

The Senate

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Rural and Regional Affairs  
and Transport  
References Committee

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

June 2015

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ISBN 978-1-76010-257-9

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# Abbreviations

R&D	Research and development
RDC	Rural Research and Development Corporation
SFA	Statutory funding agreement



# **List of recommendations**

## **Recommendation 1**

**4.19** The committee recommends that the *Primary Industries Levies and Charges Collection Act 1991* be amended, consistent with subsections 27(3) and 27(3A), to enable the collection and distribution of levy payer information which will allow the creation of levy payer databases for all agricultural industries that pay agricultural levies. The committee further recommends that levy payer databases be established within two years of the legislative amendment.

## **Recommendation 2**

**4.20** The committee recommends that data collected for the purposes of levy databases and held by the Department of Agriculture should be limited to information sufficient to enable organisations responsible for spending or allocating levy funds to communicate with levy payers and enable votes to be allocated on a production basis. Data should include location, contact details, crop or enterprise type and production volume and/or value. Databases should be held by the appropriate levy-payer owned body, and be available to appropriate authorities under circumstances of biosecurity emergencies.

## **Recommendation 3**

**4.21** The committee recommends the establishment of a cost-effective, automated agricultural levy system. The system should identify levy payers against levies paid. The automated system should provide for more immediate settlement of levy fees paid and the allocation of voting entitlements where relevant. It should be subject to regular independent auditing and verification.

## **Recommendation 4**

**4.22** The committee recommends that where industry sectors are subject to levies by both states and territories and the Commonwealth, the merging of record keeping and levy collection should be investigated to avoid duplication and reduce costs to producers.

## **Recommendation 5**

**4.28** The committee recommends that the Department of Agriculture provide agricultural industries with a timeframe for levy application and amendment decisions.

## **Recommendation 6**

**4.29** The committee recommends that the Department of Agriculture, in cooperation with relevant agricultural industries, conduct a review of the process to establish and amend agricultural levies including modifications to levy components. The review should identify methods to provide for a more cost-effective and responsive process while maintaining an appropriate level of accountability.

## **Recommendation 7**

**4.32** The committee recommends that the Department of Agriculture review and if necessary, redraft the criteria for Prescribed Industry Bodies (PIBs) with a view to developing a transparent, uniform and contestable process, including published criteria and thresholds as applicable, for the recognition of PIBs for the purposes of collecting levies.

**4.33** The committee further recommends that PIBs already recognised under legislation should be required by the Department of Agriculture to conclusively demonstrate, within a period of no more than five years, that they meet the criteria referred to in Recommendation 7 in order to remain the recognised PIB for their relevant industry sector.

# Chapter 1

## Introduction and background

1.1 On 2 September 2014, the following matters were referred to the Senate Rural and Regional Affairs and Transport References Committee (committee) for inquiry and report by 24 November 2014:

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.

1.2 On 2 October 2014, the Senate granted an extension of time to report. The committee was required to report by 30 June 2015.

### Conduct of the inquiry

1.3 The inquiry was advertised in *The Australian* and on the committee webpage. The committee also wrote to government departments, organisations and individuals to invite submissions. Details of the inquiry and associated documents are available on the committee's webpage.

1.4 The committee received 150 public and 7 confidential submissions which are listed at Appendix 1. The public submissions are also published on the committee's webpage.

1.5 The committee held public hearings in Canberra on 28 November 2014, 5 February 2015 and 15 May 2015, Sydney and Melbourne on 3 and 4 February 2015

respectively and in Perth on 20 February 2015. A list of witnesses who appeared at the hearings is at Appendix 2.

## **Acknowledgement**

1.6 The committee acknowledges the organisations and individuals that made contributions to the inquiry through submissions and appearances at the hearings.

## **Levies in the agricultural sector**

1.7 The first compulsory levy was introduced in 1936 and there have been substantial changes to the system since that time.<sup>1</sup> Levies are now imposed on a range of rural commodities and products. They are collected by the Department of Agriculture (department) and appropriated to the relevant Research and Development Corporation (RDC), less the cost of levy collection, as well as to Animal Health Australia (AHA), Plant Health Australia (PHA) and the National Residue Survey (NRS), to fund activities that benefit levy paying industries.<sup>2</sup>

1.8 In 2013–14 there were 99 statutory levies, representing 74 commodities paid to 19 levy recipient bodies (reduced to 18 from 1 July 2014). In that year, 50,531 returns were processed resulting in \$467 million contributed by Australian primary producers. These funds, along with Australian Government matching eligible R&D funds amounting to \$238 million, were provided to the levy recipient bodies.<sup>3</sup>

1.9 As the levy recipient bodies, RDCs derive the majority of their funding from statutory levies. RDCs facilitate and fund scientific research for Australian rural industries. RDCs can either be statutory bodies (statutory RDCs) established by government under the *Primary Industries Research and Development Act 1989* (PIRD Act), or alternatively industry-owned corporations (industry-owned RDC) which are companies (usually limited by guarantee) declared as industry service bodies under specific legislation. There are currently 15 RDCs, five of which are statutory bodies governed by the PIRD Act. Following a review of Horticulture Australia's operations under the *Horticulture Marketing and Research and Development Services Act 2000*, a new body, Horticulture Innovation Australia Ltd (HIAL) was established to serve as

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1 Mr Matthew Koval, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 1.

2 Department of Agriculture, Levies explained, [http://www.agriculture.gov.au/ag-farm-food/levies/publications/levies\\_explained?wasRedirectedByModule=true](http://www.agriculture.gov.au/ag-farm-food/levies/publications/levies_explained?wasRedirectedByModule=true) (accessed 10 March 2015).

3 Department of Agriculture, *Report to Levies Stakeholders 2013–14*, 30 June 2014, p. 5, <http://www.agriculture.gov.au/SiteCollectionDocuments/ag-food/levies/documentsandreports/report-to-stakeholders-2013-14.pdf> (accessed 10 March 2015).

a grower-owned entity.<sup>4</sup> The remaining RDCs are industry-owned bodies, created from former statutory RDCs.<sup>5</sup>

1.10 There are structural differences between RDCs, as each industry has its own set of characteristics such as geographical spread, culture, and intensity of production, which contribute to and influence the specific governance structure of their RDC. Evidence suggested that governance structures have evolved through industry adaptation as well as through changes to statutory authorities.<sup>6</sup>

1.11 The PIRD Act sets out arrangements for the establishment of statutory RDCs and the preferred structure for the administration of R&D program funds. It also sets out the reporting and accountability requirements for statutory RDCs. In addition, the governance arrangements of statutory RDCs are set out in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Both acts establish the RDC's relationship with government. The PIRD Act also establishes the relationship with the industry representative organisations and with the respective industry. The five statutory RDCs in the agricultural sector include:

- Australian Grape and Wine Authority (AGWA);<sup>7</sup>
- Cotton Research and Development Corporation (CRDC);
- Fisheries Research and Development Corporation (FRDC);
- Grains Research and Development Corporation (GRDC); and
- Rural Industries Research and Development Corporation (RIRDC).<sup>8</sup>

1.12 Statutory RDCs are Australian Government entities, with directors appointed by the Minister for Agriculture (minister), and based on recommendations from a selection committee. These RDCs are overseen by the minister with their respective boards accountable to the minister for their performance.<sup>9</sup> Following legislative amendment passed in late 2013, statutory RDCs can provide marketing services where industry requests such services and raises a marketing levy.<sup>10</sup>

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4 Horticulture Innovation Australia Ltd, About, <http://www.horticulture.com.au/about/> (accessed 9 April 2015).

5 Explanatory Memorandum, Rural Research and Development Legislation Amendment Bill 2014, p. 2.

6 Victorian Farmers Federation, *Submission 85*, p. [2].

7 AGWA is a Commonwealth statutory authority established under the *Australian Grape and Wine Authority Act 2013* that commenced on 1 July 2014.

8 RIRDC undertakes RD&E for over 60 different industries which range in size and maturity from new, developing and mature crops and animal products such as quinoa and tea tree oil through to rice and chicken meat. Rural Industries Research and Development Organisation, *Submission 89*, p. 1.

