

AWI BRIEFING PACK

SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES COMMITTEE INQUIRY

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

February 2015



ADDITIONAL BRIEFING FOR SENATE COMMITTEE

ABILITY TO IDENTIFY LEVY PAYERS

1. Is AWI able to identify all levy payers

- Yes - Link Market Services (AWI's share registry) are provided with the full list of levy payers directly by LRS
- AWI is able to contact them if required

2. If there was a disease outbreak – how would AWI contact woolgrowers

- Via Link Market Services

3. How often does AWI notify levy payers of their voting entitlement

- Each year through data provided by DA's Levies Revenue Section (LRS)
- Once this information is received and voting entitlements are subsequently calculated, we contact each eligible levy payer and invite them to become a shareholder of AWI, thereby allowing them to participate in AWI's AGM and affairs as a shareholder

4. Number of shareholders, levy payers & eligible levy payers

- As of 31 December 2014, the following are the current numbers for levy payers, eligible levy payers & AWI's shareholders.
 - i. Levy payers: 55,964
 - ii. Eligible levy payers: 40,446
 - iii. Shareholders: 26,596

LEVY COLLECTION ISSUES

5. What is the process to identify and track the levy documents from grower to agent/intermediary and then onto DA's Levies Revenue Services (LRS)?

- This is managed by Levies Revenue Services (LRS)
 - i. Returns can be submitted electronically or manually
 - ii. There is a minimum information requirement on the returns submitted to Levies Revenue Services (LRS)
- Once the monies are collected by Levies Revenue Services (LRS), they provide this information to Link Market Services who then calculate growers voting entitlements and maintain the current database on behalf of AWI.

6. What is the process for identifying voter entitlements

- This process occurs annually prior to each AGM
 - Levies Revenue Services (LRS) collects levies and raw data from agents/ brokers. The nature of that raw data is along the line of 'grower X has made Y sales in past year'
- Levies Revenue Services (LRS) forwards this raw data onto Link Marketing Services to calculate the voter entitlements
- Link Market Services collates the data for each levy payers and calculates/ determines the voting entitlement for each levy payer
- On behalf of AWI, Link Market Services then contacts each levy payer notifying of their voting entitlement and asking them to verify/ correct if they think it is not correct

7. Who are the levy collection agents for wool? how many are there?

- Wool brokers are the levy collection agents for the wool levy.
- DA report that there are 171 levy collection agents or points

8. Efforts to improve accuracy of the levy collection processes

- AWI has worked closely with Levies Revenue Services (LRS) in recent years to improve the accuracy , processes and costs associated with collecting the wool levy
- This has involved holding meetings with brokers who act as the collection and intermediary point for the levy. DA has been involved in these meetings in an attempt to show easier and more cost effective ways for brokers to facilitate the collection of the wool levies to Levies Revenue Services (LRS)
- Levies Revenue Services (LRS) operates an audit/compliance service, offered to all RDCs to ensure levy compliance.

INFLUENCE OF LEVY PAYERS & CONSULTATION

9. Influence of levy payers have on monies spent

- Yes - in a number of formal and informal ways
 - i. Formally through ICC, AWI WoolGrower Forums, WoolPoll (ultimate influence)
 - ii. Informally through numerous grower and industry forums and activities held each year
- In 2010, AWI set up its' Woolgrower Industry Consultative Committee (ICC) with the four national wool grower representative organisations, plus other

groups who are not a member or affiliated with these groups such as PGA and broad wool reps.

When required, AWI has also held specific consultation woolgrower forums on various topics eg OJD, Standards & Guidelines, genetics etc

- For several years AWI also staffed an Industry Relations Manager whose role was to consult with SFOs and other industry groups. The intention of the role was to meet with each SFO on a quarterly basis, seek feedback and brief on AWI activities. The position met with each of the SFOs, some were more receptive to the engagement than others.

10. Can levy payers influence the levy rate?

- Yes – growers have the ultimate influence every three years at WoolPoll. Levy payers are given the opportunity to vote on the levy rate including a possible rate of 0% which would mean AWI would cease to operate

INFLUENCE OF GOVERNMENT ON FUNDING VARIOUS ACTIVITIES

11. Does the government have influence over AWI activities?

- Yes – formally through the SFA and informally by exerting political pressure
- The government has wide ranging powers through the SFA, not only to direct the RDCs to fund specific activities, but also to performance manage the RDCs through various clauses within the SFA.

