

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

Introduction

PMA Australia-New Zealand Limited (PMA A-NZ) is a voluntary member organisation that was established in 2009 to represent companies and organisations across the whole value chain in the fresh fruit, vegetable, nut and floral industries in Australia (and New Zealand).

The organisation is one of the global affiliates of the US-based Produce Marketing Association (PMA); the main functions of the organisation are to build business connections at all levels, improve food safety, traceability and sustainability in the fresh produce industry, attract and develop talent in the industry, expand the size of the market for fresh produce through increased demand (consumption and export) and provide information relevant to members' businesses.

Many of PMA A-NZ's members are the larger levy-payers in all sub-sectors of horticulture and therefore the organisation believes that any inquiry that has the potential to lead to more efficient levy systems and approaches to research and development is welcomed.

An improved levy system

Ultimately levies should only be imposed when the affected levy-payers agree to their imposition; then they should be used in a manner that (a) provides the greatest benefits to the levy-payers and (b) where there has been active involvement by the levy-payers in how those levies are applied.

Type of levy

On the type of levy collected, PMA A-NZ believes that there should be two types of levy: Marketing and R, D & E (research, development and extension).

The purpose of Marketing levies is straight-forward, whereas currently there is always some confusion around exactly what constitutes R&D and too often good research does not benefit the industry if the development and (in particular) extension stages are not carried through effectively. This need for more effective extension applies as much to large 'all-of-industry' projects such as market access as it does to 'sub-sector' (apples, citrus, etc) projects.

Quantum and support of levy

PMA A-NZ believes that the establishment and quantum of each levy (RD&E and Marketing) should be voted on by levy-payers **every three years** and that a **two-thirds majority** should be required for any levy to be approved.

Voting every three years on levies will ensure that levy payers remain actively engaged in the purpose and uses of their levies and a two-thirds majority will also ensure that any levy imposition or change has the support of a solid majority, not just a simple majority.

Proportional voting of levies

A system needs to be introduced whereby the larger levy-payers have more votes than small levy-payers. This is to be calculated on either an area, volume or sales basis or a mix of all three depending on the levy, using either a 'straight-line' or a 'diminishing returns' formula.

Apportionment and matching of R, D & E levies

Levies are collected for the good of each sub-sector (e.g. citrus, bananas, etc) of the industry; however there are a number of macro-issues that affect all sub-sectors, such as market access¹, biosecurity, food safety, industry data, consumer demand, people development, etc.

It is critical for the global competitiveness of the Australian horticulture industry that there is adequate funding of major issues that directly or indirectly affect all sub-sectors of the industry. All sub-sectors will benefit from a strong and effective horticulture industry.

Therefore, 10% of all R, D & E levies collected should be automatically applied to "all-of-industry" RD&E projects and these projects should receive a higher proportion of the government matching dollar than those projects that are purely for the various sub-sectors.

This proportional funding model will provide an incentive for sub-sectors to collaborate and will also provide a better outcome for government and tax-payers with a higher proportion of funding going towards projects that affect all-of-industry.

For instance, projects that are transformational in nature could potentially attract \$10 government funding for every \$1 industry levy; those projects that are critical for industry (such as food safety, data, consumption, market access, people development, etc) could potentially attract \$2 government funding for every \$1 industry levy; and then all sub-sector projects receive \$0.75 government support for every \$1 industry levy. For example:

	Industry levies	Voluntary contributions	Matching funds	Government funding	Total spend
Sub-sector RD&E	\$25,000,000	\$15,000,000			
% to all-of-industry	10% ²	20% ³			
All-of-industry	\$2,500,000	\$3,000,000			
% to transformational	20% ⁴	20%			
Transformational projects	\$500,000	\$600,000	\$10.00	\$11,000,000	\$12,100,000
All-of-industry projects	\$2,000,000	\$2,400,000	\$2.00	\$8,800,000	\$13,200,000
Sub-sector projects	\$22,500,000	\$12,000,000	\$0.75	\$25,875,000	\$60,375,000
Totals	\$43,000,000	\$15,000,000		\$45,675,000	\$103,675,000

¹ "Market access" applies to both exports and imports and therefore affect all sub-sectors.

² Legislated percentage applied to all-of-industry

³ Estimated percentage of VC committed to all-of-industry

⁴ Estimate

Apportionment of marketing levies

Currently marketing levies are raised by sub-sectors for use by sub-sectors. However consideration should be given to a proportion (5-10%) of all marketing levies being allocated to all-of-industry marketing projects. The industry collectively will benefit greatly from some collaborative marketing that will lead to higher consumption of all fresh produce (fruits, nuts and vegetables) by consumers in Australia.

Controlling how levies are used

The recent review into Horticulture Australia Limited (HAL) emphasised the overly-bureaucratic and conflict-affected nature of the organisation, which is expected to significantly change once Horticulture Innovation Australia Limited (HIAL) is in place by November 2014.

It would be expected that the decisions on how funding for all-of-industry projects is distributed should be left solely in the hands of the new HIAL Board, leaving the sub-sector organisations (through their levy-payers) to be making the recommendation to HIAL on their projects, leaving HIAL to perform a mainly administrative function for these sub-sector projects.

Sub-sector organisations will then be more accountable to their levy-payers and with proportional voting, the larger levy-payers will have a stronger vested interest to ensure that their sub-sector levies are being spent wisely. Likewise the HIAL Board will then be directly accountable to all their grower shareholders on projects that affect everyone in the industry.

Governance & Reporting

Horticulture is a complex industry with a high level of sub-sector variability. By moving to a model as proposed above should lead to:

1. A clearer role for the Board of the "RDC", in this case HIAL;
2. A less-conflicted and more accountable role for sub-sector organisations;
3. A greater say in how levies are used by those growers paying the most levies;
4. Simpler reporting and governance, leading to less bureaucracy and easier-to-manage systems;
5. More dollars being spent on actual projects and less on administration;
6. A higher proportion of taxpayer funds being applied to projects that strengthen the whole industry; and
7. A more dynamic and viable industry better equipped to compete against other major producing countries of horticulture products.

Yours sincerely,

PMA AUSTRALIA-NEW ZEALAND LIMITED

Michael Worthington
Chief Executive Officer

Terms of Reference

The industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector, with particular reference to:

- a. an audit of reports, inquiries and reviews relevant to this inquiry;
- b. the basis on which levies are imposed, collected and used;
- c. competing pressures for finite R&D funds;
- d. the opportunities levy payers have to influence the investment of the levies;
- e. the opportunities levy payers have to approve and reapprove the imposition of levies;
- f. the transformation of R&D and marketing into increased returns at the farm gate, including the effectiveness of extension systems;
- g. collaboration on research to benefit multiple industry and research sectors;
- h. industry governance arrangements, consultation and reporting frameworks; and
- i. any other related matter.