9 Department of Agriculture, *Submission 33*, p. 5.

10 Department of Agriculture, *Submission 33*, p. 5.

1.13 The industry-owned RDCs or industry-owned companies (OICs) are declared by the minister as industry service bodies under industry-specific legislation. They are established under, and must comply with, the provisions of the *Corporations Act 2001* (Corporations Act) which sets out the obligations of companies and their boards of directors.<sup>11</sup> Industry-owned RDCs are therefore independent corporate entities with expertise-based boards. Their accountability framework is set out in the corporation's statutory funding agreement (SFA) with the department. OIC boards are elected by members or appointed in accordance with their constitution and accountable to the minister through their industry SFAs.<sup>12</sup>

1.14 According to the Council of Rural Research & Development Corporations (CRRDC), OICs were formed in response to an industry desire to have more control over their affairs, increased flexibility and industry representation.<sup>13</sup> One of the key structural differences between industry-owned RDCs compared to statutory RDCs is that the former have members whereas the latter do not.<sup>14</sup>

1.15 Both the enabling legislation and SFAs prevent OICs from using levy or matching government funds to engage in agri-political or industry advocacy activities. Australian Pork Limited (APL) is the exception as it is the only RDC that incorporates strategic policy development as well as the traditional RDC functions of marketing and research and development.<sup>15</sup>

***Diagram 1.1: Industry-owned Research & Development Corporations***

<b>Industry-owned RDC</b>	<b>Industry-specific legislation</b>
Australian Egg Corporation Limited (AECL)	<i>Egg Industry Service Provision Act 2002</i>
Australian Livestock Export Corporation Limited (LiveCorp) <sup>16</sup>	<i>Australian Meat and Livestock Industry Act 1997</i>
Australian Meat Processor Corporation (AMPC)	<i>Australian Meat and Livestock Industry Act 1997</i>

11 Department of Agriculture, Research and Development Corporations, [http://www.agriculture.gov.au/ag-farm-food/innovation/research\\_and\\_development\\_corporations\\_and\\_companies](http://www.agriculture.gov.au/ag-farm-food/innovation/research_and_development_corporations_and_companies) (accessed 15 March 2015).

12 Department of Agriculture, *Submission 33*, p. 6.

13 Council of Rural Research & Development Corporations, The Rural Research and Development Funding Model, <http://www.ruralrdc.com.au/Page/About/About.aspx> (accessed 17 March 2015).

14 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 43.

15 Australian Pork Limited, *Submission 31*, p. 3.

16 Livecorp only receives the funds collected under legislation from the industry. It does not receive matching funds from the government. Australian Livestock Exporters' Council, *Submission 74*, p. 7.

Australian Pork Limited (APL)	<i>Pig Industry Act 2001</i>
Australian Wool Innovation Limited (AWI)	<i>Wool Services Privatisation Act 2000</i>
Dairy Australia Limited (DA)	<i>Dairy Product Act 1986</i>
Forest and Wood Products Australia (FWPA)	<i>Forestry Research and Development and Marketing Act 2007</i>
Meat and Livestock Australia (MLA)	<i>Australian Meat and Livestock Industry Act 1997</i>
Sugar Research Australia (SRA)	<i>Sugar Research and Development Services Act 2013</i>

### **Recent reports and reviews into the agricultural levies system**

1.16 In June 2011, two reports were released on the R&D system. The Productivity Commission (PC) inquiry into the rural RDCs reviewed the RDC model and considered its overall effectiveness, while the Rural Research and Development Council (RRDC) National Strategic Rural R&D Investment Plan reviewed the rural research, development and extension system in Australia.

1.17 In its preliminary response to the PC report of June 2011, the Australian Government stated that it would not adopt the commission's recommendation to reduce the gross value of production gap on matching funding to RDCs. Further, the Australian Government's 2012 Rural Research and Development Policy Statement served as a response to the PC and RRDC reviews.<sup>17</sup> The statement identified a number of changes designed to increase accountability and transparency in the RDC model, including the introduction of SFAs for statutory RDCs.<sup>18</sup>

1.18 The statement recognised that combining R&D and marketing functions in one organisation would provide for both financial and operational synergies.<sup>19</sup> It recommended that statutory RDCs be allowed to undertake marketing, where requested by industry.<sup>20</sup> The consequent Rural Research and Development Legislation Amendment Bill 2013 (R&D bill) and companion bills, the Primary Industries (Excise) Levies Amendment Bill 2013 and Primary Industries (Customs) Charges Amendment Bill 2013, sought to implement commitments made in the policy statement that require legislative change.<sup>21</sup>

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17 Australian Government, *Rural Research and Development Policy Statement*, July 2012, p. 2.

18 Australian Government, *Rural Research and Development Policy Statement*, July 2012, p. 2. The funding agreement for statutory RDCs is covered under the PIERD Act and regulations.

19 Australian Government, *Rural Research and Development Policy Statement*, July 2012, p. 3.

20 Australian Government, *Rural Research and Development Policy Statement*, July 2012, p. 3.

21 Explanatory Memorandum, Rural Research and Development Legislation Amendment Bill 2013, p. 3.

1.19 Consideration of the package of the three bills lapsed at the end of Parliament on 12 November 2013. On 20 November 2013, the bills package was reintroduced into the 44<sup>th</sup> Parliament with minor changes and received Royal Assent on 13 December 2013.<sup>22</sup>

1.20 The *Rural Research and Development Legislation Amendment Act 2013* amended the PIRD Act to allow statutory R&D corporations to undertake marketing activities – provided that the relevant funding levy in respect of the corporation included a marketing component. However, government matching funding would not be used for marketing, only R&D and extension services.<sup>23</sup>

1.21 Therefore, while some RDCs such as Grains Research and Development Corporation (GRDC) coordinate and fund R&D, others including Australian Wool Innovation (AWI) also serve as the marketing body for their respective industry.<sup>24</sup> APL is a unique RDC as it engages in R&D and marketing as well as serving as the pork industry representative.<sup>25</sup>

1.22 Other measures introduced under the 2013 legislation included:

- provision for government matching funding for voluntary contributions to all RDCs to encourage the private sector to invest in rural R&D;
- more efficient statutory RDC director selection processes;
- funding agreements for statutory RDCs to drive performance improvements and increase transparency in the delivery of R&D services;
- individual fisheries industry levies to be collected and matched subject to a cap based on the gross value of production of that industry; and
- minor amendments to improve consistency in governance between RDCs and simplify governance arrangements.<sup>26</sup>

1.23 The committee also notes its own previous inquiry and report into *Industry structures and systems governing levies on grass-fed cattle* which was tabled in the Senate on 9 September 2014. The committee report detailed the cattle transaction levy structure and focused on issues of accountability, transparency and opportunities for

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22 Bills Digest No. 13, 2013–14, Rural Research and Development Legislation Amendment Bill 2013 [and] Primary Industries (Customs) Charges Amendment Bill 2013 [and] Primary Industries (Excise) Levies Amendment Bill 2013, 26 November 2013, p. 3.

23 Explanatory Memorandum, Rural Research and Development Legislation Amendment Bill 2013, p. 3.

24 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 41 and Australian Wool Innovation, *Submission 123*, p. 3.

25 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 37.

26 Explanatory Memorandum, Rural Research and Development Legislation Amendment Bill 2013, p. 2.

grass-fed cattle levy payers to influence the investment of the levy. The report foreword stated the following on these matters:

In light of the substantial changes that have taken place to the industry since the current systems were put in place, the committee has identified in this report a series of gaps and flaws within the existing system. These shortcomings require structural reforms that go well beyond MLA's announced changes. In detailing the mechanisms available to levy payers to influence the quantum and investment of the levy, the committee has raised serious questions about accountability and transparency in relation to the both the current levy system and red meat industry structures. Issues of contestability, transparency and efficacy within the red meat industry structures and levy system has led the committee to the conclusion that serious reform is required to ensure the future viability of the Australian cattle industry.<sup>27</sup>

## Market failure

1.24 The agricultural R&D system is predicated on the concept that there is market failure. Market failure was defined by witnesses as the inability of a single business, a single producer or grower, to invest and get an adequate return. That means that individual producers have no incentive to invest in the development of new varieties, new methods or new systems, because they cannot achieve an adequate return operating on their own.<sup>28</sup> To this end, RDCs provide a mechanism for industry to invest collectively in R&D.