12. Does the government require the RDCs to fund specific areas of R&D?

- The Commonwealth has retained the power (within SFA) to direct AWI to fund or be involved in various activities through the “Guidelines”.
- On several occasions AWI has received letters from the various ministers containing clauses such as *“I requested that a number of clauses be added to the new SFAcapacity for me to direct expenditure of matching R&D funds to activities of my choosing..”*
- The SFA also contains catch all clauses to protect the government and provide flexibility to require the RDCs to fund areas that may become new areas of government priority during the term of the SFA

PERFORMANCE REPORTING

13. How does AWI measure and report its performance?

- AWI's Monitoring and Evaluation Framework has evolved over time and is a critical underpinning element of AWI's accountability to stakeholders.
- Clauses within the Statutory Funding Agreement (SFA) give clear direction on the government's expectations in this area. AWI is fully compliant, viewing these expectations as a minimum
- AWI monitors its performance in the following ways:
 - i. Prior to funding projects an evaluation is undertaken.
 - ii. Upon funding milestones and key deliverables are set and monitored by project staff, senior management and the Board during the life of the project. These are often reported in the Annual Report. Where target measures of success are not being achieved, the project may be modified or terminated.
 - iii. Upon completion of the project reports, program evaluations are often undertaken in the form of BCAs to monitor and then report the benefit of the investment to growers.
- AWI reports its performance in the following ways:
 - i. Individual project & program reports are regularly reported to senior management and the Board
 - ii. Upon the delivery of key milestones AWI will regularly report these to growers through the media, its publication (BTB), e-newsletters, and distribute information through extension networks, field days and grower events. AWI is always looking for new and better ways to deliver information to growers
 - iii. Each year, BCA's are conducted on 8 completed projects. These analyses are published on AWI's web site alongside the M&E Framework. Benefit/cost ratios and other outcome measures are reported by AWI through its various communications vehicles including the Annual Report.
 - iv. The Annual Report is the formal way all investments are reported, however the above channels are the key focus in terms of getting information to growers.
- AWI also works with the CRRDC including the CRRDC evaluation work
- The Review of Performance carried out at the end of each strategic period is a key tool for measuring overall organisational performance. Upon completion, all eligible levy payers receive a summary of the report with their voting papers for WoolPoll.

COLLABORATION WITH OTHER RDCs

14. How does AWI work with other RDCs to deliver better shared services and outcomes to growers

- AWI is an active member of the CRRDC and shares ideas/processes and experiences with other RDCs to achieve savings and efficiencies.
 - i. A practical example is MLA and AWI cooperating to jointly conduct what were formerly parallel sheep production forecast surveys – yielding recurrent annual savings to AWI of over \$70,000, and contributing to statistically improved wool production forecast accuracy.
- Over the last few years AWI has shared with other RDC's knowledge around a number of areas including but not limited global tax requirements, new finance/project system experiences, App development possibilities and the development of the proposed standard R&D contract.

15. AWI & collaboration with others

- Almost without exception, all AWI activities are invested in cooperation or collaboration with other partners. As a mid-sized RDC, collaboration and leverage is critical to AWI, and is in fact 1 of 6 defined AWI Operating Principles (AWI Strategic Plan, 2.6, p12).
- AWI collaborates with other RDCs at a corporate level (through the Council of Rural Research & Development Corporations) and with individual RDCs at the program / project level where there are common interests.
 - As an example, in the On-farm area (25% of AWI project spend), around \$1 in every \$5 invested by AWI is as part of a defined collaboration with another RDC (principally MLA).
- AWI also co-invests in specific projects with RDCs with common interests, notably Meat & Livestock Australia (where sheepmeat production is a common interest – for example, Sheep Genetics Australia, Making More from Sheep, and Bestwool/Bestlamb), Grains Research & Development Corporation (GRDC).

