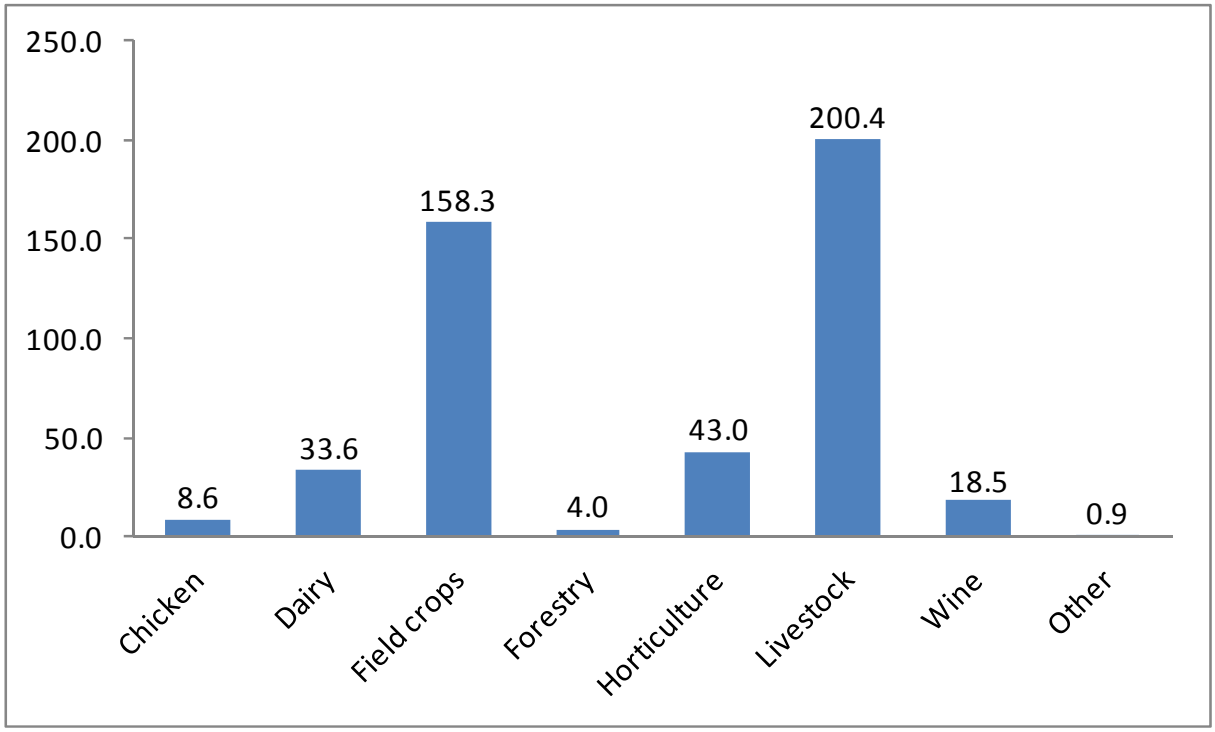


**Figure 7 Total levy disbursed for each industry category in 2013–14 ($m)**




## Role of levy recipient bodies

The Department of Agriculture disburses the levy funds to the RDCs in accordance with the legislation. The RDCs are required to use the funds in accordance with their legislative obligations.

## Who pays for each stage of the levy process?

Industry, usually through its peak industry body, pays for the cost of developing a levy proposal and giving it to the government for its consideration. The cost is influenced by the type of consultation process used to assess if there is majority support for a levy, and how many potential levy payers there are. Once a levy is agreed by industry and imposed by government, it will be paid by the levy payers until a proposal agreed by industry to cease the levy is put to the minister, agreed and implemented.

Intermediaries are not paid to collect levies. They can hold the levies and collect interest on them until they submit their levy returns to the department. Intermediaries have expressed concerns about the burden this places on them, particularly where the levies are complex, they are responsible for collecting multiple levies and where they are unable to shift the costs back to producers or onto processors or those further along the supply chain.

Government bears the cost of the department's services associated with the imposition of, or change to, a levy (e.g. drafting legislative changes). Costs associated with the Federal Register of Legislative Instruments are cost recovered by the department's levies team.

The industry pays for the department's collection and disbursement services through full cost recovery. The department invoices the LRBs on a monthly basis for the cost recovery charges. These

charges are paid from levy disbursed to the LRBs. The department's costs are based on the effort required to administer the levy, and not on the amount of revenue collected. The department strives to continually improve the efficiency of its collection and disbursement services to minimise costs to industry.

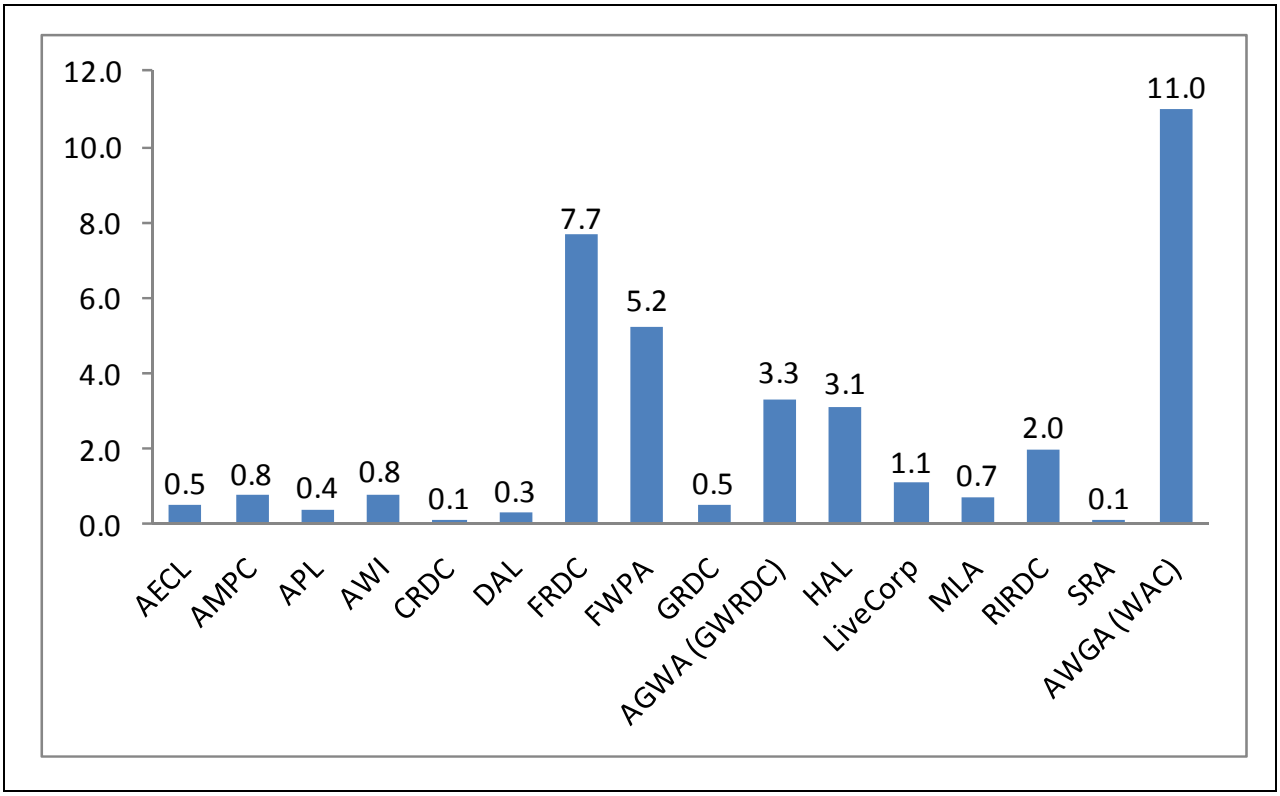
In 2012, consultants from KPMG were engaged to conduct a review of the method of allocating costs to the LRBs. The subsequent report (KPMG 2013) concluded that the model aligned with the *Australian Government Cost Recovery Guidelines* (Department of Finance 2014) and provided three recommendations to further improve the model:

- accuracy of time recording – ensuring staff are appropriately trained and incentivised to record time spent on levy collection activities accurately and promptly
- review indirect cost drivers – proposing that the department consider preferable alternatives to their current FTE time allocation driver
- review equal share allocation – proposing that the department review how costs are allocated to LRBs (from commodities) that share a levy.

The department is engaging with industry on these issues to ensure continued and sustained improvement in the levies cost recovery arrangements (Department of Agriculture 2014b).

The key driver of the costs is the number of collection points. Levy payer compliance, the complexity of the levy arrangements, the frequency of returns, and the uptake of electronic transactions make up the other significant cost drivers. AGWA is undertaking considerable work to verify the number of levy payers and new exporters who are subject to Wine Export Charge in an effort to reduce the cost burden to levy payers in the longer-term. Figure 8 shows the cost recovery charges for each RDC as a percentage of levy revenue in 2013–14 (Department of Agriculture 2014c).

**Figure 8 Cost recovery as a percentage of levy disbursed for each RDC (%)**



# 4 Recent reviews of the R&D system

A recent OECD report on the *Policy Framework for Investment in Agriculture* (OECD 2014) cites the Australian R&D funding model as an example of an effective public-private partnership.

> "In Australia, for instance, the Rural R&D Development Corporation (RDC) is a public-private partnership between the government and the industry. They both set its priorities and fund its operations with the government collecting compulsory levies from the industry and providing matching contributions."

This position is reflected in many reviews of the levies system (see Attachment B – List of reviews of the rural R&D system) which have reported that the Australian R&D model is widely supported by stakeholders and is in the public interest.

## Productivity Commission review

In early 2010, the Australian Government referred the RDC arrangements to the Productivity Commission. The Productivity Commission's report (Productivity Commission 2011) examined the effectiveness of the RDC model, including the appropriateness of current funding levels and arrangements for improving productivity through R&D, and whether there are any impediments to effective and efficient functioning of the model.

The commission acknowledged the strengths of the RDC model. These included the close links with industry, encouraged by the co-investment approach, and the role the RDCs play in collaborating with other research funders and influencing research priorities.

The commission recommended changes to the system to enhance efficiency and value for money, and ensure transparency and accountability to all stakeholders. In particular, it recommended changes to the Australian Government funding contributions to the RDCs. This included halving, over a ten year period, the current cap on dollar-for-dollar matching of industry contributions, and introducing a new, uncapped subsidy at the rate of 20 cents in the dollar for industry contributions over the level that attracts dollar-for-dollar matching funding.

The commission proposed supporting these funding changes by introducing some new governance arrangements for the RDCs. This included principles setting out the broad obligations on RDCs in return for their public funding, allowing the appointment of government directors on RDC boards, improving project evaluations, independent performance reviews and the monitoring of program outcomes by government.

The commission also recommended the Australian government should create and fund a new RDC—Rural Research Australia—to sponsor non-industry research directed at promoting the productive and sustainable use of resources by Australia's rural industries.

The Australian Government's *Preliminary response to the Productivity Commission report on the rural Research and Development Corporations* (Australian Government 2011) stated the government would not adopt the commission's recommendation to reduce the gross value of production cap on matching funding to the RDCs. The Australian Government released its final response to both the

Productivity Commission report and the Rural Research and Development Council's *National Strategic Rural R&D Investment Plan* (RRDC 2012) (see below) in its *Rural Research and Development Policy Statement* (Australian Government 2012).

In 2013, the Australian Parliament passed legislation to effect some of the recommendations from the commission's report. These legislative amendments:

- allowed statutory RDCs to undertake marketing at the request of industry
- enabled government matching funding for voluntary contributions to all RDCs to encourage the private sector to invest in rural R&D
- introduced funding agreements for statutory RDCs to drive performance improvements and increase transparency in the delivery of R&D services.