1.25 Any submission to government requesting that a levy be struck or amended must define the market failure and how the introduction of a levy system would address that market failure.<sup>29</sup>

1.26 Evidence to the committee highlighted that the Australian agricultural sector largely comprises a wide diversity of small family businesses which have a low capacity to individually conduct or make major investment into industry-specific R&D.<sup>30</sup> In fact, the structure of the agriculture sector is characterised by the presence of many individual producers/providers who feed into a broader market of consumption. Australian Bureau of Statistics figures suggest that approximately 99

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

28 Mr Tony Mahar, National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 4.

29 Mr Matthew Koval, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 9.

30 According to the Australian Dairy Industry Council, 97 per cent of Australia's dairy farms are family owned. Mr Noel Campbell, Australian Dairy Industry Council, *Committee Hansard*, 4 February 2015, p. 35; Mr Robert Prince, Nursery and Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 12; Mr Gregory Seymour, Australian Mushroom Growers Association, *Committee Hansard*, 3 February 2015, p. 37 and Mr Matt Brand, NSW Farmers' Association, *Committee Hansard*, 3 February 2015, p. 67.

per cent of the 115,000 farm businesses in Australia are family owned and operated.<sup>31</sup> As such, there is little to no incentive for individual producers to contribute to strategies that provide dividends to whole-of-industry.<sup>32</sup>

1.27 The department noted that there is little incentive for individual 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 (otherwise known as 'free riding').<sup>33</sup> The department argued that this market failure creates a case for government involvement in rural R&D and for the levy system. To this end, the Australian Government contributes matching R&D funding of industry levies generally up to 0.5 per cent of the industry's gross value of production.<sup>34</sup>

1.28 In terms of market failure in relation to the marketing levy, APL explained that an individual producer has only limited capability to market a pork product.<sup>35</sup> It suggested that market failure occurs where individual producers cannot market the pork product on their own.<sup>36</sup> Industry-specific marketing activities are undertaken for the benefit the industry as a whole and are generic in nature. Ms Deb Kerr, General Manager, Policy, APL continued:

So it is around what the industry collectively can do to improve the profitability of our pork producers through campaigns such as 'Put some more pork on' ads. Can individual producers do that on their own? They might be able to do it in a limited fashion with some of their own money, but most farmers do not have a marketing budget. If they are selling pork to a processor or through the supply chain, they are less removed from the marketing end of the business. It is only those who direct market to consumers who would be marketing themselves. The marketing levy itself is a generic levy that looks at the whole of industry and the benefits to the whole of industry.<sup>37</sup>

1.29 The point was made that, as many industries within the agricultural sector are engaged in an international market with international competitors, it was fundamental that industries collectively develop viable programs to allow Australian farmers to be internationally competitive.<sup>38</sup>

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31 National Farmers' Federation, *Submission 143*, p. 7.

32 NSW Farmers' Association, *Submission 140*, p. 6.

33 Department of Agriculture, *Submission 33*, p. v.

34 Department of Agriculture, *Submission 33*, p. v.

35 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 38.

36 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 38.

37 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 38.

38 Mr Noel Campbell, Australian Dairy Industry Council, *Committee Hansard*, 4 February 2015, p. 35.

## Context of the inquiry

1.30 The inquiry was initiated at a time of significant change to Australian agriculture and in particular, the operating environment. As the Australian Farm Institute (AFI) explained:

With the progressive freeing up of global agricultural trade, new competition has emerged in international agricultural markets, making it more important than ever that the Australian agriculture sector optimises efforts to increase productivity and hence international competitiveness.<sup>39</sup>

1.31 Across agriculture, industries are concentrating with fewer participants in all sectors compared to 20 years ago.<sup>40</sup> In the grains sector, as a case in point, the number of grain growers has almost halved in Australia in the last ten years from 40,000 to 21,000.<sup>41</sup> There are 50 per cent fewer dairy farmers nationally when compared to 1990. In the Western Australian horticulture sector, one or two growers dominate production of many crops.<sup>42</sup> Similarly, estimates suggest that 20 per cent of citrus growers account for nearly 90 per cent of production. In 1997, 50 per cent of citrus producers accounted for only 2 per cent of production.<sup>43</sup>

1.32 While many industries are consolidating, there remains considerable variability in the commodities across the agricultural sector, which not only includes food and fibre production but also foliage.<sup>44</sup> Each industry and respective commodity has its own set of own unique components – geographical spread, industry culture, intensity of production and the extent of concentration which influences both how it operates and the most appropriate levy system and supporting representative structure.<sup>45</sup> In light of this divergence, one of the central challenges for RDCs is to ensure flexibility in R&D investment to target the requirements of all producers. This is particularly challenging in sectors such as the pork industry which has a long tail effect. Of the country's 1900 pig producers, around 700 hold fewer than eight pigs.<sup>46</sup>

1.33 Evidence to the committee suggested that a combination of increased concentration of agricultural industries and the emergence of large-scale growers has led to greater challenges for RDCs in meeting the R&D needs of all growers – large

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39 Australian Farm Institute, *Submission 129*, Executive Summary.

40 Dr Graeme Robertson, *Submission 122*, p. 4.

41 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, pp 5 & 40.

42 Dr Graeme Robertson, *Submission 122*, p. 2.

43 Citrus Australia Ltd, *Submission 126*, p. [1].

44 Mr Robert Prince, Nursery and Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 8.

45 Mr David Jochinke, Victorian Farmers Federation, *Committee Hansard*, 4 February 2015, p. 20.

46 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 32.

and small. It has also contributed to rising discontent amongst industries with larger growers who have formed the view that they can invest their levies to greater effect within their own businesses.<sup>47</sup> This dynamic highlighted an underlying question, which underpinned much of the debate in relation to agricultural levies. That is, whether producers should have a say in levy decisions that is proportionate to their production/levy contribution.

1.34 The fact that characteristics of agricultural industries differ considerably also impacts the continuity of levy returns. In some industries and across the horticulture sector, growers dip in and out of production depending on the opportunities available.<sup>48</sup> This is also the case for the predominantly family-based operators in the Australian feedlot industry.<sup>49</sup> The Australian Lot Feeders' Association (ALFA) explained:

Around 98 per cent of Australia's 400 accredited feedlots are owned and managed by Australian families. The vast majority are small operators which are vertically integrated with mixed broadacre grazing and cropping operations whilst a small number are vertically integrated with the processing sector.<sup>50</sup>

1.35 Evidence to the committee indicated that productivity growth in the Australian agricultural sector remained largely static over the last decade despite agricultural productivity growth amongst major competitors such as Canada, the United States, Brazil and New Zealand.<sup>51</sup> Yet, while there are a number of varying factors that contribute to agricultural productivity growth, sustained investment in R&D is recognised by some submitters as a critical factor.<sup>52</sup> The view was put that with annual productivity gains in the main agricultural commodities such as grains remaining flat since 2000, there was greater need for major investment in RD&E as part of renewed growth rather than less.<sup>53</sup>

### ***Declining role of government in RD&E***

1.36 Some submitters to the inquiry argued that RDCs have played an increasingly important role in funding agricultural R&D in the face of declining levels of investment by state governments and the Commonwealth (through CSIRO and

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47 Dr Graeme Robertson, *Submission 122*, p. 2.

48 Mr Jonathon Eccles, Raspberries and Blackberries Australia, *Committee Hansard*, 3 February 2014, p. 51.

49 Mr Dougal Gordon, Australian Lot Feeders' Association, *Committee Hansard*, 3 February 2015, p. 74.

50 Australian Lot Feeders' Association, *Submission 29*, pp 3–4.

51 Mr Tony Mahar, National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 1.

52 Australian Farm Institute, *Submission 129*, Executive Summary and Mr Tony Mahar, National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 1.