BOARD & GOVERNANCE ISSUES

16. What AWI's governance arrangements?

- In addition to its statutory obligations, AWI's operations are governed by the following:
 - i. AWI Constitution
 - ii. Australian Government Levy Principles & Guidelines
 - iii. AWI Corporate Governance Framework, including the AWI Board and Committee Charters, Code of Conduct & Business Ethics, Conflict of Interest policy

- iv. ASX Corporate Governance Principles (as far as applicable) are reflected in in these Charters
- The AWI Board meets approximately every six weeks. AWI meets with the Department of Agriculture (DA) formally every six months to ensure ongoing compliance against the SFA and to report on its performance.
- AWI's statutory obligations include:
 - i. Statutory Funding Agreement
 - ii. Wool Services Privatisation Act (2000)
 - iii. Wool Services Privatisation (Wool Levy Poll) Regulations 2003

17. Performance of the AWI Board

- Since 2009/10 the AWI board introduced regular performance procedures.
- This involves an independent governance advisor who undertakes performance reviews of individual board members, the board as a whole, and performance of the Board sub-committees. These changes have been made in line with best practice and recommendations in the ASX Corporate Governance Principles.

18. How is the AWI Board elected?

- AWI Shareholders directly elect for AWI board members every two years at the AWI AGM
- All directors must rotate and are eligible for re-election no later than every third election cycle. This requirement is equivalent to the regime for listed companies ASX Corporate Governance Principles
- Only shareholders can vote at the elections, however AWI encourages every eligible levy payer to become a shareholder so they can participate in AGMs

19. What is the voting system for AWI board elections? Frequency? Eligibility?

- Board elections are held every two years by a vote of shareholders
- The Board Nominations Committee plays an important role in the process
 - i. They identify those skills required by outgoing directors, and make a recommendation on this basis of candidates who would best suit the combined board mix in terms of skills.
- A third of the Board resign at each election, normally they offer themselves up for re-election
- To be nominated for election the candidate has to be nominated by 100 AWI Shareholders
- A feature of AWI's voting system is that shareholders can vote against the election of any director. A candidate must receive more votes for their election than against to be eligible for election.

20. Who has the right to vote for AWI directors?

- AWI Shareholders
- All eligible levy payers are encouraged to become shareholders

21. Outline expectations of SFA re skills based board/ director elections etc

- AWI's SFA has required it to have a skills based board since 2010.
- AWI has also been required to have a Board Nominations Committee since 2010
- The SFA requires the board to demonstrate collective skills against each of the following:
 - i. corporate governance;
 - ii. wool growing;
 - iii. wool processing;
 - iv. product promotion and retail marketing;
 - v. domestic and international market development and international trade;
 - vi. R&D, technology, technology transfer, commercialisation and adoption of R&D and innovation;
 - vii. conservation and management of natural resources;
 - viii. administration of research and development; and
 - ix. finance and business management.

22. How does AWI encourage growers to become shareholders?

- Every year AWI writes to all eligible levy payers and encourages them to become shareholders of AWI. It is growers' individual choice whether they become shareholders, thereby entitling them to participate in AGMs and vote at director elections

23. Levy payers vs members/ shareholders – what's the difference?

- **Eligible levy payers** are defined as those growers who have paid \$100 in levies to AWI in each year over the previous three year period. All eligible levy payers are eligible to vote at WoolPoll every three years.
- **AWI Shareholders** are those eligible levy payers who decide to become a shareholder of AWI. All eligible levy payers are able to become Shareholders of AWI. Only shareholders can vote at AWI's AGMs.

BUDGET: PROPORTION OF OPERATING COSTS

24. What is the proportion of operating/ administrative costs of total budget 2013/14

- **Administration costs** for 2013/14 were A\$ 9,885 i.e. 11.8% of overall costs
 - **Operating costs** for 2013/14 were A\$29,663 i.e. 35.5%
 - **Total Expenditure** for 2013/14 A\$82,694
 - Operating costs – AWI has made a conscious decision to bring certain activities in house to reduce costs i.e. Desk top publishing, Videography. Also the Technology transfer element of the Off Farm portfolio is delivered by AWI employees and not external parties.

25. What's the difference between operating costs & administrative costs?

- Operating costs include the costs relating to running of each business unit or office e.g. Salaries, Rent, utilities etc
- Administrative costs include the operating costs for corporate services/ the global support function costs e.g. Board, Executive, HR, finance etc.