## National Strategic Rural R&D Investment Plan

In 2009, the Rural Research and Development Council was appointed to develop Australia's RD&E vision for the rural sector. One of its key terms of reference was to develop a *National Strategic Rural R&D Investment Plan* (RRDC 2012). The plan outlines a rationale for balancing Australian Government investment in rural RD&E, details the current level of investment and offers key findings and recommendations on the rural RD&E system. One of the council's key recommendations was that there should be increased investment, including by the Australian Government, in rural R&D.

## HAL review

The recent independent review of HAL and the horticulture levy system (ACIL Allen Consulting 2014) illustrates how the RDC system is subject to a continual process of evolution, reform and renewal.

The review found that conflicts of interest were constitutionally and operationally embedded in HAL, creating flaws in HAL's governance, planning and performance. These arrangements had contributed to fragment HAL's planning and procurement processes; impose burdensome compliance controls; limit HAL's ability to engage with grass-root growers and levy payers; and were limiting HAL's performance and ability to address risks faced both within the organisation and across the horticulture industry.

The review made nine recommendations, the most important of which was that a new grower levy-payer horticulture industry services company be formed to replace HAL, whose members are currently the horticulture industry representative bodies. The review considered this recommendation to be an enabling reform which would allow a new grower levy-payer industry-owned RDC to fundamentally improve its governance and operations, and the outcomes it provides levy payers and the community.

HAL held an Extraordinary General Meeting on 20 June 2014, at which its members expressed support for the transition to grower levy-payer ownership and authorised the HAL board to do all things necessary to facilitate this transition.

# 5 Performance of the RDC system

The RDC system has delivered substantial returns to producers and consumers in terms of increases in productivity and return on investments. However, anecdotal evidence suggests that levy payers might have difficulty influencing R&D investment decisions made by the RDCs.

## Collaboration

A significant feature of rural R&D in Australia is the extent of collaboration between the RDCs and other agencies investing cash or in-kind in the projects. Effective coordination and collaboration of research between providers and between procurers is acknowledged to have a range of advantages, including avoiding duplication of effort, maximising the synergies between related fields of inquiry, and allowing specialisation to occur (CRRDC 2010).

RDCs are by their creation and nature, collaborative organisations because they involve joint endeavour between industry, science, government and the community that utilises industry levy funds, private funds and taxpayer funds to invest in projects undertaken with state departments, universities, CSIRO, CRCs, private researchers and other RDCs. Their projects can address shared objectives and understandings about the benefits of the research to industry and the community. Collaboration occurs at a number of levels across the RDC network, including between RDCs on rural RD&E priorities and strategies.

The submission by the Council of Rural Research and Development Corporations (CRRDC 2010) to the Productivity Commission Inquiry (Productivity Commission 2011) also showed that the majority of (RD&E) investment is collaborative. Approximately 80 per cent of the $458 million of RD&E investment by RDCs involves a financial, or significant in-kind, investment from third parties—including from other RDCs, state and Australian Government agencies, research institutes, companies and industry investment trusts. Of the 80 per cent of RDC investment that is collaborative, 71 per cent ($318 million) is in collaboration with non-RDC parties to achieve industry-specific goals and 9 per cent involves two or more RDCs working together or with other non-RDC parties.

## Evaluation of the RDCs

Performance management is a critical part of the investment process and begins with the assessment of the proposal prior to the investment decision.

After project initiation, the evaluation process can review progress against the project milestones and allow for corrective action to components of the project, or its early termination if necessary.

Recent evaluations of levies investment performance have shown that, while estimated economic returns vary, the overall returns are considerable and benefit: cost ratios support these investments.

Evaluation of the impact of investments has been conducted at a range of levels including:

- RD&E system level—evaluations of the entire RD&E system (see Productivity Commission 2011)
- portfolio level—evaluations of collective RDCs or cross-sector investments (see CRRDC 2010)

- industry level—evaluations of particular industry sectors (see ACIL Allen Consulting 2014)
- program level—evaluations of medium to long-term programs, often comprising multiple projects (see Sheng et al. 2011a, b)
- project level—evaluations of individual projects (see ACIL Allen Consulting 2014).

## Productivity growth

Productivity growth has been a key factor driving agricultural output in Australia. One important source of productivity growth is new technology from investment in research. However, observers are increasingly concerned that agricultural productivity growth in Australia, as in some other developed countries, has been slowing.

The objective of a recent study by ABARES (Sheng et al. 2011b) was to test whether any slowdown in Australian broadacre productivity growth has occurred over the last five decades and, if so, to determine when it occurred and the likely causes.

The report concluded that a significant structural change, or turning point, occurred in the total factor productivity (TFP) series in the mid-1990s. Further, it suggested that the slowdown was likely due to a combination of adverse seasonal conditions and stagnant public R&D expenditure since the late 1970s.

This study lends support to the argument that public investment in rural R&D has been critical in driving agricultural productivity growth in the past. It highlights the important role it could play in countering the expected adverse effects on broadacre farm productivity of increasing water scarcity and other resource constraints, and to meet the demand for food from a growing world population.

## Return on investments in R&D

In a follow-up report (Sheng et al. 2011a), ABARES evaluated the economic effect of publicly funded agricultural RD&E by investigating the relationship between public investments in RD&E and broadacre TFP growth in Australia over the period 1952–53 to 2006–07.

The analysis demonstrated that public investment in RD&E has had a significant and positive effect on broadacre TFP. Past public investments in broadacre RD&E have generated average rates of return that could be as high as 28 per cent and 47 per cent a year, respectively. While little is known about the opportunity cost of public investment in agricultural RD&E, this rate of return is comparable to rates of return estimated for other developed countries (Alston et al. 2010). Further, the growth in domestic public RD&E knowledge stocks arising from this investment has accounted for annual TFP growth in the broadacre industry of 0.33 per cent and 0.27 per cent, respectively (an aggregate of 0.60 percentage points a year).

The HAL review includes a summary table of results from independent ex-ante and ex-post benefit cost analysis (BCAs) that have undertaken since 2009 across HAL's industries and portfolios (ACIL Allen Consulting 2014, Table 12, p.47). While results indicate the expectation or achievement of reasonable to high returns on R&D investments (between $1.70 and $15.07 benefits per $1 of costs), ACIL Allen Consulting raised some concerns over confidence in these BCA estimates.

As a basis for more precise estimation of the benefits from rural R&D, the Productivity Commission Inquiry into *Rural Research and Development Corporations* (Productivity Commission 2011) received many submissions that referred to the results of benefit-cost studies. The most comprehensive of these was that coordinated by the Council of Rural Research and Development Corporations (CRRDC 2010). The results indicated that for every dollar invested in research by the RDCs, there was an average return of $2.36 after five years, $5.56 after 10 years, and $10.51 after 25 years.

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# Attachment A – RDC profiles

## Part 1. Statutory RDCs

## Cotton Research and Development Corporation (CRDC)

### Agency Overview

The CRDC was established as the statutory authority for the Australian cotton industry in 1990 under the *Cotton Research and Development Corporation Regulations 1990*, made under the PIRD Act. The corporation is accountable to the parliament through legislative obligations outlined in the PIRD Act and PGPA Act. It is accountable to the cotton industry through a formal engagement process with its industry representative organisation, Cotton Australia.

The CRDC currently provides Research and Development services only. However, in accordance with amendments made to the PIRD Act in December 2013, CRDC may also undertake marketing activities in the future if requested by industry once supported by a marketing levy.

The basis for CRDC's income is levies paid by the cotton industry and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Other income comes from interest and royalties from the domestic and international sale of planting seed from varieties developed through the CSIRO breeding program.

### Applicable Legislation

- *Primary Industries Research and Development Act 1989* (PIRD Act)
  - *Cotton Research and Development Corporation Regulations 1990*
- *Public Governance, Performance and Accountability Act 2013* (PGPA Act), including relevant rules made under the Act.

### Key agency documents

- 2013–18 Strategic R&D Plan. Available at www.crdc.com.au/publications/crdc-strategic-plan-2013–18.
- 2014–15 Annual Operational Plan. Available under 'Corporate Publications' at www.crdc.com.au/about-Us.
- 2012–13 Annual report. Available under 'Corporate Publications' at www.crdc.com.au/about-Us.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | 42 520 |
| Income | 20 444 |
| Industry levy contributions | 8 618 |
| Australian Government matching contributions | 8 513 |
| Other income | 3 313 |
| Expenditure | 24 178 |
| Operating Surplus / (Deficit) | (3 734) |
| Closing Reserves | 38 786 |

Source: 2014–15 Agriculture PBS, Cotton Research and Development Corporation, pp. 117–131

**Board membership and staffing**

- Chairperson – Dr Mary Corbett - Appointed by the minister from 13 August 2013 to 12 August 2016. Dr Corbett replaced the outgoing Chairperson Mr Mike Logan.
- Executive Director – Mr Bruce Finney – Appointed by the corporation on a full-time basis in 2004.
- Other board members – Dr Michael Robinson and Mr Cleave Rogan. A process to appoint new board members has just concluded. New board members appointed until 30 September 2017 are: Ms Kathryn Adams, Mrs Liz Alexander and Mr Greg Kauter. The new appointees join existing board members who will serve until 12 August 2016.
- 2014–15 average staffing level (number): 13.9[1].

**Website**

- www.crdc.com.au/.

[1] Source: 2014–15 Agriculture PBS, Table 2.1, page 123

## Fisheries Research and Development Corporation (FRDC)

### Agency Overview

The FRDC was established as the statutory authority for the Australian fishing and aquaculture industries in 1991 under the *Fisheries Research and Development Corporation Regulations 1991*, made under the PIRD Act. The corporation is accountable to the parliament through legislative obligations outlined in the PIRD Act and PGPA Act. It is accountable to the fisheries and aquaculture industries through a formal process of engagement with its four industry representative organisations, the Australian Recreational and Sport Fishing Industry Inc. (trading as Recfish Australia), the National Aquaculture Council Inc., the Commonwealth Fisheries Association Inc. and the National Seafood Industry Alliance.

The FRDC currently provides Research and Development services only. However, in accordance with amendments made to the PIRD Act in December 2013, FRDC may also undertake marketing activities in the future if requested by industry once supported by a marketing levy.

FRDC's income comes from a variety of sources. The majority comes from an unmatched payment made by the Australian Government equivalent to 0.5 per cent of GVP. This payment is made on the grounds that the FRDC exercises a stewardship role in relation to the fisheries resources on behalf of the Australian community. Income also comes from contributions from Australian state and territory governments, industry levy contributions from Australian Government managed fisheries and separately levied fishing industry sectors and from other sources such as interest. The contributions from state and territory governments and industry levy contributions attract Australian Government matching funding, of 0.25 per cent of the GVP of the industry.

### Applicable Legislation

- *Primary Industries Research and Development Act 1989* (PIRD Act)
  - *Fisheries Research and Development Corporation Regulations 1991*
- *Public Governance, Performance and Accountability Act 2013* (PGPA Act), including relevant rules made under the Act.

### Key agency documents

- 2010–15 Strategic RD&E Plan. Available at frdc.com.au/research/RDEPlanningandPriorities/Pages/current_plan.aspx.
- 2014–15 Annual Operational Plan. Available at frdc.com.au/about_frdc/corporate-documents/Pages/annual_op_plan.aspx.
- 2012–13 Annual Report. Available at frdc.com.au/about_frdc/corporate-documents/Pages/annual_rep.aspx.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | 6 023 |
| Income | 27 450 |
| Australian Government contributions | 17 387 |

| | |
|---|---|
| State and Territory contributions | 7 881 |
| Industry levy contributions | 900 |
| Other income | 1 282 |
| Expenditure | 27 439 |
| Operating Surplus / (Deficit) | 11 |
| Closing Reserves | 6 034 |

Source: 2014–15 Agriculture PBS, Fisheries Research and Development Corporation, pp. 133–152

**Board membership and staffing**

- Chairperson – The Hon. Harry Woods - Appointed by the minister from 1 September 2013 to 31 August 2016.
- Executive Director – Dr Patrick Hone - Appointed by the corporation on a full-time basis in April 2005.
- Other board members – Ms Heather Brayford, Ms Renata Brooks, Mr Brett McCallum, Dr Bruce Mapstone, Dr Peter O'Brien and Mr David Thomason. Terms expiring 31 August 2015. A process to appoint new board members is ongoing.
- 2014–15 average staffing level (number): 12.6[2].