53 Ag Institute Australia, *Submission 43*, p. 3.

universities), particularly in relation to agricultural researchers, infrastructure and extension.<sup>54</sup> Recent estimates indicate that public investment in agricultural RD&E in Australia has been static for approximately two decades with declines in the rate of gain in agricultural productivity observed as a result.<sup>55</sup> Research has also become more internationalised and private companies have become significant providers of R&D.<sup>56</sup> Evidence from GRDC in this regard suggested that only two per cent of grains research is conducted in Australia while the remaining 98 per cent conducted overseas is increasingly being carried out by the private sector.<sup>57</sup>

1.37 According to evidence before the committee, R&D costs have risen considerably, exacerbated by the associated decline in co-funding by traditional research providers such as state government departments. As a case in point, Onions Australia noted that the capacity of the onion R&D levy to address all industry priorities had been significantly eroded over the last few years.<sup>58</sup>

1.38 Evidence suggested that state government share of total agricultural R&D funding declined from 53 per cent in 1995 to 38 per cent in 2007.<sup>59</sup> AFI found that, while difficult to quantify in absolute terms, there was reasonable evidence that government R&D agencies such as the CSIRO had reduced the real level of resources available for agriculture-related R&D. As a case in point, AFI suggested that from 2007 to 2012, there had been a 22 per cent decrease in the number of (public sector) personnel involved in grains extension.<sup>60</sup>

1.39 The Ag Institute Australia (AIA) noted that one of the ramifications of reduced state investment in RD&E was a reduction in capacity and service with respect to R&D in rural regions.<sup>61</sup>

1.40 However, other consequences of the declining role of government in RD&E were also recognised. According to the Marsden Jacob report on GRDC, while

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54 Australian Farm Institute, *Submission 129*, Executive Summary; Mr William Hamilton, Ag Institute Australia, *Committee Hansard*, 3 February 2015, p. 15; Mr Tony Mahar, National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 1; Ag Institute Australia, *Submission 43*, p. 5; Cotton Australia, *Submission 131*, p. 5 and Queensland Dairyfarmers' Organisation, *Submission 13*, p. 2 and Dr Grahame Robertson, *Submission 122*, p. 6.

55 Mr Warren Hunt, *Submission 1*, Attachment 1, p. 130.

56 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, pp 5 & 40.

57 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 15 May 2015, p. 10.

58 Onions Australia, *Submission 5*, p. 2.

59 Mullen 2010 cited in Australian Farm Institute, *Submission 129*, p. 23.

60 Australian Farm Institute, *Optimising future extension systems in the Australian grains industry*, 2013.

61 Mr William Hamilton, Ag Institute Australia, *Committee Hansard*, 3 February 2015, p. 15.

private-sector extension work is increasing, it is extremely difficult to attract qualified personnel in light of the withdrawal of state governments and consequent lack of a training ground and career path for specialist extension providers.<sup>62</sup>

1.41 Another consequence of the declining role of state government in RD&E recognised in evidence was the need to ensure that RDC research is effectively communicated to producers. Evidence before the committee indicated that publicly-funded extension declined from 24 per cent of total public agricultural RD&E in 1952–53 to around 19 per cent in 2006–07.<sup>63</sup> The ACIL Allen report into the horticultural industry noted in this regard that there was a gap in translating high return R&D investments into farm gate adoption and R&D extension. The report concluded that this performance gap limited the ability of investments to produce tangible benefits for growers and the horticulture industry.<sup>64</sup> It was also noted in evidence that a direct linkage between levy payers and researchers needs to be upheld.<sup>65</sup> According to Mr Paul McKenzie, some scientists reported minimal contact with farmers and complained of a disproportionate amount of time complying with administrative tasks.<sup>66</sup> Dr Lindsay Campbell explained that traditionally, the extension component of R&D in Australia had largely been achieved through state and territory agricultural departments. With the curtailment of state funding for this activity, the gap had only been partly closed by private sector consultants with university researchers not funded to undertake such activities.<sup>67</sup>

1.42 These developments and their consequences are considered throughout this report.

### ***R&D contribution to agricultural productivity***

1.43 Some evidence to the committee suggested that agricultural RD&E and marketing activities carried out by levy-funded organisations on behalf of farmers and the Australian Government have been fundamentally important to the growth of the Australian agricultural sector over the last 25 years, particularly in the face of declining state government support for such activities.<sup>68</sup>

1.44 AIA argued that without productivity gains, Australian agriculture would be unable to compete effectively in international markets. It made the point that RD&E is

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62 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 23.

63 ABARES 2011 cited in Grain Growers Ltd, *Submission 36*, p. 13.

64 ACIL Allen Consulting, *Better Value for Growers – A future for HAL: Independent Review of HAL and Horticulture Levy System*, May 2014, p. 28.

65 NSW Farmers' Association, *Submission 140*, p. 17.

66 Mr Paul McKenzie, *Submission 24*, p. [14].

67 Dr Lindsay Campbell, *Submission 28*, p. 2.

68 Australian Farm Institute, *Submission 129*, Executive Summary.

essential not just for productivity gains but also for the stewardship of land, water, capital and human resources engaged in agriculture. Biosecurity is also largely supported by RD&E, funded by the RDCs. Management of existing plant and animal diseases; and the enhancement of supply chains is also heavily and effectively supported by RDCs.<sup>69</sup> The Victorian Farmers Federation (VFF) suggested that as the rate of productivity growth drops with declining real investment in RD&E, it is essential to maintain both public funding and levy-based funding if the agricultural sector is to achieve the productivity gains required to meet rapidly increasing Australian and world food demand.<sup>70</sup>

1.45 Some of the gains in the agricultural sector brought about by R&D investments highlighted in evidence included:

- in the cotton sector – an increase in domestic cotton yields at almost three times the world average, 95 per cent reduction in the use of pesticides, a 40 per cent improvement in the use of water, and the generation of over \$2 billion in annual export earnings.<sup>71</sup>
- in the vegetable sector – greater access to vital crop protection products, export development and capacity development activities have contributed to increased export of Australian vegetables, improved soil health and productivity solutions as well as innovative soil DNA testing for potato disease.<sup>72</sup>
- in the dairy sector – total factor productivity for Australian dairy farms increased at an average annual rate of 1.6 per cent from 1978–79 to 2010–11. While there were other factors involved, R&D provided the basis for much of this productivity improvement. Independent experts estimate the overall benefit of R&D expenditure to the levy as being in the range of 3.3–6 to 1.<sup>73</sup>
- in the horticultural sector – cross-benefit analysis of R&D investments undertaken within the apple and pear industry suggest the benefits of \$1 invested range from \$2.10 to \$5.20;<sup>74</sup> and
- an assessment of CRDC research projects has shown CRDC R&D research returns around \$13 for every dollar invested to levy payers but \$30 for every dollar invested to the nation.<sup>75</sup>

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69 Ag Institute Australia, *Submission 43*, p. 1.

70 Victorian Farmers Federation, *Submission 85*, p. [4].

71 Dr Mary Corbett, Cotton Research and Development Corporation, *Committee Hansard*, 3 February 2015, p. 44.

72 Mr Richard Mulcahy, AUSVEG, *Committee Hansard*, 4 February 2015, p. 2.

73 Victorian Farmers Federation, *Submission 85*, p. [5].

74 Apple and Pear Australia Ltd, *Submission 95*, p. 27.

75 Cotton Australia, *Submission 131*, p. 2.

1.46 ALFA made the observation that:

In the pioneering days of Australia's history, technology and innovation were used to overcome the obstacles faced by farmers trying to make a living off impoverished soil and very dry land. Since then, we see farmers making use of technology and innovation to remain viable players in a keenly competitive international market, while ensuring the sustainability of their social, economic and biophysical environments. Into the future, rural R&D and marketing will continue to help the agricultural sector meet the challenges associated with the rising cost of agricultural inputs, declining commodity prices, climate change, food security and meeting the increasingly discerning needs of consumers.<sup>76</sup>

1.47 However, it is within this context of a highly competitive global market, declining state government engagement in RD&E and declining returns to producers in some industries that levy paying producers and agricultural industries more broadly have called for enhanced accountability for their hard-earned levy funds. It is to that area of inquiry that the committee now turns.

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76 Australian Lot Feeders' Association, *Submission 29*, p. 1.