KEY ISSUES SPECIFIC TO AWI AND WOOLPOLL

26. Costs of Poll

- The project costs for WoolPoll 2012 A\$718k (\$1.0m in 2009)

27. What proportion of growers vote at WoolPoll

- As noted in the Senate submission at 2012, 60.94% of available votes were cast, by 41.72% of available voters

CONSULTATION WITH WOOLGROWERS & STAKEHOLDERS

28. How does AWI consult with stakeholders?

- Formally through the ICC & Woolgrower forums; government through 6 monthly meeting and regular discussions
- Informally through participation at over 50 events each year
- Unlike many rural industries, there is no single organisation that represents all woolgrowers. That is AWI's SFA does not define nor nominate a single Industry Representative Body (IRB) as is the case with many other RDCs
 - i. to ensure appropriate consultation, in 2010 AWI established its' Woolgrower Industry Consultative Committee (ICC) as a mechanism for AWI to formally consult with woolgrower representative organisations.
- The ICC's key role is to provide grower stakeholder input into AWI's business planning and priority-setting processes.
 - i. The ICC comprises the president or delegate from the following

grower representative organisations: Australian Association of Stud Merino Breeders; Australian Superfine Woolgrowers Association; Australian Wool Growers Association; WoolProducers Australia; a non-Merino breed representative; and Pastoral & Graziers Association of WA (as PGA is not a member of WoolProducers Australia). A representative from the Department of Agriculture also attends.

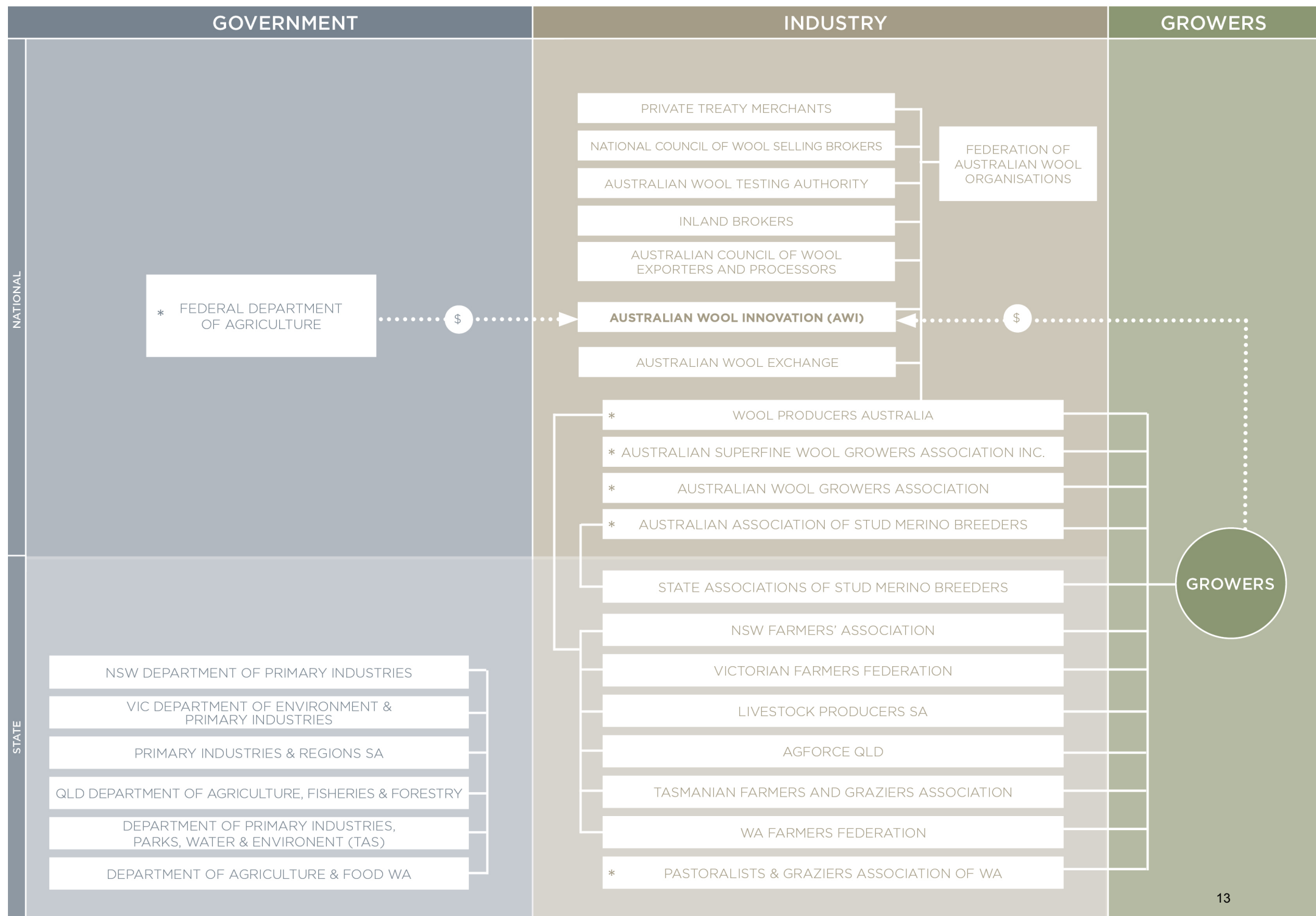
- Importantly, members of the ICC members have a responsibility to report information back to their organisations. AWI is aware that in some cases, some ICC representatives have reported to their organisations that they are not able to share the information from the ICC meetings – this is not the case, and undermines the purpose of the ICC forum.
- The ICC is only one way AWI engages growers; other less formal forums include the biannual Woolgrower Forums, quarterly briefings offered to the state farm organisations, numerous other face-to-face and industry events.