**Website**

- frdc.com.au/Pages/home.aspx.

[2] Source: 2014–15 Agriculture PBS, Table 2.1, page 141

## Grains Research and Development Corporation (GRDC)

### Agency Overview

The GRDC was established as the statutory authority for the Australian grains industry in 1990 under the *Grains Research and Development Corporation Regulations 1990*, made under the PIRD Act. The corporation is accountable to the parliament through legislative obligations outlined in the PIRD Act and PGPA Act. It is accountable to the grains industry through a formal engagement process with its industry representative organisation, Grain Producers Australia.

The GRDC currently provides Research and Development services only. However, in accordance with amendments made to the PIRD Act in December 2013, GRDC may also undertake marketing activities in the future if requested by industry once supported by a marketing levy.

The basis for GRDC's income is primarily levies paid by the grains industry and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Other income comes from sources such as interest and royalties.

### Applicable Legislation

- *Primary Industries Research and Development Act 1989* (PIRD Act)
  - Grains Research and Development Corporation Regulations 1990
- *Public Governance, Performance and Accountability Act 2013* (PGPA Act), including relevant rules made under the Act.

### Key agency documents

- 2012–17 Strategic R&D Plan. Available at www.grdc.com.au/About-Us/Corporate-Governance/Strategic-RD-Plan.
- 2014–15 Annual Operational Plan. Available at www.grdc.com.au/About-Us/Corporate-Governance/Annual-Operational-Plan.
- 2012–13 Annual Report. Available at www.grdc.com.au/About-Us/Corporate-Governance/Annual-Report.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | 80 900 |
| Income | 187 360 |
| Industry levy contributions | 104 733 |
| Australian Government matching contributions | 68 917 |
| Other income | 13 710 |
| Expenditure | 213 100 |
| Operating Surplus / (Deficit) | (25 740) |
| Closing Reserves | 61 560 |

Source: 2014–15 Agriculture PBS, Grains Research and Development Corporation, pp. 153–169

**Board membership and staffing**

- Chairperson – Mr Richard Clark – Appointed by the minister from 1 October 2013 to 30 September 2016. Replaced the outgoing chairperson Mr Keith Perrett.
- Managing Director – Mr John Harvey - Appointed by the corporation on a full-time basis in March 2011.
- Other board members – Mr Kim Halbert (Deputy Chair), Dr Jeremy Burdon, Prof. Robert Lewis and Mr John Woods. A process to appoint new board members has just concluded. New board members appointed until 30 September 2017 are: Dr Andrew Barr, Dr Helen Garnett , Ms Roseanna Healy and Mr David Shannon. The new appointees join existing board members who will serve until 30 September 2016.
- 2014–15 average staffing level (number): 75.5[3].

**Website**

- www.grdc.com.au/.

[3] Source: 2014–15 Agriculture PBS, Table 2.1, page 159

## Rural Industries Research and Development Corporation (RIRDC)

### Agency Overview

The RIRDC is a statutory authority established in 1990 under section 9 of the PIRD Act, with primary industries attached to the corporation defined in the *Rural Industries Research and Development Corporation Regulations 2000*. The corporation is accountable to the parliament through legislative obligations outlined in the PIRD Act and PGPA Act. It is accountable to industry through a formal engagement process with its two industry representative organisations, the National Farmers' Federation and the Australian Chicken Meat Federation.

The RIRDC currently provides Research and Development services only. However, in accordance with amendments made to the PIRD Act in December 2013, RIRDC may also undertake marketing activities in the future if requested by an industry attached to the corporation once supported by a marketing levy.

RIRDC's income comes from a variety of sources. The majority comes from a direct appropriation from the Australian Government[4] which is used to support its role in commissioning R&D on behalf of new and emerging rural industries not currently supported by a statutory levy, and on cross-sectoral issues. Income also comes from industry levies (covering buffalo, chicken meat, deer, ginger, goat fibre, honey bee, macropod, pasture seeds, ratite and rice), matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP), voluntary industry contributions and other sources such as interest and royalties.

### Applicable Legislation

- *Primary Industries Research and Development Act 1989* (PIRD Act)
  - Rural Industries Research and Development Corporation Regulations 2000
- *Public Governance, Performance and Accountability Act 2013* (PGPA Act), including relevant rules made under the Act.

### Key agency documents

- 2012–17 Corporate Plan. Available at https://rirdc.infoservices.com.au/items/12-025.
- 2014–15 Annual Operational Plan. Available under 'Corporate Publications' at www.rirdc.gov.au/publications.
- 2012–13 Annual Report. Available under 'Corporate Publications' at www.rirdc.gov.au/publications.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | 13 486 |

[4] It was announced in the 2014 Budget that RIRDCs annual appropriation will be reduced by $11 million dollars over 4 years, $2 million in 2014–15 and by $3 million in 2015–16, 2016–17 and 2017–18 respectively. This measure is ongoing.

| | |
|---|---|
| Income | 20 071 |
| Appropriation from Australian Government | 9 449 |
| Industry levy contributions | 4 036 |
| Australian Government matching contributions | 3 214 |
| Voluntary industry contributions | 2 259 |
| Other income | 1 113 |
| Expenditure | 20 071 |
| Operating Surplus / (Deficit) | – |
| Closing Reserves | 13 486 |

Source: 2014–15 Agriculture PBS, Rural Industries Research and Development Corporation, pp. 171–190

**Board membership and staffing**

- Chairperson – Prof. Daniela Stehlik - Reappointed for a second term from 2 August 2013 to 1 August 2016.
- Managing Director – Mr Craig Burns - Appointed by the corporation on a full-time basis in July 2010.
- Other board members – Mr Kevin Goss, Dr Tony Hamilton, Dr Jan Mahoney, Dr William Ryan, Ms Heather Stacy, Dr Keith Steele (terms expiring 30 September 2017) and Dr Len Stephens (term expiring 1 August 2016).
- 2014–15 average staffing level (number): 23.1[5].

**Website**

- www.rirdc.gov.au/.

[5] Source: 2014–15 Agriculture PBS, Table 2.1, page 178

## Australian Grape and Wine Authority (AGWA)

### Agency Overview

The AGWA commenced operations on 1 July 2014 as the statutory authority for the Australian wine industry. AGWA undertakes the functions of the previous Grape and Wine RDC (GWRDC) and Wine Australia Corporation (Wine Australia). AGWA is accountable to the parliament through legislative obligations outlined in the *Australian Grape and Wine Authority Act 2013* and the PGPA Act. It is accountable to industry through a formal engagement process with its two declared industry representative organisations, the Winemakers' Federation of Australia and Wine Grape Growers Australia.

AGWA provides RD&E services (previously provided by GWRDC) and market development and compliance activities (previously provided by Wine Australia).

AGWA's RD&E investments are primarily funded from levies paid by grape growers and winemakers, and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Its market development and compliance activities are funded from levies paid by winemakers and wine exporters, and by users of fee-for-service activities. Other income comes from sources such as interest.

### Applicable Legislation

- *Australian Grape and Wine Authority Act 2013* (AGWA Act)
  - *Australian Grape and Wine Authority Regulations 1981*
- *Public Governance, Performance and Accountability Act 2013* (PGPA Act), including relevant rules made under the Act.

### Key agency documents

- Under the AGWA Act [s35(1B)–35(1D)], the authority and the minister must agree to a SFA by 1 July 2015.
- An initial Corporate Plan covering the period to 30 June 2015 was provided to the Minister on 29 September 2014. A 5-year Corporate Plan commencing 1 July 2015 is due by 1 May 2015.
- An Annual Operating Plan covering the period to 30 June 2015 was provided to the Minister on 29 September 2014.
- The 2014–15 Annual Report will be the inaugural report of the authority. This is not required until October 2015.
- The 2013–14 Annual Reports for GWRDC and Wine Australia are due by 15 October 2014.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | 8 120 |
| Income | 34 667 |
| Industry levy contributions | 16 625 |
| Australian Government matching contributions | 11 569 |

| | |
|---|---|
| Own source income | 5 780 |
| Other income | 693 |
| Expenditure | 34 664 |
| Operating Surplus / (Deficit) | 3 |
| Closing Reserves | 8 123 |

Source: 2014–15 Agriculture PBS, Australian Grape and Wine Authority, pp. 101–116

**Board membership and staffing**

- Acting Chief Executive Officer[6] – Mr Andreas Clark
- Acting Chairperson[7] – Mr Brian Walsh
- Other acting board members – Mr Brian Croser AO (Deputy Chair), Ms Eliza Brown, Mr John Casella, Mr John Forrest, Mr Ian Henderson, Ms Janice McDonald and Mr Kim Williams AM. Acting terms expiring on 30 June 2015.
- 2014–15 average staffing level (number): 54.6[8].

**Website**

- www.agwa.net.au/.

[6] The acting CEO was appointed for an initial term of three months, commencing 2 July 2014. In September 2014, the Prime Minister approved an extension of the term of appointment until the position is filled permanently.

[7] The interim board, including the Chairperson, was appointed by the Minister for Agriculture for an initial term of three months, commencing 1 July 2014. In September 2014, the Prime Minister agreed to extend the acting board's term of appointment until 30 June 2015, when the formal board selection process is expected to be finalised.

[8] Source: 2014–15 Agriculture PBS, Table 2.1, page 106

# Part 2. Industry-owned RDCs

## Australian Egg Corporation Limited (AECL)

### Company Overview

AECL is a registered Australian Public Company under corporation's law and was declared as the industry services body (ISB) for the Australian egg industry in January 2003, with effect from 1 February 2003. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Agreement 2012–16 for the expenditure of monies appropriated by parliament.

AECL provides both R&D and marketing services for the Australian egg industry.

The basis for AECL's income is primarily a levy paid by producers and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Other income comes from sources such as interest and royalties. Legislation entitles AECL to receive industry levy funds and Australian Government matching funding.

### Applicable Legislation

- *Egg Industry Service Provision Act 2002*
- *Corporations Act 2001* (Cth).

### Key compliance, planning and reporting documents

- Agreement 2012–16, expiring 9 October 2016
- 2012–16 Strategic Plan. Available at www.aecl.org/about-us/strategic-plan/
- 2014–15 Annual Operating Plan.
- 2012–13 Annual Report. Available at www.aecl.org/about-us/annual-reports/

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | 3 020 |
| Income | 8 798 |
| Industry levy contributions | 6 565 |
| Australian Government matching contributions | 1 927 |
| Other income | 306 |
| Expenditure | 8 915 |
| Operating Surplus / (Deficit) | (117) |
| Closing Reserves | 2 903 |

Source: Australian Egg Corporation Limited's 2014–15 Annual Operating Plan, page 70

### Board membership and staffing

- Chairperson – Mr Jeff Ironside
- Managing Director – Mr James Kellaway
- Other board members – Mr Russell Ware (Specialist Director and Deputy Chair), Mr Frank Pace, Mr Zelko Lendich and Cheryl Hayman (Specialist Director)

- Number of staff at June 2014[9]: 8 (including the Managing Director).

**Website**

- www.aecl.org/.

[9] Source: AECL's website (www.aecl.org/about-us/our-staff/) accessed 2 October 2014

## Australian Pork Limited (APL)

### Company Overview

APL is a registered Australian Public Company under corporation's law and was declared as the ISB for the Australian pork industry on 18 June 2001, with effect from 1 July 2001. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Agreement 2011–15 for the expenditure of monies appropriated by parliament.