# Chapter 2

## Levy structure

2.1 This chapter considers the levy collection system across agricultural levies generally, with a primary focus on probity and transparency. In tracing the levy process, it explores the levy calculation and collection systems, requirements to approve and re-approve levies, modification of levy allocations and leakage issues.

### Levy calculation and collection

2.2 The Department of Agriculture – Levies (formerly Levies Revenue Service) administers, collects and disburses levies and charges on rural commodities and products under the authority of Commonwealth legislation.<sup>1</sup> After recovering costs, it disburses levy funds to the relevant levy recipient body. These bodies include RDCs as well as AHA, PHA and NRS.

2.3 The Department of Agriculture (department) deals primarily with levy collection agents who lodge the levy returns and remit funds to the department. The department therefore has limited contact with levy payers themselves.<sup>2</sup> The vast majority of levy payments are collected through intermediaries such as processors.

2.4 There are approximately 18,000 agricultural levy collection points across the country of which 9,000 are discrete levy collection points.<sup>3</sup> However, as R&D and marketing levies are captured at different points in agricultural production, the levy collection points vary considerably across the agricultural sector. Whereas there are only 15 collection points for the sugar levy, there are 2907 collection points for the wine levy and 5461 collection points for the horticulture levy.<sup>4</sup>

2.5 The department undertakes record inspections of levy collectors across the agricultural sector by way of regular audits undertaken on a random basis.<sup>5</sup> Mr Noel Robson, Director, Levies Section, Industry Support Branch, Finance and Business Support at the department explained the process:

When we carry out, for example, record inspections of levy agents to ensure they pay correctly, we follow all of the transactions for the period we have chosen back to the original levy payer records—that is, the source documents for the levy—to ensure that that levy payer has been advised of

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1 Department of Agriculture, Frequently asked questions, <http://www.agriculture.gov.au/ag-farm-food/levies/faqs> (accessed 7 April 2015).

2 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 2.

3 Mr Matthew Koval, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 6.

4 Department of Agriculture, *Submission 33*, p. 15.

5 Mr Matthew Ryan, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 6.

the levy collected and that there is a proper process to ensure that levy payer's levy has been passed on to the department. But we only deal with levy payers directly if they are also the person who has to lodge the return and make the payment.<sup>6</sup>

### **Departmental administrative charges and payment of levy collectors**

2.6 As the agency responsible for administering agricultural levies, the department retains a portion of the levy to meet its administration expenses. As a case in point, the dairy industry contributes approximately \$34.5 million in levies annually, of which the department's levy unit retains \$96,000 per annum to cover its administrative costs.<sup>7</sup>

2.7 The department explained that its costs are based on the effort required to administer the levy rather than on the amount of revenue collected.<sup>8</sup> It noted that the key driver of cost was the number of collection points. Other cost drivers include levy payer compliance, complexity of levy arrangements, frequency of returns, and uptake of electronic transactions.<sup>9</sup>

2.8 Cost recovery as a percentage of levies disbursed for each RDC varies considerably, therefore, from 0.1 per cent for SRA and CRDC to 7.7 per cent for FRDC.<sup>10</sup> Some industries expressed satisfaction with the cost-effectiveness of their levy collection systems. For example, the Australian Macadamia Society noted that it is in a fortunate position, in that levy collection costs and administration charges for the macadamia R&D and marketing levies, represents less than one per cent of the value of the levies collected.<sup>11</sup>

2.9 However, relatively high collection costs were highlighted by other industries. The wine industry raised concerns regarding the levy collection costs for the grape and wine levy. Mr Anthony Battaglione, General Manager of Strategy and International Affairs with the Winemakers' Federation of Australia (WFA) informed the committee that it pays over \$1 million a year in levy administration charges from levy revenue amounting to \$14 million.<sup>12</sup> The department noted that its cost recovery as a percentage of levy disbursed to that industry was 11 per cent.<sup>13</sup> While WFA

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6 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 2.

7 Dairy Australia, *Submission 124*, p. 8 and Mr Ross Joblin, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 29.

8 Department of Agriculture, *Submission 33*, pp 19–20.

9 Department of Agriculture, *Submission 33*, p. 20.

10 Department of Agriculture, *Submission 33*, p. 20.

11 Australian Macadamia Society, *Submission 139*, p. [3].

12 Mr Anthony Battaglione, Winemakers' Federation of Australia, *Committee Hansard*, 5 February 2015, p. 31.

13 Department of Agriculture, *Submission 33*, p. 21.

acknowledged that a process was underway to lower the cost of levy collection (which would permit a greater portion of levy funds to be directed into R&D investment), it argued that for major cost savings to be realised, a complete review of the levy structure and collection mechanism was required.<sup>14</sup>

2.10 Concerns in relation to levy collection costs were also raised by producers in the horticultural sector and specifically cherry, apple and pear and pineapple growers. Cherry Growers Australia (CGA) explained that when the department implemented a cost recovery model, the Australian cherry industry experienced a 450 per cent increase in collection fees. CGA indicated that in the 2011–12 financial year, collection fees amounted to \$21,779 – a figure which rose to \$102,262 in the 2012–13 season. Since then, the industry has lobbied to have levy collection costs reduced for its 336 collection points. With the collection fees for the 2014–15 season forecast at \$47,800, the industry is engaged in efforts to reduce this figure to approximately \$40,000.<sup>15</sup> CGA noted that a reduction should be achieved through the increased use of electronic platforms for levy declarations and payments. CGA has also raised with the department the possibility of having levies collected by one organisation.<sup>16</sup>

2.11 Apple and Pear Australia Ltd (APAL) also raised concern with the levy collection and administration costs in relation to the horticultural levy, noting that such costs for horticulture were comparatively high when compared with other agricultural commodities. According to APAL, 3.7 per cent of horticulture revenue was consumed in levy collection costs. It noted that, in comparison, the specific rate for apples of 1.73 per cent and pears at 2.88 per cent were considerably lower. Noting that the relatively higher costs of collection were related to factors such as the number of collection points, APAL proposed that HIAL negotiate with the department on ways to reduce these costs.<sup>17</sup> Similarly, pineapple grower, Mr Les Williams informed the committee that collection costs were a concern to pineapple producer levy payers.<sup>18</sup>

2.12 Another matter on which there is variation across agricultural industries concerns the payment of collection agents. In the nursery and garden industry, whereby up to 90 per cent of the levy is collected by one provider, levy collection agents are paid.<sup>19</sup> Such agents are paid at a rate of 2.5 per cent of levies collected while the department retains approximately 3 per cent for administering the levy.<sup>20</sup>

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14 Winemakers' Federation of Australia, *Submission 4*, p. 14.

15 Cherry Growers Australia Inc., *Submission 10*, p. 3.

16 Cherry Growers Australia Inc., *Submission 10*, p. 3.

17 Apple and Pear Australia, *Submission 95*, pp 5 and 16.

18 Mr Les Williams, *Submission 99*, p. [1].

19 Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 8.

20 Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 12.

2.13 For other industries, agents that collect agricultural levies are not paid. They can hold the levies and collect interest on them until they submit their levy returns to the department. The department noted that intermediaries have expressed concerns about the burden this responsibility places on them, particularly where the levies are complex, multiple levies have to be collected, and costs cannot be shifted back to producers or onto processors or those further along the supply chain.<sup>21</sup>

2.14 The Australian Chamber of Fruit and Vegetable Industries (Australian Chamber) also argued in favour of rationalising the levy collection and administration system. It raised concern that while businesses act as the first point of sale and collect levies, they are not reimbursed for the costs incurred. The Australian Chamber informed the committee that market wholesalers have continually argued that they should be paid for the work they perform, that the levies collection system should be made simpler or that levies should be collected in another way. Noting that approximately 15,000 growers supply central markets, the Australian Chamber concluded that the red tape burden on market wholesalers is significant, and it needs to be addressed.<sup>22</sup>

2.15 To add to the complexity, there are different collection systems in place for state-based levies. Remittance for the agents also varies from state to state. As the agents responsible for the collection of livestock levies, the Australian Livestock & Property Agents Association (ALPA) informed the committee that in one state, agents who collect the state-based levy are paid a handling fee. In another, however, agents are fined if they do not remit the levy on specified days as required.<sup>23</sup> Mr Andrew Madigan, CEO of ALPA continued:

For a mum and dad business, which a lot of stock and station agents are, there is a lot of time spent doing the levies and for no benefit to the agent. We have also had different people at times saying, 'Yes, but you get to keep the money so you get the interest on the money.' Our reply is, 'If it is that good, you collect it.' So there is a little bit of work to be done on it.<sup>24</sup>

2.16 Evidence suggested that the levy collection system was made even more complex when producers pay more than one levy, operate as producers and serve as the collection agent. Moraitis Group noted in regard to the Australian potato levy that it could, at any one time, serve as the producer, intermediary agent, exporter, retailer and processor in relation to the levy. It argued that:

The financial administration time required to reconcile levies on each transaction for each quarter and the requirement to then input these

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21 Department of Agriculture, *Submission 33*, p. 19.