29. How does AWI identify priorities of stakeholders?

- AWI has stakeholders right along the global wool supply chain, but there are two very important stakeholders – who fund its activities
 - woolgrowers who pay the levy, and
 - the Australian Government who match the R&D expenditure
- **Identifying Government priorities:**
 - through the Department of Agriculture, the government provides clear advice to the RDCs as a whole of the government's priorities through the National Rural Research & Development priorities.
 - AWI also meets with DA every six months where priorities are discussed
 - AWI have also regularly received letters from the ministers, outlining their additional priorities
- **Identifying Grower priorities:**
 - AWI identifies the priorities through formal and informal channels of consultation & engagement
 - **Formal channels:**
 - AWI's ICC forum for grower representative organisations to provide feedback on priorities from the various grower groups and SFOs
 - Each March & June AWI schedules specific ICC meetings to seek input and feedback on grower priorities. This is then fed into AWI's strategic and annual operating plans.
 - specific ad hoc consultation forums usually through AWI's WoolGrower Forums;
 - In developing the current strategic plan, AWI undertook a process above and beyond normal consultation processes to seek input and feedback on the draft strategic plans. The feedback was collated and distributed to all parties. AWI also receives advice through forums such as grower groups and extension networks.
 - **Informal channels:** AWI attends around 50 industry events around the country

30. Investment in extension & grower engagement

- As noted by WPA during the Senate inquiry on 5 February, WPA, its' state affiliates and other grower groups represent only a third of woolgrowers. A number of these grower growers claim to be the peak industry body, however the diagram below illustrates the various organisations, both grower and non-grower, within the Australian wool industry.
- For a number of years AWI has engaged in activities outside these formal or traditional channels, to ensure we consult and engage with a far wider set of woolgrowers and levy payers.
 - This has included the AWI state based extension networks, shearing and wool handler training, regional industry events and workshops, and specific production forums such as regional wild dog groups.
- In 2013/14 AWI invested \$3.5M in grower education & extension
- In 2013/14 AWI invested \$427K on grower consultation and engagement
 - This involved over 50 regional events, including formal and informal consultation & engagement forums



*Members of AWI's Woolgrower Industry Consultative Committee (ICC).

31. Grower Extension Network details

- In 2013/14, AWI funded 7 Grower Extension Networks around Australia:
 - Leading Sheep Queensland,
 - Sheep Connect NSW,
 - Sheep Connect Tasmania,
 - Sheep Connect SA
 - Bestwool, Bestlamb Victoria
 - The Sheep's Back W, and
 - Bestprac, the national, pastoral zone network
- The AWI Grower Networks collectively have a membership of over 9,000 growers and over 1,000 consultants and service providers
- In FY13/14, the AWI Grower Networks hosted or supported over 431 events around Australia
 - The detail of the number of events by Extension Network and state is below.