APL provides R&D, marketing and advocacy services for the pork industry. Unlike other industry-owned companies, section 9(2) of the Pig Industry Act 2001 enables APL to use marketing levy funds to undertake 'strategic policy development or other activities for the benefit of the pig industry'. The definition of strategic policy development under the APL Agreement allows for advocacy activity of its strategic policy position including within industry and with other industries, government or the public.

The basis for APL's income is primarily a levy paid by producers and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Other income comes from sources such as interest and royalties. Legislation entitles APL to receive industry levy funds and Australian Government matching funding.

### Applicable Legislation

- *Pig Industry Act 2001*
- *Corporations Act 2001* (Cth).

### Key compliance, planning and reporting documents

- Agreement 2011–15, expiring 12 July 2015
- 2010–15 Strategic Plan. Available at australianpork.com.au/library-resources/publications/strategic-plans/.
- 2014–15 Annual Operating Plan
- 2012–13 Annual Report. Available at australianpork.com.au/library-resources/publications/annual-reports/.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | Not available |
| Income | 19 059 |
| Industry levy contributions | 13 980 |
| Australian Government matching contributions | 4 800 |
| Other income | 279 |
| Expenditure | 19 545 |
| Operating Surplus / (Deficit) | (486) |
| Closing Reserves | Not available |

Source: Australian Pork Limited's 2014–15 Annual Operating Plan, page 53

**Board membership and staffing**

- Chief Executive Officer – Mr Andrew Spencer
- Chairperson – Mr Enzo Allara AM
- Other board members – Mr John Coward, Mr Andrew Johnson, Mr Aeger Kingma, Dr Brian Luxford, Mr David Plant, Mrs Kay Carey, Mrs Kathy Grigg and Mr Geoffrey Starr
- Staff at 30 June 2013[10]: 25 full-time and 10 part-time/casual employees.

**Website**

- australianpork.com.au/.

[10] APL's Annual Report 2012–13, page 11

## Australian Wool Innovation Limited (AWI)

**Company Overview**

AWI is a registered Australian Public Company under corporation's law and was declared as the ISB for the Australian wool industry on 19 December 2001, with effect from 1 January 2001[11]. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Statutory Funding Agreement 2013–16 for the expenditure of monies appropriated by parliament.

AWI provides both R&D and marketing services for the wool industry. Under its enabling legislation AWI must conduct a poll (Wool Poll) of eligible wool levy payers every three years. This poll allows levy payers to vote on the amount of the levy payable to AWI to undertake R&D and marketing activities.

The basis for AWI's income is primarily a levy paid by wool producers (based on the sale price received for their shorn greasy wool) and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Other income comes from sources such as licence fees, interest and royalties. Legislation entitles AWI to receive industry levy funds and Australian Government matching funding.

**Applicable Legislation**

- *Wool Services Privatisation Act 2000*
  - *Wool Services Privatisation (Wool Levy Poll ) Regulations 2003*
- *Corporations Act 2001* (Cth).

**Key compliance, planning and reporting documents**

- Statutory Funding Agreement 2013–16, expiring 20 June 2016
- 2013–16 Strategic Plan. Available under 'Corporate Publications' at www.wool.com/fl/about-AWI/publications.
- 2014–15 Annual Operating Plan
- 2012–13 Annual Report. Available at www.wool.com/fl/about-AWI/shareholder-information/annual-reports.

**2014–15 estimates of key financial information ($'000)**

| | |
|---|---|
| Opening Reserves | Not available |
| Income | 68 055 |
| Industry levy contributions | 44 046 |

[11] AWI is declared as a "Research Body" under s30 of the *Wool Services Privatisation Act 2000* (the Act), and is allowed to spend Category A payments (levy payments from producers) on marketing activities under the Act (refer s31(2)(a)(ii)).

| | |
|---|---|
| Australian Government matching contributions | 13 000 |
| Other income | 11 009 |
| Expenditure | 80 055 |
| Operating Surplus / (Deficit) | (12 000) |
| Closing Reserves | Not available |

Source: Australian Wool Innovation Limited's 2014–15 Annual Operating Plan, page 57

**Board membership and staffing**

- Chief Executive Officer – Mr Stuart McCullough
- Chairperson – Mr Walter Merriman
- Other board members – Mr Paul Cocking, Ms Colette Garnsey OAM, Mr James Morgan, Dr Meredith Sheil, Mr Brian van Rooyen and Mr David Webster
- Number of staff[12]: 165.

**Website**

- www.wool.com/en/home.

[12] Australian Wool Innovations Limited's 2014–15 AOP, page 6

## Dairy Australia Limited (DAL)

**Company Overview**

DAL is a registered Australian Public Company under corporation's law and was declared as the ISB for the Australian dairy industry from 1 July 2003. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Statutory Funding Agreement 2013–17 for the expenditure of monies appropriated by parliament. As a registered charity, DAL must also comply with the *Australian Charities and Not-for-profits Commission Act 2012*[13].

DAL provides both R&D and marketing services for the dairy industry. Under its enabling legislation DAL must conduct a poll (the Dairy Service Levy Poll) every 5 years. This poll allows levy payers (the dairy industry) to vote on the amount of the Dairy Service Levy payable to DAL to undertake R&D and marketing activities.

The basis for DAL's income is primarily a levy paid by dairy farmers (based on milk production) and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Only cow milk is subject to this levy. Other income comes from sources such as external contributions and interest. Legislation entitles DAL to receive industry levy funds and Australian Government matching funding.

**Applicable Legislation**

- *Dairy Produce Act 1986*
  - *Dairy Produce Regulations 1986*
  - *Dairy Produce (Dairy Service Levy Poll) Regulations 2006*
- *Corporations Act 2001* (Cth)
- *Australian Charities and Not-for-profits Commission Act 2012*
  - *Australian Charities and Not-for-profits Commission Regulations 2013*.

**Key compliance, planning and reporting documents**

- Statutory Funding Agreement 2013–17, expiring 26 June 2017
- 2013–16 Strategic Plan. Available at www.dairyaustralia.com.au/Industry-information/About-Dairy-Australia/Publications-2/Strategic-Plan.aspx.
- 2014–15 Annual Operating Plan
- 2012–13 Annual Report. Available at www.dairyaustralia.com.au/Industry-information/About-Dairy-Australia/Publications-2/Annual-Reports.aspx.

[13] The Australian Charities and Not-for-profits Commission (Repeal) (No.1) Bill 2014 is currently before Parliament. If passed, this will establish the framework for abolishing the Australian Charities and Not-for-profits Commission, with the substance of transitional arrangements to follow in a subsequent Bill.

**2014–15 estimates of key financial information ($'000)**

| | |
|---|---|
| Opening Reserves | 30 470 |
| Income | 54 502 |
| Industry levy contributions | 32 870 |
| Australian Government matching contributions | 19 921 |
| Other income | 1 711 |
| Expenditure | 62 251 |
| Operating Surplus / (Deficit) | (7 749) |
| Closing Reserves | 22 721 |

Source: Dairy Australia Limited's 2014/15 Annual Operating Plan, page 15

**Board membership and staffing**

- Chairperson – Mr Geoff Akers
- Managing Director – Mr Ian Halliday
- Other board members – Dr Wendy Craik, Mr John McKillop, Mr Kelvin Jackson, Mr Peter Nankervis, Dr Alan Grant, Mr Jeff Odgers and Mr Bruce Donnison
- Number of staff (Full Time Equivalents) at 30 June 201[14] : 113.5.

**Website**

- www.dairyaustralia.com.au/.

[14] Source: Dairy Australia Limited's 2014/15 Annual Operating Plan, page 48

## Forest and Wood Products Australia Limited (FWPA)

### Company Overview

FWPA is a registered Australian Public Company under corporation's law and was declared as the ISB for the Australian forest and wood products industry from 3 September 2007. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Agreement 2012–17 for the expenditure of monies appropriated by parliament. As a registered charity, FWPA must also comply with the *Australian Charities and Not-for-profits Commission Act 2012*[15].

FWPA provides both R&D and marketing services for the forest and wood products industry.

The basis for FWPA's income is primarily levies and charges on various forest and wood products, voluntary contributions received from State or Territory forestry agencies (equivalent to the FWPA component of the forest growers levy) and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Other income comes from sources such as interest.

### Applicable Legislation

- *Forestry Marketing and Research and Development Services Act 2007*
  - *Forestry Marketing and Research and Development Services Regulations 2008*
- *Corporations Act 2001* (Cth)
- *Australian Charities and Not-for-profits Commission Act 2012*
  - *Australian Charities and Not-for-profits Commission Regulations 2013*.

### Key compliance, planning and reporting documents

- Agreement 2012–17, expiring 30 August 2017
- 2014–19 Strategic Plan. Available at www.fwpa.com.au/about-us/corporate-documents/396-strategic-plan-2014–2019.html.
- 2014–15 Annual Operating Plan. Available at www.fwpa.com.au/about-us/corporate-documents/395-annual-operating-plan-2014–15.html.
- 2012–13 Annual Report. Available at www.fwpa.com.au/about-us/corporate-documents.html.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | Not available |
| Income | 8 270 |

[15] The Australian Charities and Not-for-profits Commission (Repeal) (No.1) Bill 2014 is currently before Parliament. If passed, this will establish the framework for abolishing the Australian Charities and Not-for-profits Commission, with the substance of transitional arrangements to follow in a subsequent Bill.

| | |
|---|---|
| Industry levy contributions | 5 030 |
| Australian Government matching contributions | 3 040 |
| Other income | 200 |
| Expenditure | 8 420 |
| Operating Surplus / (Deficit) | (150) |
| Closing Reserves | Not available |

Source: Forest and Wood Products Australia Limited's 2014–15 Annual Operating Plan, pages 6 and 28

**Board membership and staffing**

- Chairperson – Mr Ron Adams
- Managing Director – Mr Alaric (Ric) Sinclair
- Other board members – Mr John Simon (Deputy Chair), Mr Evan Rolley, Mr Craig Taylor, Mr John McNamara and Mr Vince Erasmus
- Number of staff at June 2014[16]: 10 (including the Managing Director).

**Website**

- www.fwpa.com.au/.

[16] Source: FWPA's website (www.fwpa.com.au/about-us/staff-members.html) accessed 2 October 2014

## Horticulture Australia Limited (HAL)

### Company Overview

HAL is a registered Australian Public Company under corporation's law and was declared as the ISB and the Industry Export Control Body for the horticulture industry on 29 January 2001, with effect from 1 February 2001[17]. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Deed of Agreement 2010–14 for the expenditure of monies appropriated by parliament. As a registered charity HAL must also comply with the *Australian Charities and Not-for-profits Commission Act 2012*[18].

HAL provides R&D and marketing services for the horticulture industry, and administers export control of horticultural products.

The basis for HAL's income is primarily a levy paid by producers and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). Other income comes from sources such as voluntary contributions and interest. Legislation entitles HAL to receive industry levy funds and Australian Government matching funding.

### Applicable Legislation

- *Horticulture Marketing and Research and Development Services Act 2000*
  - *Horticulture Marketing and Research and Development Services Regulations 2001*
  - *Horticulture Marketing and Research and Development Services (Export Efficiency) Regulations 2002*
- *Corporations Act 2001* (Cth)
- *Australian Charities and Not-for-profits Commission Act 2012*
  - *Australian Charities and Not-for-profits Commission Regulations 2013*.

### Key compliance, planning and reporting documents

- Deed of Agreement 2010–14, expiring 3 November 2014
- 2012–15 Strategic Plan. Available at www.horticulture.com.au/about_hal/strategic_plan.asp.
- 2014–15 Annual Operating Plan. Available at www.horticulture.com.au/about_hal/HAL%20Annual%20Operating%20Plan.asp.
- 2012–13 Annual Report. Available at www.horticulture.com.au/about_hal/annual_report.asp.