22 Australian Chamber of Fruit and Vegetable Industries, *Submission 110*, p. 1.

23 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 28.

24 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 27.

transactions into the Levy Revenue Service's online submission system, DAFF "Levies", is both onerous, time consuming and requiring of significant manpower resource to input.<sup>25</sup>

2.17 Moraitis Group argued in favour of streamlining departmental deductions, reconciliations and payments to facilitate a one-touch levy appropriation mechanism that could be applied across horticultural products. It favoured administration of such a mechanism through the Australian Taxation Office (ATO) as a government appropriation authority.<sup>26</sup>

2.18 Another concern raised in relation to the collection of agricultural levies related to the situation whereby collection agents have gone into liquidation. Nursery & Garden Industry Australia (NGIA) raised concerns that on two separate occasions, collection agents had not paid the levy to the department, having gone into liquidation. The industry, through NGIA, was required to pay the department the outstanding \$500,000 on the grounds that it is the responsible body to the involved levy payers.<sup>27</sup> ALPA informed the committee that a similar incident occurred in the livestock sector whereby a collection agent failed to transfer collected levies to the department and then went into liquidation.<sup>28</sup>

### **Identification of levy payers and a levy payer database**

2.19 The department does not have records for all levy paying producers across the agricultural industry. For most industries, the department liaises with levy agents who remit to it a lump sum in levies payments. The department's levy unit will then disperse the funds to the respective RDC, AHA, PHA and the NRS, less the costs of administering the levy.<sup>29</sup> As noted previously, during this process, the department does not ordinarily come into contact with levy payers themselves.

2.20 Where the department has direct contact with producers in industries such as the turf industry, where there is no other point in the market chain to obtain levy returns, it knows who the levy payers are. It does not, however, systematically collect information directly from these levy payers beyond the provision of the returns by producers.<sup>30</sup> Furthermore, for the substantial majority of levy payers across

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25 Moraitis Group, *Submission 108*, p. 4.

26 Moraitis Group, *Submission 108*, p. 4.

27 Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 9.

28 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 31.

29 Department of Agriculture, Collection and Administration of Levies and Charges, [http://www.agriculture.gov.au/ag-farm-food/levies/publications/levies\\_explained](http://www.agriculture.gov.au/ag-farm-food/levies/publications/levies_explained) (accessed 7 April 2015).

30 Department of Agriculture, *Submission 33*, p. 17.

agricultural commodities, the department cannot identify who pays the levies.<sup>31</sup> Mr Robson explained the department's role:

Our legislation allows us to require information to be provided by a person in relation to our work to collect levies, and it is a compulsory provision of that information. However, the legislation prescribes that it is only in relation to our work in administering the levies. Every time we do that, the intermediaries have an additional cost in providing that information, and one of the concerns is the reg cost.<sup>32</sup>

2.21 When a levy agent or intermediary deducts the levy from the proceeds of sale or recovers the levy from the producer, they must provide the producer with a receipt or written statement acknowledging the payment of the levy.<sup>33</sup> Under respective levy legislation, levy collectors are required to keep records of all levy payers they collect the levy from. The collection agents are required to provide these records to departmental officials during record inspections. The focus of the inspection is to ensure that the levy is collected correctly and remitted accordingly.<sup>34</sup>

2.22 While the levy collection agents have their own lists of levy payers, such lists cannot serve as a point of comparison as no other list is retained by the department, RDC or representative industry body. It is at the collection point, therefore, where information regarding levy payers is diluted.<sup>35</sup> Some RDCs and representative bodies have databases of their own levy payer, producer members. However, respective membership does not comprise 100 per cent of all levy payers for each industry and there remains no comprehensive, valid record available of all agriculture levy payers.<sup>36</sup>

2.23 In the few industries where levy payers are documented, some are very small industries. Levy payers of the agaricus mushroom levy are known to the respective grower representative organisation, the Australian Mushroom Growers' Association (AMGA). There are 57 growers who pay the levy and AMGA matched its membership data with the growers, having directly contacted each levy payer to put the numbers together.<sup>37</sup> In other industries where the levy payers are known, such as the chicken meat industry, levy payers also serve as the levy collection points.<sup>38</sup>

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31 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 3.

32 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 11.

33 Department of Agriculture, *Submission 33*, p. 14.

34 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 6.

35 Mr Selwyn Snell, Council of Rural Research and Development Corporations, *Committee Hansard*, 28 November 2014, p. 17.

36 Mr Richard Mulcahy, AUSVEG, *Committee Hansard*, 4 February 2015, p. 2.

37 Mr Gregory Seymour, Australian Mushroom Growers' Association, *Committee Hansard*, 3 February 2015, pp 42–43.

38 This is the case with regard to the chicken meat industry whereby the levy payers are the 12 hatcheries. Australian Chicken Meat Federation, *Submission 139*, p. 3.

2.24 In other instances, such as the nursery and garden industry, a confidential letter of agreement exists between the prescribed body and levy collectors whereby the latter provides the names and addresses of those who pay the levy.<sup>39</sup> This arrangement is made simpler for the nursery and garden industry as one provider collects up to 90 per cent of the levy.<sup>40</sup> Similarly, grain-fed cattle producer levy payers are known to their prescribed peak industry body through an approval from AUS-MEAT, which provides access to National Feedlot Accreditation Scheme information and enables ALFA to contact levy payers under certain circumstances.<sup>41</sup> Dairy farmer levy payers are known to Dairy Australia Ltd (DA) because it has an agreement with the department's levies unit whereby it is provided the list of levy payers and their levy contributions.<sup>42</sup>

2.25 The department explained that the only true visibility that it has in relation to levy payers is of producers engaged in the wool and dairy industries. The legislative framework for those two industries allows the department to collect levy payer information, including the levies paid, from the intermediaries and to pass it on to the respective RDC in order to conduct a poll. Specifically, subsection 27(3) of the *Primary Industries Levies and Charges Collection Act 1991* (PILCC Act) states that an authorised person (who is appointed by the secretary of the department to serve as a collection authority) may provide to an eligible recipient the following:

- the name, address and ABN of any person who has paid, or is liable to pay, the wool levy; and
- details relating to the amount of the wool or dairy levy that the person has paid, or is liable to pay.

2.26 Under this provision, the names and details of the 55,964 woolgrower levy payers are provided to Link Market Services (LMS). LMS collects their details from the department which collected and collated that information (from wool brokers who collect the levy). The department provides that information to LMS which is a corporate share registry company.<sup>43</sup> Mr Stuart McCullough, Chief Executive Officer (CEO) of Australia Wool Innovation (AWI) explained the role of LMS:

Their contribution is important because the data is collated, and certainly in terms of voter entitlement they are the group that we ask to go out and calculate the voter entitlement per eligible levy payer in the case of

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39 Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 8.

40 Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 8.