AWI Network Name	State	Events Held/Supported	Members
Leading Sheep	Queensland	20	1466
Sheep Connect NSW	NSW	8	1586
Bestwool Bestlamb	Victoria	342	2385
Sheep Connect Tasmania	Tasmania	8	1428
Sheep Connect SA	SA	26	1226
The Sheep's Back	WA	19	1524
Bestprac	National (pastoral zone)	8	802
TOTALS		431	10,417

- Over 80 Making More From Sheep events were conducted in 2013/14 around Australia, attracting over 1,700 attendees

32. Grower engagement and consultation details

- The following table outlines the 46 grower events AWI has participated in during 2013/14. This is representative of the grower and industry events AWI participates, in any given year

Date	Event	Town	State
16/07/2013	AWI Ram Breeders Consultation Forum	Sydney	NSW
19-21/07/2013	Australian Sheep & Wool Show	Bendigo	Vic
5-6/8/2013	Sheepvention	Hamilton	Vic
15/08/2013	Katanning Ram Sale	Katanning	WA
27/08/2013	National Ram Sale	Dubbo	NSW
30/08/2013	Esperance Sheep Show	Esperance	WA
7-15/8/2013	Royal Adelaide Show	Adelaide	SA
10/08/2013	Field Day (Bill Walker)	Murray Bridge	SA
28/8-5-9 2013	Perth Royal Show	Perth	WA
5-6/10/2013	Boorowa Woolfest	Boorowa	NSW
31/10-1/11/2013	Woolgrower Consultation Forum	Sydney	NSW
22/11/2013	AWI AGM	Sydney	NSW
10-11/1/2013	NE Field Days	New England	NSW
17-19/1/2014	Great Southern Merino Field Days	Canberra	NSW
4-5/2/2014	Armidale Show & Sale	Armidale	NSW
13-14/2/2014	Trundle Ewe Comp	Trundle	NSW
15/16/2/2014	Gunning Show	Gunning	NSW
17-18/2/2014	Don Brown Memorial Ewe Comp	Condobolin	NSW
20-21/2/2013	Kangaroo Island Field Days	Kangaroo Island	SA
5/03/2014	Peter Westblade Memorial	Temora	NSW
7/08/2014	Wagin Woolorama	Wagin	WA
17-19/3/2014	Burra Field Days	Burra	SA
10-24/4/2014	Sydney Royal Easter Show	Sydney	NSW
18-30/4/2014	World Merino Congress	South Africa	
27-29/4/2014	ITWO	South Africa	
30-31/5/2014	Campbell Town Show	Campbell Town	Tas
9-11/7/2014	LambEx & SA Merino Field Days	Adelaide	SA
18-20/7/2014	Australian Sheep & Wool Show	Bendigo	Vic
27/07/2014	Ballarat Sheep Show	Ballarat	Vic
3-4/8/2014	Sheepvention	Hamilton	Vic
21-22/8/2014	Business Summit	Longreach	Qld
21-22/8/2014	Katanning Ram Sale	Katanning	WA
26-28/8/2014	National Ram Sale	Dubbo	NSW
2-3/9/2014	West Wyalong Show	West Wyalong	NSW
4/09/2014	SW Slopes & Plains Field Days	Young	NSW
5/09/2014	Ballatherie Ram Sale	Hillston	NSW
8/09/2014	Murray Bridge Field days	Murray Bridge	SA
Oct-14	Adelaide Show	Adelaide	SA
27/9-5/10/2014	Perth Royal Show	Perth	WA
17-18/10/2014	Tuppall Food & Fibre Festival	Tocumwal	NSW
21-Nov	AWI AGM	Sydney	NSW

16/01/2015	Great Southern Field Day	Canberra	ACT
17-19/1/2015	Canberra Show	Canberra	ACT
21-22/1/2015	Crookwell Ewe Comp	Crookwell	NSW
30/01/2015	Nerstane Ram Sale	Walcha	NSW
1-3/2/2015	Armidale Sheep Show & Ram Sale	Armidale	NSW