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[17] The department is currently negotiating with Horticulture Innovation Australia Limited (HIAL) which is proposed to be the new ISB and Industry Export Control Body for the horticulture industry.

[18] The Australian Charities and Not-for-profits Commission (Repeal) (No.1) Bill 2014 is currently before Parliament. If passed, this will establish the framework for abolishing the Australian Charities and Not-for-profits Commission, with the substance of transitional arrangements to follow in a subsequent Bill.

**2014–15 estimates of key financial information ($'000)**

| | |
|---|---|
| Opening Reserves | Not available |
| Income | 106 015 |
| Industry levy contributions | 41 795 |
| Australian Government matching contributions | 42 500 |
| Voluntary contribution | 13 887 |
| Other income[19] | 7 833 |
| Expenditure | 106 578 |
| Operating Surplus / (Deficit) | (563) |
| Closing Reserves | Not available |

Source: Horticulture Australia Limited's 2014–15 Annual Operating Plan, page 112

**Board membership and staffing**

- Chief Executive Officer – Mr John Lloyd
- Chairperson – Mr Selwyn Snell
- Other board members – Prof. Rob Clark AM (Deputy Chair), Mr Darral Ashton, Mr David Cliffe, Ms Dianne Davidson, Mr Stephen Morrow, Mr Craig Musson and Mr Mark Napper
- Number of staff at June 2014[20]: 64.

**Website**

- www.horticulture.com.au/.

[19] Other income figure includes $6.446 million of funds transferred from industry reserves

[20] Source: HAL's 2014–15 Annual Operating Plan, page 115

## Meat and Livestock Australia Limited (MLA)

### Company Overview

MLA was declared as the Industry Marketing Body and the Industry Research Body for the meat and livestock industry on 30 June 1998, with effect from 1 July 1998. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Deed of Agreement 2012–16 for the expenditure of monies appropriated by parliament.

MLA provides both R&D and marketing services for the meat and livestock industry.

The basis for MLA's income is primarily a levy paid by producers and matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP). MLA is also able to receive Australian Government matching funding from voluntary contributions received from private companies through its donor company. As AMPC and LiveCorp are donor companies, MLA receives the matching funding on behalf of the red meat industry. Other income comes from sources such as industry and partnership contributions (e.g. AMPC and LiveCorp), the sale of products and/or services and interest. Legislation entitles MLA to receive industry levy funds and Australian Government matching funding.

### Applicable Legislation

- *Australian Meat and Live-stock Industry Act 1997*
  - *Australian Meat and Live-stock Industry Regulations 1998*
- *Corporations Act 2001* (Cth).

### Key compliance, planning and reporting documents

- Deed of Agreement 2012–16, expiring 15 October 2016
- 2010–15 Corporate Plan. Available at www.mla.com.au/About-MLA/Planning-and-reporting/Corporate-documents.
- 2014–15 Annual Operating Plan. Available at www.mla.com.au/About-MLA/Planning-and-reporting/Annual-reporting.
- 2012–13 Annual Report. Available at www.mla.com.au/About-MLA/Planning-and-reporting/Annual-reporting.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | 48 439 |
| Income | 181 633 |
| Industry levy contributions | 95 401 |
| Australian Government matching contributions | 49 983 |
| Industry and partnership contributions | 30 060 |
| Other income | 6 189 |
| Expenditure | 186 357 |
| Operating Surplus / (Deficit) | (4 724) |

| | |
|---|---|
| Closing Reserves | 43 715 |

Source: Meat and Livestock Australia Limited's 2014–15 Annual Operating Plan, page 44

**Board membership and staffing**

- Chairperson – Dr Michelle Allan
- Managing Director – Mr Richard Norton
- Other board members – Ms Lucinda Corrigan, Dr Greg Harper, Mr Geoffrey Maynard, Mr John McKillop, Mr George Scott, Mr Peter Trefort and Mr Rodney Watt
- Number of staff (Full Time Equivalents) at June 2013[21]: 248 (38 based overseas).

**Website**

- www.mla.com.au/Home.

[21] Source: MLA's Annual Report 2012–13, Staff Profile page 56

## Australian Livestock Export Corporation Limited (LiveCorp)

### Company Overview

LiveCorp was declared under the *Australian Meat and Live-stock Industry Act 1997* (AMLI Act) as the Live-stock Export Research Body and the Live-stock Export Marketing Body for the Australian livestock export industry on 17 December 2004, with effect from 1 January 2005. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Funding Agreement 2010–14 for the expenditure of monies appropriated by parliament.

LiveCorp provides both R&D and marketing services for the livestock export industry.

The majority of LiveCorp's income comes from a levy paid by producers on exported livestock. The corporation is an approved donor under the AMLI Act. As an approved 'donor', its contributions to eligible R&D expenditure by MLA can be matched by the Australian Government. Australian Government matching contributions are received by MLA on LiveCorp's behalf. Other income comes from sources such as voluntary contributions and interest. Legislation entitles LiveCorp to receive industry levy funds.

### Applicable Legislation

- *Australian Meat and Live-stock Industry Act 1997*
- *Corporations Act 2001* (Cth).

### Key compliance, planning and reporting documents

- Funding Agreement 2010–14. LiveCorp's new 2014–18 SFA is currently being negotiated.
- 2013–15 Strategic Plan. Available at www.livecorp.com.au/livecorp-strategic-plan-0.
- 2014–15 Annual Operating Plan
- 2012–13 Annual Report. Available at www.livecorp.com.au/annual-reports.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | Not available |
| Income | 4 268 |
| Industry levy contributions | 4 010 |
| Other income | 258 |
| Expenditure | 4 265 |
| Operating Surplus / (Deficit) | 3 |
| Closing Reserves | Not available |

Source: LiveCorp's 2014–15 Annual Operating Plan, page 7

### Board membership and staffing

- Chief Executive Officer – Mr Sam Brown
- Chairperson – Mr David Galvin

- Other board members – Dr David Jarvie, Mr Terry Enright, Mrs Lisa Dwyer, Mr Angus Adnam and Mr Peter Kane (Ex-officio Director)
- Number of staff at June 2014[22]: 6 (including the CEO).

**Website**

- www.livecorp.com.au/.

[22] Source: LiveCorp's website (www.livecorp.com.au/organisational-structure) accessed 30 June 2014

## Australian Meat Processor Corporation Limited (AMPC)

### Company Overview

AMPC was declared under the *Australian Meat and Live-stock Industry Act 1997* (AMLI Act) as the Meat Processor Research Body and the Meat Processor Marketing Body for the Australian meat processing industry on 12 August 2007, with effect from 1 September 2007. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Funding Agreement 2011–15 for the expenditure of monies appropriated by parliament.

AMPC provides both R&D and marketing services for the meat processing industry.

The majority of AMPC's income comes from a levy paid by red meat processors. The corporation is an approved donor under the AMLI Act. As an approved 'donor', its contributions to eligible R&D expenditure by MLA can be matched by the Australian Government. Australian Government matching contributions are received by MLA on AMPC's behalf. Other income comes from sources such as interest. Legislation entitles AMPC to receive industry levy funds.

### Applicable Legislation

- *Australian Meat and Live-stock Industry Act 1997*
- *Corporations Act 2001* (Cth).

### Key compliance, planning and reporting documents

- Funding Agreement 2011–15, expiring 9 February 2016
- 2013–17 Strategic Plan. Available at www.ampc.com.au/about-ampc/strategic-plan-2013–2017.
- 2014–15 Annual Operating Plan. Available at www.ampc.com.au/about-ampc/annual-operating-plans.
- 2012–13 Annual Report. Available at www.ampc.com.au/about-ampc/annual-report-2012.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | 38 334 |
| Income | 18 299 |
| Industry levy contributions | 16 745 |
| Other income | 1 554 |
| Expenditure | 22 029 |
| Operating Surplus / (Deficit) | (3 730) |
| Closing Reserves | 34 604 |

Source: AMPC's 2014–15 Annual Operating Plan, page 26

### Board membership and staffing

- Acting Chief Executive Officer – Mr David Lind (Ms Michelle Edge is currently on leave)
- Chairperson – Mr Stephen Kelly

- Other board members – Mr David Foote (Deputy Chair), Mr John Berry, Mr Guy Fitzhardinge (Special Qualifications Director), Mr Gary Hardwick, Mr Brian James (Special Qualifications Director), Mr Tom Maguire, Mr Peter Noble and Mr Simon Stahl
- Number of staff: Not available.

**Website**

- www.ampc.com.au/.

## Sugar Research Australia Limited (SRA)

### Company Overview

SRA is a registered Australian Public Company under corporation's law and was declared as the ISB for the Australian sugarcane industry from 5 August 2013. It is accountable to its members through the *Corporations Act 2001* (Cth) and to the Minister for Agriculture through the Statutory Funding Agreement 2013–17 for the expenditure of monies appropriated by parliament.

SRA currently provides R&D services only for the sugarcane industry.

The basis for SRA's income is primarily a levy paid by sugarcane producers and sugarcane millers, matching funding for eligible R&D expenditure from the Australian Government (up to 0.5 per cent of GVP) and contributions from the Queensland Government Department of Agriculture, Fisheries and Forestry (QDAFF). Other income comes from sources such as interest. Legislation entitles SRA to receive industry levy funds and Australian Government matching funding.

### Applicable Legislation

- *Sugar Research and Development Services Act 2013*
- *Corporations Act 2001* (Cth).

### Key compliance, planning and reporting documents

- Statutory Funding Agreement 2013–17, expiring 5 August 2017
- 2013–18 Strategic Plan. Available at www.sugarresearch.com.au/page/About_SRA/Corporate_publications/.
- 2014–15 Annual Operating Plan. Available at www.sugarresearch.com.au/page/About_SRA/Corporate_publications/.
- The 2013–14 Annual Report will be the inaugural report of the company. This is required by the end of October 2014.

### 2014–15 estimates of key financial information ($'000)

| | |
|---|---|
| Opening Reserves | Not available |
| Income | 32 071 |
| Industry levy contributions | 21 000 |
| Australian Government matching contributions | 5 500 |
| QDAFF contribution | 4 050 |
| Other income | 1 521 |
| Expenditure | 34 007 |
| Operating Surplus / (Deficit) | (1 936) |
| Closing Reserves | Not available |

Source: Sugar Research Australia Limited's 2014–15 Annual Operational Plan, page 31

**Board membership and staffing**

- Chief Executive Officer – Mr Neil Fisher
- Chairperson – Mr Paul Wright AM
- Other board members – Dr Helen Garnett, Mr Mike Gilmour, Mr Stephen Guazzo, Dr Ian Johnsson, Mr John Pollock and Dr Ron Swindells
- Number of staff: Not available.

**Website**

- www.sugarresearch.com.au/.

# Attachment B – List of reviews of the rural R&D system

ACIL Allen Consulting 2014, *Better Value for Growers – A future for HAL: Independent Review of HAL and Horticulture Levy System.*

Allen Consulting Group 2012, *Evaluation of the National Primary Industries RD&E Framework*.

Core, Peter 2009, *A Retrospective on Rural R&D in Australia*, A background paper for the Rural Research and Development Council.

Frontier Economics 2009, *International drivers of rural R&D*, A report prepared for the Department of Agriculture, Fisheries and Forestry on behalf of the Rural R&D Council, December 2009.

Mallawaarachchi, T, Walcott, J, Hughes, N, Gooday, P, Georgeson, L and Foster, A 2009, *Promoting productivity in the agriculture and food sector value chain: issues for R&D investment*, ABARE and BRS report to the Rural R&D Council, Canberra, December.

OECD 2014, *Policy Framework for Investment in Agriculture*, OECD Publishing.

Productivity Commission 2011, *Rural Research and Development Corporations*, Report No. 52, Final Inquiry Report, Canberra.