41 Mr Dougal Gordon, Australian Lot Feeders' Association, *Committee Hansard*, 3 February 2015, p. 74.

42 Mr Ian Halliday, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 31.

43 Mr Stuart McCullough, Australian Wool Innovation, *Committee Hansard*, 5 February 2015, p. 20.

WoolPoll, and per shareholder in the case of an AGM. They oversee the process of that information coming back and adjusting those entitlements if they are ever questioned.<sup>44</sup>

2.27 Similarly, subsection 27(3A) of the Collection Act provides that an authorised person may provide the same details regarding dairy levy payers to the industry services body. Once a year, dairy processors as the intermediaries for the industry provide a return of information about all the producers that they have collected the levy from for that year. The department then passes that information on to DA.<sup>45</sup>

2.28 The department informed the committee that in terms of the costs for the respective wool and dairy databases, the costs involved vary from one year to another. However, management of the wool database requires one full-time equivalent (FTE) officer. The dairy database requires less than 0.1 per cent of a FTE because the department do not do the data management reconciliation but rather pass on the information to DA.<sup>46</sup>

2.29 However, there is no list or database of levy payers in the pork, sugar, grain, egg and cotton industries, to name a few.<sup>47</sup> Yet, the need to identify levy payers by way of establishing an electronic database (to facilitate industry feedback and increase accountability to levy payers) was recognised in a number of reviews and reports.<sup>48</sup> It was also raised as an issue by submitters to this inquiry, of whom some argued that such a database was the fundamental starting point on which to build effective levy structures.<sup>49</sup>

2.30 Noting that identifying the levy payers is the foundation on which accountability in the levy system should be built, the NSW Farmers' Association (NSW Farmers) recommended that all RDC's develop mechanisms that identify levy payers and allocates to them rights applicable to that RDC.<sup>50</sup> Similarly, the National

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44 Mr Stuart McCullough, Australian Wool Innovation, *Committee Hansard*, 5 February 2015, p. 21.

45 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 10.

46 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 15 May 2015, p. 33.

47 Mr Aeger Kingma, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 30; Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 42; Mr James Kellaway, Australian Egg Corporation, *Committee Hansard*, 3 February 2015, p. 23 and Mr Adam Kay, Cotton Australia, *Committee Hansard*, 3 February 2015, p. 46.

48 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 6.

49 Mr John Dunn, NSW Farmers' Association, *Committee Hansard*, 3 February 2015, p. 68; Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 11; National Farmers' Federation, *Submission 143*, p. 28 and Raspberries and Blackberries Australia Inc, *Submission 70*, p. 5.

50 NSW Farmers' Association, *Submission 140*, p. 4.

Farmers' Federation (NFF) made the point that the development of a levy payer database could underpin a range of producer engagement strategies, particularly with the aim of improving accountability to levy payers in the investment of their levy contribution.<sup>51</sup> NSW Farmers noted, however, that any levy payer identification system should be appropriate for the commodity the levy is paid upon.<sup>52</sup>

2.31 ALPA is required under the *Primary Industries (Excise) Levies Act 1999* to serve as the levy collector for the livestock industry.<sup>53</sup> ALPA's CEO, Mr Andrew Madigan informed the committee that with a little 'jiggling of computer systems', it would not be hard to report the names of levy payers and how much they pay in levies.<sup>54</sup> He further noted that it would be straightforward to establish a computerised database of levy payers in relation to the livestock industry:

It can be done, because the accounting system has to work out how much it is going to take from your account sales based on the number of head—so that sits into that journal of account. We sell 500 cattle on the day, and there is the money there. We know exactly where it came from. It is the same as collecting the money from you as a vendor and paying the council for how many dollars a head they want for the weighing fee, the yard dues or whatever it is.<sup>55</sup>

2.32 Some witnesses argued that leakage remained a sizeable problem, and that a levy payer database may assist in addressing leakage. According to the Australian Chamber, with the stated value of horticulture production at \$9 billion and levy receipts amounting to \$41 million (or less than 0.5 per cent of this total figure), the estimated level of levy leakage in the horticultural industry could be between 20 to 30 per cent.<sup>56</sup>

2.33 Under its PigPass system, Australian Pork Limited (APL) is able to contact every pig producer (for purposes such as disease traceability) but not necessarily every levy payer.<sup>57</sup> Under the current arrangements, it has no way of knowing whether some small and backyard operators are paying the levy or not. At the same time, it does not know whether smaller producers such as hobby farmers are on its PigPass system.<sup>58</sup>

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51 National Farmers' Federation, *Submission 143*, p. 28.

52 NSW Farmers' Association, *Submission 140*, p. 4.

53 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 30.

54 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 28.

55 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 28.

56 Australian Chamber of Fruit and Vegetable Industries Ltd, *Submission 110*, p. [1].

57 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 31.

58 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 31.

### ***Challenges in establishing a levy payer database***

2.34 While the need to establish a database of levy payers was recognised across most industries, the challenges in establishing such a system were also articulated.

2.35 Challenges include the reality that in some industries, such as that of rubus (cane berries including raspberries, blackberries and boysenberries), growers can be in the industry one day and out of it the next.<sup>59</sup> This is a particular challenge in the horticultural sector where HIAL is required to establish a register of horticulture levy payer members by November 2015.<sup>60</sup> The register is expected to provide information regarding a levy payer's ABN number, crop grown, levy history, name, address and property.<sup>61</sup> While there are between 25,000 to 35,000 horticulture producers in Australia, HIAL has so far registered 1000 voting members and has set itself a target of registering 3000 voting members by the end of the year.<sup>62</sup>

2.36 Another challenge raised in regard to identifying levy payers and the involved costs was exemplified in relation to the beef industry. Australian Bureau of Statistics (ABS) statistics reveal that there are 81,000 beef farms or operations in Australia, of which 34,000 or (42 per cent) have a value of output which is less than \$50,000, (amounting to less than 50 steers). Mr Michael Keogh, Executive Director of the Australian Farm Institute (AFI) explained that these farmers are effectively part-time operators as they are running small numbers of cattle. The ramifications for the establishment of a database were that:

...the effort of contacting all of those when they probably account, by estimate, for about four per cent of total levies paid, is quite a difficult challenge.<sup>63</sup>

2.37 Mr Keogh noted that a similar situation applied in horticulture whereby 45 per cent of horticulture producers have less than \$50,000 worth of output a year. He explained that about half of these producers probably contribute about five per cent of total levies paid.<sup>64</sup> At the other end of the spectrum, the top four or five per cent of producers would produce nearly a third of the total levies paid.<sup>65</sup> The long tail effect of this and other industries also brought to the fore the question of representation with

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59 Mr Jonathon Eccles, Raspberries and Blackberries Australia, *Committee Hansard*, 3 February 2015, p. 51.

60 Mr Selwyn Snell, Horticulture Innovation Australia Ltd, *Committee Hansard*, 4 February 2015, p. 46.

61 Mr Selwyn Snell, Horticulture Innovation Australia Ltd, *Committee Hansard*, 4 February 2015, p. 47.

62 Mr John Lloyd, Horticulture Innovation Australia Ltd, *Committee Hansard*, 15 May 2015, pp 16–17.

63 Mr Michael Keogh, Australian Farm Institute, *Committee Hansard*, 5 February 2015, p. 26.

64 Mr Michael Keogh, Australian Farm Institute, *Committee Hansard*, 5 February 2015, p. 26.

65 Mr Michael Keogh, Australian Farm Institute, *Committee Hansard*, 5 February 2015, p. 26.

some submitters arguing in favour of proportionate representation in regard to levy matters.

2.38 Notwithstanding these challenges, the committee recognised that without a comprehensive register of levy payers, it would remain unclear as to the extent to which producers (whether smaller or larger) are engaged in levy investment decision making processes. Further, the consolidation of many such industries simply exemplified the need for a cost-effective data collection method which utilises existing information at the point of levy collection.

2.39 The committee was informed that in the past, the industry considered a mechanism to identify all levy payers but found that the involved costs were too prohibitive. A number of bodies are currently investigating methods to cost-effectively generate such a list, taking into account privacy and other considerations. One such option is for levy collection agents, at least as a first step, to provide their lists of levy payers. This initiative would impose a cost burden on each collection agent but which would ultimately be passed on.<sup>66</sup> However, it would not place further onus on levy payers to register.