RRDC 2012, Rural Research and Development Council, *National Strategic Rural R&D Investment Plan.*

The Senate 2004, Rural and Regional Affairs and Transport Legislation Committee, *Australian Wool Innovation Limited - Application and expenditure of funds advanced under Statutory Funding Agreement dated 31 December 2000*, February 2004.

The Senate 2014, Rural and Regional Affairs and Transport References Committee, *Industry structures and systems governing levies on grass-fed cattle*, September 2014.

# Attachment C – Levy principles and guidelines (DAFF 2009)

Australian Government

Department of Agriculture, Fisheries and Forestry

LEVIES REVENUE SERVICE

# Levy Principles and Guidelines

Policy for the management of new and amended levies within Australia

January 2009

DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

For more information contact:
Levies Revenue Service
Australian Government Department of Agriculture, Fisheries and Forestry
Locked Bag 4488
Kingston ACT 2604

Phone: 1800 020 619
Fax: 02 6272 5695
Email: levies.management@daff.gov.au
Website: **www.daff.gov.au/levies**

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The Australian Government Department of Agriculture, Fisheries and Forestry seeks to publish its work to the highest professional standards. However, it cannot accept responsibility for any consequences arising from the use of information herein. Readers should rely on their own skill and judgment in applying any information for analysis to particular issues or circumstances.

## OVERVIEW

Australia's farm businesses are world leaders in terms of production efficiency, sustainable product quality, innovation and ability to supply and respond to market demands.

Achieving this result for individuals and the entire industry is a joint effort that requires careful management. This is recognised by the Australian Government and industry.

The effective use of primary industry levies and charges can greatly assist producers. By pooling their physical, financial and research resources, industries can work together to find better farming methods and demand for their products.

Many of Australia's traditional primary industries rely on the levy system and the support it provides for research and development (R&D), marketing and promotion, residue testing and plant and animal health programmes.

The system has enabled those industries to hold their own in highly competitive world markets. Industry co-operation and resource sharing is helping smaller and emerging industries to establish their own markets.

The Government's role, through the Department of Agriculture, Fisheries and Forestry, is to liaise with industries that want a levy system and to implement an effective collection system for them at minimum cost.

### HOW ARE LEVIES USED?

Levies and charges are used to fund activities such as R&D, marketing and promotion, residue testing and plant and animal health programmes.

### HOW ARE LEVIES INITIATED?

Usually, an industry body identifies the need for a levy or charge so it can respond to a problem or opportunity that will benefit its industry. If this requires collective industry funding, the organisation puts a levy proposal to its members for discussion and should also consult the Department on the proposal.

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# 1. PURPOSE

The Australian Government developed the Levy Principles and Guidelines to help industry bodies prepare a sound case for a levy or charge to be considered by industry members. The Principles and Guidelines also require the industry body to inform all potential and existing payers of the proposal, and to give those prospective levy payers and other interested parties an opportunity to express their views.

The Levy Guidelines complement the Principles. They help industries to assess their members' level of support for a levy proposal.

## 1.1 IMPLEMENTING LEVIES

The industry organisation submits a proposal to amend or establish a levy to those organisations that receive, or will receive, levy monies. The relevant organisation forwards the proposal to the Minister or the Parliamentary Secretary. The Department of Agriculture, Fisheries and Forestry assesses the proposal against the Levy Principles and Guidelines and provides advice to the Minister or Parliamentary Secretary. Some proposed amendments cannot proceed without the approval of the Prime Minister and the Treasurer.

If the proposal is approved, the Government drafts the legislation to implement the levy. It can be a lengthy process.

## 1.2 COLLECTION AND ADMINISTRATION OF LEVIES

The Levies Revenue Service (LRS) is part of the Department of Agriculture, Fisheries and Forestry. LRS is responsible for the collection of levies and for their disbursement to the relevant organisations i.e. statutory research and development corporations, industry-owned marketing and research and development corporations, Animal Health Australia, Plant Health Australia and the National Residue Survey. LRS is also responsible for the distribution of the Australian Government's contributions to match levies collected for research and development.

The LRS administers, collects and disburses levies on behalf of industries on a cost-recovery basis. At present, the LRS collects around 60 different levies and charges from more than 9000 levy payers.

## 1.3 ACCOUNTABILITY

Organisations receiving levy money are accountable to levy payers and the Australian Government. They are required to hold annual general meetings and statutory bodies must table their annual reports in Parliament, complete with audited financial statements.

## 2. GENERAL PRINCIPLES APPLYING TO PROPOSALS FOR NEW AND AMENDED PRIMARY INDUSTRY LEVIES AND CHARGES

The Government introduced 12 Levy Principles in January 1997. These Principles must be met when an industry or group of levy payers proposes a new levy or an amendment to an existing statutory levy.

The 12 Principles are outlined as follows:

1. The proposed levy must relate to a function for which there is a **market failure**.

2. A request for a levy must be supported by industry bodies representing, wherever possible, all existing and/or potential levy payers, the relevant levy beneficiaries and other interested parties.

   The initiator shall demonstrate that all reasonable attempts have been made to inform all relevant parties of the proposal and that they have had the opportunity to comment on the proposed levy.

   A levy may be initiated by the Government, in the public interest, in consultation with the industries involved.

3. The initiator of a levy proposal shall provide an assessment of the extent, the nature and source of any opposition to the levy, and shall provide an analysis of the opposing argument and reasons why the levy should be imposed despite the argument raised against the levy.

4. The initiator is responsible to provide, as follows:
   - an estimate of the amount of levy to be raised to fulfil its proposed function
   - a clear plan of how the levy will be utilised, including an assessment of how the plan will benefit the levy payers in an equitable manner
   - demonstrated acceptance of the plan by levy payers in a manner consistent with Levy Principle 2.

5. The initiator must be able to demonstrate that there is agreement by a majority on the levy imposition/collection mechanism or that, despite objections, the proposed mechanism is equitable under the circumstances.

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6. The levy imposition must be equitable between levy payers.

7. The imposition of the levy must be related to the inputs, outputs or units of value of production of the industry or some other equitable arrangements linked to the function causing the market failure.

8. The levy collection system must be efficient and practical. It must impose the lowest possible 'red tape' impact on business and must satisfy transparency and accountability requirements.

9. Unless new structures are proposed, the organisation/s that will manage expenditure of levy monies must be consulted prior to introduction of the levy.

10. The body managing expenditure of levy monies must be accountable to levy payers and to the Commonwealth.

11. After a specified time period, levies must be reviewed against these Principles in the manner determined by the Government and the industry when the levy was first imposed.

## Amendments to existing levies

12. The proposed change must be supported by industry bodies or by levy payers or by the Government in the public interest. The initiator of the change must establish the case for change and where an increase is involved, must estimate the additional amount which would be raised. The initiator must indicate how the increase would be spent and must demonstrate the benefit of this expenditure for levy players.

# 3. NEW AND AMENDED LEVY GUIDELINES

## 3.1 INTRODUCTION

Before submitting the proposal to Government, the industry organisation is required to consult all sectors of their industry and as many potential levy payers as possible, and must gain support for a new levy or charge.

The Levy Guidelines specify voting procedures and stipulate that the proposed collection system is efficient and keeps 'red tape' to a minimum.

In proposing a new levy or charge to the Government, an industry organisation must:

- show how it will benefit payers and the industry in general
- estimate the amount that it will raise
- provide a clear plan for use of the money
- recommend how the levy or charge is to be calculated—for example, by product weight or value, or individual head of stock.

An industry organisation must contact all actual or potential payers and gain their support for any amendment, other than one that is simply administrative, to an existing levy.

If a **levy increase** is proposed, the industry must estimate the extra amount that will be raised and tell levy payers and other interested parties how it will be spent to their benefit.

Changes must also be discussed with the organisation that will manage the levy expenditure, unless there is a proposal to form a new organisation for this purpose.

The Government can also impose, in the public interest, a new levy or charge on an industry and review it after a specified time.

The Government can initiate an amendment to the collection mechanism of any levy if it ceases to be efficient and practical.

## 3.2 PRINCIPLE GUIDELINES CHECKLIST

A) The initiator of a new levy must be able to demonstrate it has met the first 11 Levy Principles.

- The principal criteria to be satisfied are:
  - market failure net industry benefit (that is, industry benefits must exceed the costs of raising and funding the levy), and
  - that the application of the levy is practical
- The collection of the levy needs to be practical.

B) For a new levy, or an amendment to an existing levy that will substantially change the level of the levy, direction of the activity that the levy funds or any other significant change that will directly affect levy payers, the initiator must take effective steps to inform all actual or potential levy payers of the proposal.

C) Before a vote is taken at industry meetings or through a postal vote, the levy payers must be informed of the proposed levy's purpose and intended industry benefit through widespread promotion and consultation.

- The consultation process may include, but is not limited to, industry forums/ meetings, newsletters, advertising in the rural press (including industry journals and national papers) and use of electronic media and the internet. It should be tailored to meet the regional and demographic distribution of industry members.
- The consultation period should last between three and six months.
- Industry wide consultation is the responsibility of the industry body or levy initiator.
- The Government must be satisfied that the levy proposal has been distributed for consideration by all potential levy payers and that they have had the opportunity to express their views. Industry bodies will be required to provide evidence of widespread consultation in their levy proposal.

  *For further guidance on the recommended voting and ballot criteria, refer to Section 5: Supplementary Guidelines.*

D) There will be some flexibility on how levy payers can vote to support or reject a new levy or a substantial change to a levy.

- For industries that have a statutory, corporate or industry organisational structure that prescribes voting rules and processes in its supporting regulations or constitution, the Government will accept majority support shown for the proposal using those prescribed voting rules, providing Guideline C has been met.

E) Where no formalised industry voting arrangements exist, it is the Government's intention that the initiator should conduct a vote of the relevant actual or potential levy payers to demonstrate that a majority in the industry support the proposal. Other beneficiaries and interested parties should also be consulted and their support demonstrated.

F) Exceptional circumstances exist where proponents can demonstrate that voting in this way would be prohibitively expensive.

Where an initiator of a new levy or a change to an existing levy has clearly been able to satisfy Guideline A, but has been unable to conduct a vote under Guideline E, because it has not been cost-effective to do so, then they will need to demonstrate majority support by providing evidence that a thorough industry-wide consultation process has been followed and that industry is widely supportive of the proposal.

G) For a levy proposal to be considered by Government, industry must show that there is **majority** support from actual and/or potential levy payers.

- At present the Government interprets 'demonstrated industry support' as support from those who choose to participate in a ballot and/or consultation process.
- A majority is defined as follows:
  - 50% plus one of the voting allocations of those producers who choose to vote in a levy ballot
  - 50% plus one of producers who choose to vote in a one vote per producer ballot
  - 50% plus one of production of producers who vote in a production based ballot
  - 50% plus one of those who vote for all other types of voting.

H) All levy proposals must provide a clear case proving net industry benefit and market failure.

I) Formal objections will be accepted by the Minister, Parliamentary Secretary or Department within **six weeks** of the date of formal lodgement of the proposal, along with its supporting documentation.

- The objection should clearly outline the reasons why the levy is opposed and should include an analysis of the pro-levy argument. Most importantly, it should include documentary evidence that actual and/or potential levy payers oppose the implementation of the levy.
- Objections having little basis in fact or which are considered irrelevant, frivolous or vexatious will not proceed.

J) Decisions to instigate levies for the management of emergency animal and plant health issues, pest incursions and product safety will only be considered on economic grounds. There must be clear evidence that the sum of the net industry benefit and the public benefit is greater than the cost to industry and government.

   If governments and industry have pre-determined strategies and cost-sharing arrangements for responding to emergencies, these arrangements should be used in preference to additional levy proposals for this purpose.

K) As a general rule, where funding for research and development provides net industry benefit and meets the criterion of market failure, industry needs only to satisfy Guidelines B to F.

L) Where industry support is provided to Government efforts in trade access negotiations, market failure will be considered on a case-by-case basis. Where evidence regarding net industry benefit and market failure is limited, Guideline G applies.

M) Where there is failure to demonstrate a net industry benefit and market failure, statutory levies will not be supported.

N) Statutory levies must not be used to fund agri-political activities.

O) An industry body must consult with Government on a levy proposal prior to undertaking the consultation process to obtain advice on the proposal.

## 3.3 GOVERNMENT INTERVENTION

Where participation is considered necessary by Government to meet certification requirements for domestic and/or international trade, quality assurance or participation in a programme that is in the national interest because there is a significant risk to public plant and/or animal or public health and/or to trade, the Government may require an industry to implement statutory arrangements to recover the cost of the survey from industry.

## 3.4 GOVERNMENT ASSISTANCE

The LRS can provide advice on consultation processes to initiators of a new levy or a change to an existing levy and on meeting the Guidelines.

Promotion must be extensive and all actual or potential payers of a levy must be given an opportunity to express their views on the proposed levy before it is submitted to Government.

It is strongly recommended that all proposal processes be documented.

## 3.5 LEVIES REVENUE SERVICE CONTACT DETAILS

Contact the Levies Revenue Service for advice on levy proposals

Phone: 1800 020 619
Fax: 02 6272 5695
Email: levies.management@daff.gov.au

Write to: Manager—Legislation and Policy
Levies Revenue Service
Locked Bag 4488
KINGSTON ACT 2604

For more information about the Levies Revenue Service visit **www.daff.gov.au/levies**

# 4. SUPPLEMENTARY GUIDELINES —NEW AND AMENDED LEVIES

## 4.1 ASSESSMENT OF A PROPOSED LEVY PROPOSAL

In accordance with Levy Principles 3 and 4, the initiator of a levy proposal should consider:

- whether the **industry benefits** are likely to exceed the levy costs—including collection and other administrative costs
- whether there is **market failure**
- whether the levy approach will facilitate operation of the programme and provide the lowest cost means of finance in the particular case.

## 4.2 BENEFITS

### 4.2.1 Industry and public benefits

A levy is more likely to be considered if programme benefits will accrue as a result of group actions. However, industry benefits from any levy will always be the sum of benefits to all individuals in the industry.

If an individual or a group of individuals could profitably organise and finance a proposed programme, then there is no case for government to impose a statutory levy.

In other cases, it may be difficult to define the industry or to equitably distribute the industry benefits.

'**Public benefits**' are significant benefits to individuals who are not part of the levied industry.

### 4.2.2 External benefits

The two most obvious examples of research or policies that create benefits external to the industry are those that advantage domestic consumers of farm products and those that improve environmental amenities valued by individuals not associated with the industry.

## 4.3 MARKET FAILURE

Governments assist with industry-wide levy funding of research, promotion and other industry programmes because:

- the nature and dispersal of programme benefits are such that a private investor would not profit from supplying them. For example, some research produces results that help industry participants, but the financial benefits cannot be accessed by private investors.

- levies represent a source of funds with low enforcement and collection costs, largely because industry participants recognise the benefits of co-operative behaviour.

A primary role for government is the setting and enforcement of property rights and related institutions that will enable the efficient operation of commodity and resource markets. Where markets fail to provide socially desirable levels of 'good', or do so but not cost effectively, there may be a case for other forms of government action.

The justification for government intervention in industry research is that the results are a '**public good**'. Public goods have the following key characteristics:

- First, the use of a public good by one person generally does not affect the ability of others to use it. This is described as being **nonrival**.

*Nonrivalry means that one person's benefit does not reduce the benefit available to others, hence encouraging 'free riding' by individuals who realise that they can benefit from production of the good as long as somebody else is paying for the good.*

- Second, it is not possible to prevent others from using it. This is described as a 'lack of appropriability', or **nonexcludability**.

*Nonexcludability means that there is no effective way of excluding individuals from the good, once it comes into existence (thereby creating the 'free rider' problem). Lack of appropriability discourages individuals from producing a good, no matter how much others value it.*

## 4.4 EXAMPLES OF MARKET FAILURE

If the problem was simply that research results or benefits could not be reserved for the use of those who had paid for the research, i.e. they were not appropriable, a policy solution of providing or strengthening property rights would be appropriate.

Such a policy would enable private researchers to restrict the use of the research results and recoup the cost of their research in the same way they would recoup the costs of any other investment.

However with research results being nonrival, the social benefits from research are increased if the results are made available to all, recovering only the cost of their dissemination. Because dissemination costs would usually be small compared to the cost of the research, researchers and investors would be unable to recoup the costs of the research.

Aspects of weed or pest control provide a good example of lack of appropriability of the benefits of individual efforts. One farmer's pest and weed control will benefit neighbouring farmers. But in a free market, those neighbours will pay nothing for the

benefit. Conversely, any farmer maintaining a poor standard of weed and pest control will increase the cost of control to neighbouring farmers.

Some aspects of weed and pest control may have added problems of nonrivalry. Consider a farmer who uses a pest control regime designed to minimise pesticide resistance in insects. Any resultant lowering of the probability of resistance will be available to all farmers.

Incentives for individuals to become involved in generic food safety and product promotion campaigns are also likely to be limited by lack of appropriability and nonrivalry of benefits. If an individual's campaign achieves changes in consumer perceptions then all producers or promoters of that product will benefit from his efforts.

Not all research results or benefits from promotion are public goods. For example, private investors in research can appropriate some of the benefits by keeping the results secret and/or taking advantage of their research in the short term. Promotion of product brands allows a producer to retain much of the benefit of product design, quality control and advertising.

If public good characteristics dominate the proposal being assessed, then an industry-funded effort would be worthwhile.

## 4.5 INCREASE TO EXISTING LEVY

The Government assesses all proposals to increase a levy against the same principles applicable to a **new levy**.

A levy increase has a direct financial impact on producers—it represents an investment by producers in work that is carried out on their behalf for the benefit of their industry.

## 4.6 CONSULTATION WITH GOVERNMENT

When an industry body decides that it has identified a need for a new levy for their industry and/ or a change to an existing levy, it should consult with Government to obtain initial advice on the proposal.

The industry body should discuss its levy proposal with the LRS and the relevant policy area prior to commencing a broad consultation process with related industry members. Early consultation may also include a meeting with the Minister and/or Parliamentary Secretary.

The Department encourages industry bodies to maintain contact with the LRS and the relevant policy area during the levy proposal process. This contact should be ongoing

from the initial stages of industry planning, through the industry consultation process to the final submission of the levy proposal.

Ongoing consultation helps achieve levy proposals that clearly address the Levy Principles and Guidelines and minimises the likelihood of problems prior to or following lodgement with the Government.

LRS officers are leaders in their field of expertise. Industries gain greatly from seeking the LRS' advice during the course of levy proposal submissions.

## 4.7 VOTING CRITERIA

In accordance with Levy Principle 5, where an industry elects to conduct a ballot for a new levy and/or levy amendment, there are two types of voting allocation that are available, as follows:

- one vote per producer (business entity) or
- an allocation of votes based on the amount of levy paid (or payable).

The second option more closely reflects the level of production by a business and may use a flat rate or a sliding scale for allocation of votes.

Historically, most industries that have conducted a ballot to show acceptance for a new levy have opted to use the 'one vote per producer' option. The production-based model is generally not recommended for new levies because it can be difficult to reliably identify levels of production and producers are sometimes reluctant to reveal their production details.

To ensure that a ballot is representative of all potential or actual levy payers, the Government will consider:

- if all producers have the opportunity to participate in the ballot
- if a levy proposal has sufficient support from a reasonable proportion of the industry's production.

Sufficient support would be achieved by ensuring there is a strong, participative consultation process.

The industry body will decide on the type of voting most appropriate to its industry.

The proposed voting method will require the endorsement of the Minister, Parliamentary Secretary or Department.

Where a levy ballot is stated to be confidential, it is crucial that all voting particulars remain confidential. Any identified breach will be directly reported to the Minister or Parliamentary Secretary.

## 4.8 VOTING REGISTER

The industry body is responsible for the establishment of a register using existing producer lists and actively sought self-nominations. This will ensure the delivery of a comprehensive list while providing equal opportunity for all producers to be included on the list.

The body will administer and use this voting register for the proposed levy ballot.

Along with its levy submission, the industry body will submit a statutory declaration verifying the accuracy of the voting register as a list of all potential and existing levy payers who registered to vote in a levy ballot.

In assessing a proposal, the Government will consider whether the consultation process gave all potential and existing levy payers the opportunity to nominate for inclusion on the voting register.

## 4.9 WHO CONDUCTS THE BALLOT?

The initiating industry body will engage the Australian Electoral Commission (AEC) or a State Electoral Commission (SEC) to conduct the ballot. Endorsement by the Minister, Parliamentary Secretary or Department is required if a private company specialising in ballots is to be used.

Where the use of the AEC, an SEC or a private company is not cost effective, an approved voting arrangement using an independent returning officer may be used. The proposed structure for conducting the vote will require endorsement by the Minister, Parliamentary Secretary or Department.

## 4.10 BALLOT CRITERIA

The ballot paper should clearly summarise the case being put to voters. It should provide information on the possible outcomes of the vote and should specifically address the underlying factors for and against the levy proposal.

The industry's submission to the Government should detail the outcomes of the ballot.

Evidence proving majority support (as defined in Guideline G) should be shown, otherwise the levy proposal should not be approved by the Government.

## 4.11 MANAGED INVESTMENT SCHEMES

Managed investment schemes (MIS) are arrangements where money is pooled together with other investors to get an interest in a scheme. Often there are hundreds or thousands of investors. All MIS are registed with the Australian Securities and Investments Commission (ASIC) are are regulated by the *Corporations Act 2001*.

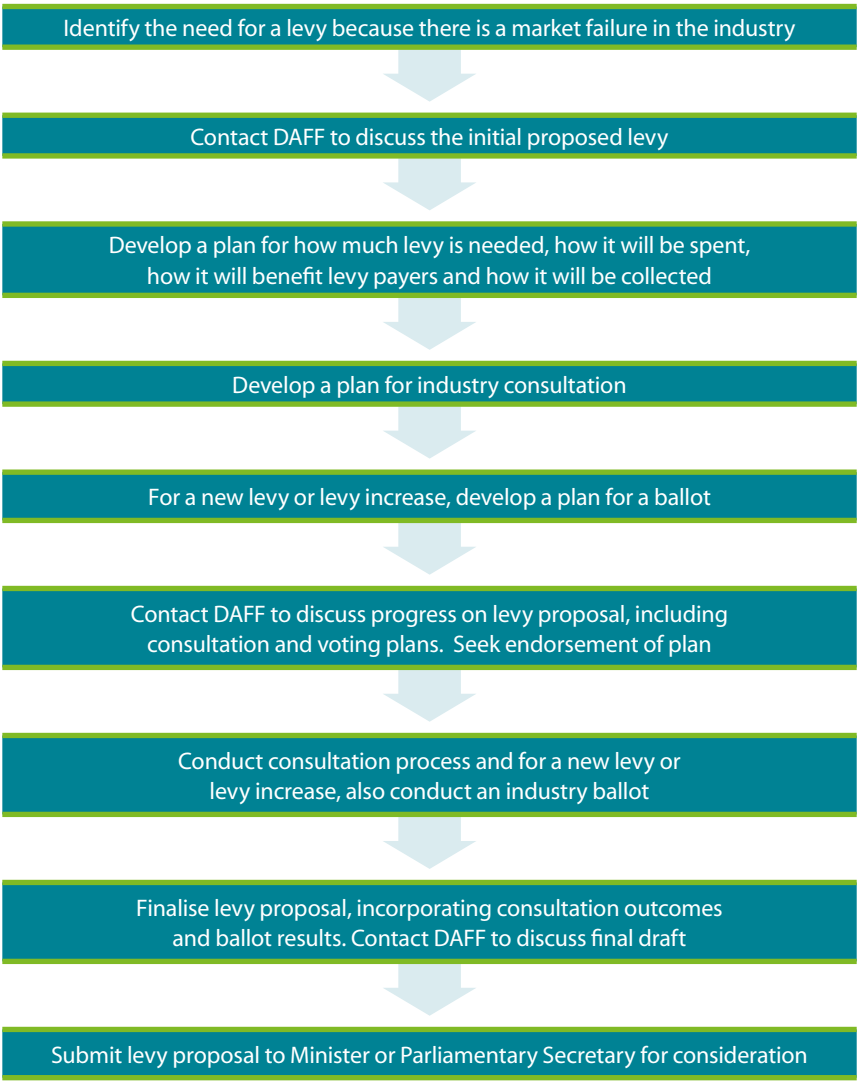
ASIC requires that MIS are operated by responsible entities and investors do not have day-to-day control over the operation of schemes. At present, if a MIS produces a product that attracts a levy, the MIS pays the levy rather than each individual investor.

A managed investment scheme will be treated as one entity for the purpose of a levy ballot.

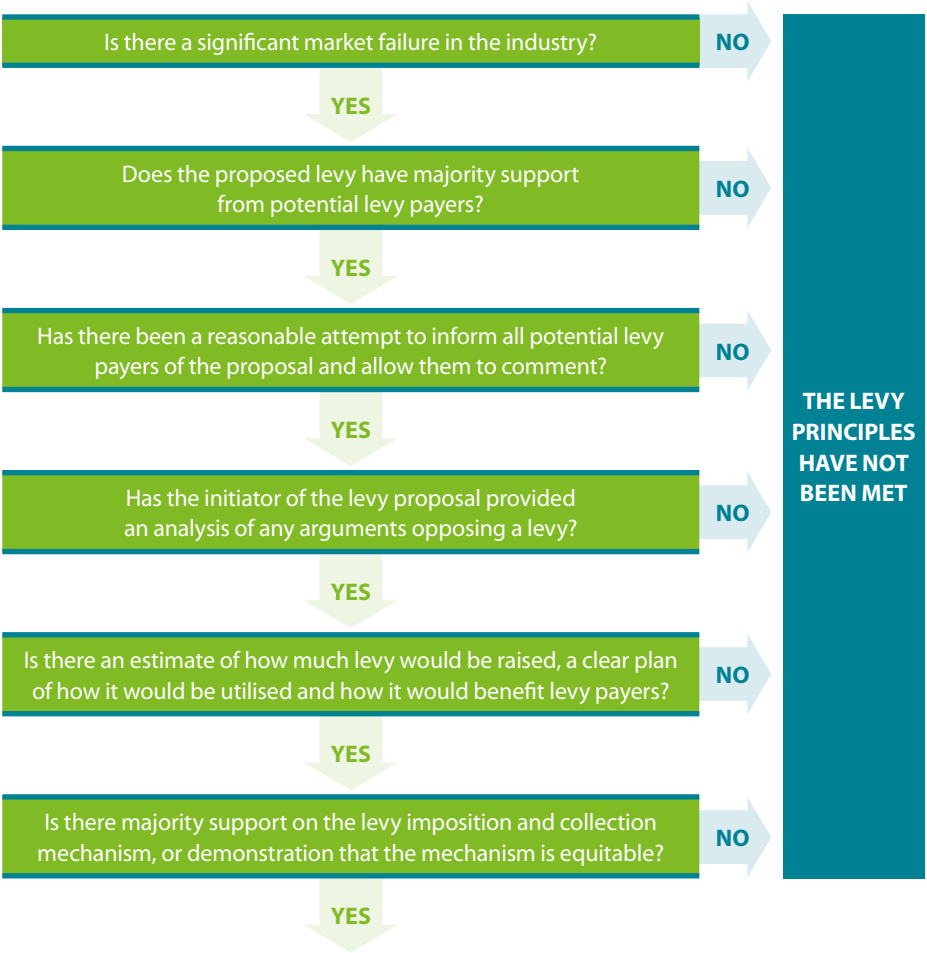
# 5. LEVY PROPOSAL FLOWCHARTS

## 5.1 LEVY PROPOSAL

The following flowchart summarises the processes required for industries to submit a levy proposal to the Government for approval.



## 5.2 CASE FOR LEVY PROPOSAL CHECKLIST



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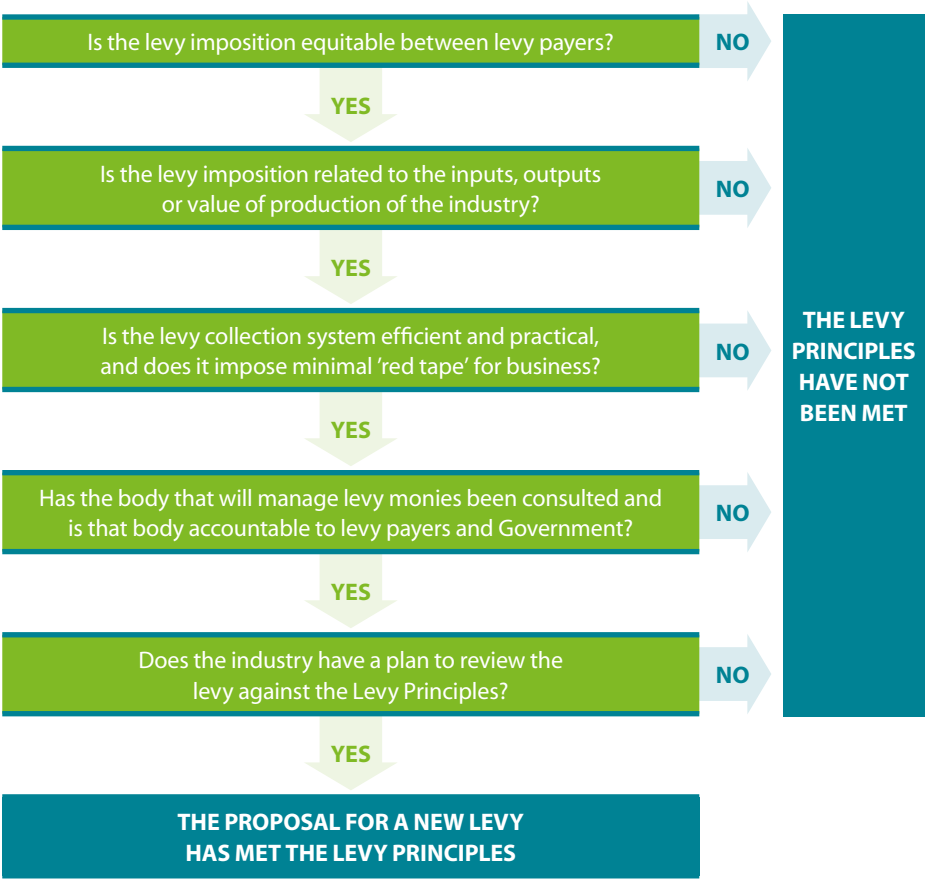
Is the levy imposition equitable between levy payers?
NO
YES
Is the levy imposition related to the inputs, outputs or value of production of the industry?
NO
YES
Is the levy collection system efficient and practical, and does it impose minimal 'red tape' for business?
NO
YES
Has the body that will manage levy monies been consulted and is that body accountable to levy payers and Government?
NO
YES
Does the industry have a plan to review the levy against the Levy Principles?
NO
YES
THE PROPOSAL FOR A NEW LEVY HAS MET THE LEVY PRINCIPLES
THE LEVY PRINCIPLES HAVE NOT BEEN MET

## 6. DEFINITIONS

**Department**—the Department of Agriculture Fisheries and Forestry (DAFF).

**Government**—portfolio Ministers, Parliamentary Secretary, other Australian Ministers and other areas of the Department.

**Industry body**—representative body made up of relevant members within the associated industry.

**Levy beneficiaries**—producers, industry organisations, marketing and promotion bodies, research bodies, other levy recipient bodies and industry in general.

**Levy or charge**—a fixed sum charged ('levied') by a government on a product.

**Levy payer**—a person who has paid, or is liable to pay, a levy or charge.

**Minister**—the Minister for Agriculture, Fisheries and Forestry or the Minister for Fisheries, Forestry and Conservation.

**Other interested parties**—levy payer agents, intermediaries and their representative organisations.

**Outcomes**—outcomes are the results, impacts or consequences of actions by the Commonwealth on the Australian community. Planned outcomes are the results or impacts that the Government wishes to achieve. Actual outcomes are the results or impacts actually achieved.

**Outputs**—outputs are the goods and services produced by the agencies on behalf of government for external organisations or individuals.

**Parliamentary Secretary**—the Parliamentary Secretary to the Minister for Agriculture, Fisheries and Forestry.

**Producer**—generally the grower or breeder of the product when the production processes begins.

**Relevant organisations**—recipients of levy monies from the Government. They use the funds to administer programs, such as marketing and/or research and development, in order to benefit the industry.

# APPENDIX 1: SUMMARY PROFORMA FOR THE DETERMINATION OF STATUTORY PRIMARY INDUSTRY LEVIES

(TO BE PREPARED BY INDUSTRY AND ASSESSED BY THE DEPARTMENT BEFORE SUBMISSION TO GOVERNMENT FOR LEVY APPROVAL*)

| | |
|---|---|
| **1. Name of levy (commodity)** | |
| **2. New levy or amendment to an existing levy** | New levy ☐ Existing levy ☐ |
| **3. Purpose of levy** | |
| **4. Provide details of the market failure that the imposition of the levy will overcome, as follows:**<br>• why the benefits cannot be captured by individual firms acting alone, and<br>• why collective action is the best solution. | |
| **5. Size of industry and/or public benefit**<br>Describe the industry benefit and/or public benefit that will flow from the proposed levy—quantify the benefits if possible.<br>What are the costs of imposing the proposed levy on industry and will the benefit to industry outweigh the cost? | |
| **6. Relative efficiency of a levy**<br>Why is a compulsory levy the most cost-effective way to collect industry funds?<br>Would a voluntary levy achieve the same result? | |
| **7. Industry consultation process**<br>Describe the industry consultation process, including the actions undertaken to inform all potential and/or actual levy payers and the opportunity to comment on the proposed levy.<br>If a ballot was conducted, outline the voting process and the results. | |

** All source documentation is to be attached to the proforma.*

# APPENDIX 2: LEVY RELATED LEGISLATION

## IMPOSITION LEGISLATION

*Primary Industries (Customs) Charges Act 1999*

*Primary Industries (Excise) Levies Act 1999*

*Dairy Adjustment Levy (Customs) Act 2000*

*Dairy Adjustment Levy (Excise) Act 2000*

*Dairy Adjustment Levy (General) Act 2000*

*National Residue Survey (Customs) Levy Act 1998*

*National Residue Survey (Excise) Levy Act 1998*

## COLLECTION LEGISLATION

*Primary Industries Levies and Charges Collection Act 1991*

*Dairy Produce Act 1986*

## DISBURSEMENT LEGISLATION

*Agricultural and Veterinary Chemicals (Administration) Act 1992*

*Australian Animal Health Council (Livestock Industries) Funding Act 1996*

*Australian Meat and Livestock Industry Act 1997*

*Australian Wine and Brandy Corporation Act 1980*

*Dairy Produce Act 1986*

*Egg Industry Service Provision Act 2002*

*Fisheries Administration Act 1991*

*Horticultural Marketing and Research and Development Services Act 2000*

*National Cattle Disease Eradication Account Act 1991*

*National Residue Survey Administration Act 1992*

*Pig Industry Act 2001*

*Plant Health Australia (Plant Industries) Funding Act 2002*

*Primary Industries and Energy Research and Development Act 1989*

*Wheat Marketing Act 1989*

*Wool Services Privatisation Act 2000*

DAFF job no. 950585