2.40 The Council of Rural Research and Development Corporations (CRRDC) noted that most RDCs had raised concerns regarding the difficulties in obtaining levy payers' details. Mr Selwyn Snell, Chairman of CRRDC noted in this regard that a mandatory system of property identification could be considered which would also serve biosecurity control and traceability purposes.<sup>67</sup> Mr Tim Lester, CRRDC Operations Manager highlighted that as service providers accountable to levy payers, the provision of levy payers' lists to RDCs would bolster their accountability requirements.<sup>68</sup>

2.41 HIAL noted that, not only would government assistance be required to develop a database of all levy payers, but that ultimately, registration should be mandatory.<sup>69</sup> Similarly, AFI held the view that without a compulsory registration or mandatory system, participation in a levy payer register would reflect the modest levels of levy payer participation in levy decision making processes including polls, surveys and Annual General Meetings (AGMs).<sup>70</sup>

2.42 Sugar Research Australia (SRA) noted that restrictions under the *Privacy Act 1988* prevented it from directly accessing levy payer details from the milling

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66 Mr Matthew Ryan, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 7.

67 Mr Selwyn Snell, Council of Rural Research and Development Corporations, *Committee Hansard*, 28 November 2014, p. 16.

68 Mr Tim Lester, Council of Rural Research and Development Corporations, *Committee Hansard*, 28 November 2014, p. 16.

69 Mr Selwyn Snell, Horticulture Innovation Australia Ltd, *Committee Hansard*, 4 February 2015, p. 49.

70 Mr Michael Keogh, Australian Farm Institute, *Committee Hansard*, 5 February 2015, p. 27.

companies. SRA's inability to identify sugar levy payers and the amount of sugarcane produced or processed by levy payers was problematic when it came to undertaking a sugar poll in 2012. At that time, SRA could only identify those levy payers who registered for membership of SRA. The lack of direct access to levy payers was noted as a significant issue for SRA, particularly, its ability to:

- effectively consult with all levy payers on the appropriate investment of their levy payments;
- identify levy payers for voting in sugar polls; and
- identify new and current levy payers for issuing Plant Breeder's Rights Licences.<sup>71</sup>

2.43 Another challenge in relation to developing and maintaining a list of levy payers relates to the method by which the levy is collected. GRDC noted that the grain levy is collected at the first point of sale from the buyer, not the seller. While it is deducted from the seller, it is actually collected by the buyer.<sup>72</sup>

2.44 Another consideration is the reality that many levies are collected by state governments for various purposes. Levies vary in value and remittance times from state to state and in relation to the way they are calculated. While some are calculated as a percentage of the value, others are on a per head value basis with some on a sliding scale associated with the value.

2.45 ALPA voiced its support for a mechanism to identify levy payers which incorporated all levies paid both on a state and federal basis in order to ascertain a true picture of how many livestock are sold.<sup>73</sup> It argued in favour of a register of all levies paid which would include information such as vendor identification, number of livestock sold, type of livestock sold and the amount of levy paid. In relation to the livestock sector, ALPA stated that:

This information is presently required to calculate and deduct levies, but is not reported. This valuable statistical information will aid with MLA voting rights amongst other beneficial possibilities for the entire livestock industry.<sup>74</sup>

2.46 Notwithstanding the various challenges to establishing meaningful lists of levy payers, many submitters to the inquiry supported efforts to establish and maintain such lists.<sup>75</sup> NGIA argued that if levies are a tax then it should be lodged with the GST

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71 Sugar Research Australia, *Submission 15*, p. 16.

72 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 42.

73 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 27.

74 Australian Livestock & Property Agents Association, *Submission 11*, p. 4.

75 Mr Selwyn Snell, Council of Rural Research and Development Corporations, *Committee Hansard*, 28 November 2014, p. 19 and United Stockowners of Australia, *Submission 118*, p. 2.

return.<sup>76</sup> Another view was that lodgement of levies should be attached to business activity statement returns, which would also mean compliance through the ATO.<sup>77</sup>

2.47 In terms of responsibility, some submitters argued that it was the role of the department to identify levy payers. Mr Robert Prince, CEO of NGIA made the point that as the secretary of the department assigns the responsibility to levy agents to collect the levy, that responsibility should also include keeping all relevant details including: who pays the levy, where they are from and the value of the levy that is collected.<sup>78</sup> Similarly, ALPA argued that a levy payer register should be maintained by the department's levies unit and that a nationally-based register include vendor identification, number of livestock sold, type of livestock sold and amount of levy paid for each levy payer. It noted that all this information is 'presently required to calculate and deduct levies, but is not reported'.<sup>79</sup> United Stockowners of Australia made the following observation:

The 'Levies Collection Unit' assumes an administrative role similar to that of the Australian Taxation Office (ATO) in the collection of taxation revenue. Given that the ATO use an identification number – Tax File Number (TFN) – to identify and record individual(s) and business(es) in relation to their activities and obligations under the Tax Act it is therefore inconceivable that the 'Levies Collection Unit' has no such mechanism or process in place that would achieve the same outcome as the ATO. This apparent and discernible system flaw, we would argue, is in urgent need of correction.<sup>80</sup>

2.48 The need for a levy payer database was identified across many industries not only as a fundamental mechanism to provide for accountability, but also to assist in establishing membership and voting rights of relevant RDCs. The latter is further considered in the following chapter.

## Levy rates and arrangements

2.49 While many levies are set at a percentage of farm gate value, others are flat dollar rates. While some are based on weight, a few are calculated on the basis of

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76 Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 12.

77 Mr Richard Mulcahy, AUSVEG, *Committee Hansard*, 4 February 2015, p. 2; J Toohey and Associates Pty Ltd, *Submission 105*, p. 6 and Australian Chamber of Fruit and Vegetable Industries, *Submission 110*, p. 2.

78 Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 9.

79 Australian Livestock & Property Agents Association, *Submission 11*, pp 4–5.

80 United Stockowners of Australia, *Submission 119*, p. 2.

boxes or cartons, runners and square centimetres.<sup>81</sup> The way in which agricultural levies are applied, therefore, varies across commodities as indicated below:

- the pork levy is calculated at \$3.125 per head;<sup>82</sup>
- the coarse grain levy is calculated as a percentage of farm gate value;<sup>83</sup>
- the stone fruits levy is calculated at 1 cent per kilo;<sup>84</sup>
- the mushroom levy is set at \$4.32 per kilogram of mushroom spawn;<sup>85</sup>
- the cotton levy is calculated at \$2.25 per 227-kilogram bale;<sup>86</sup>
- the turf levy is applied on square metres of turf;<sup>87</sup>
- the sugar levy is applied on tonnage (70 cents per tonne) with both grower and milling businesses each contributing 35 cents per tonne of cane;<sup>88</sup> and
- the cattle levy is paid on a per head basis while the sheep levy is paid on a percentage basis.<sup>89</sup>

2.50 ALPA informed the committee that as levy agents for the livestock industry, the fact that there are different collection methods across livestock make the current system expensive, cumbersome and at times, frustrating.<sup>90</sup> Mr Andrew Madigan, CEO of ALPA, noted that in addition to the cattle levy being calculated on a per-head basis and sheep on a percentage basis, state levies also vary. While some state-based levies

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81 ACIL Allen Consulting, *Better Value for Growers – A future for HAL: Independent Review of HAL and Horticulture Levy System*, May 2014, 84.

82 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 31 and Australian Pork Limited, About, <http://australianpork.com.au/about-us/australian-pork-limited/> (accessed 7 April 2015).

83 Department of Agriculture, Leviable Commodities, <http://www.agriculture.gov.au/ag-farm-food/levies/categories/> (accessed 7 April 2015).

84 Mr John Moore, Summerfruit Australia, *Committee Hansard*, 4 February 2015, p. 60.

85 Mr Gregory Seymour, Australian Mushroom Growers Association, *Committee Hansard*, 3 February 2015, p. 34.

86 Department of Agriculture, Leviable Commodities, <http://www.agriculture.gov.au/ag-farm-food/levies/categories/> (accessed 7 April 2015) and Mr Adam Kay, Cotton Australia, *Committee Hansard*, 3 February 2015, p. 46.

87 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 8.

88 Sugar Research Australia, Statutory levy, [http://www.sugarresearch.com.au/page/About\\_SRA/Statutory\\_levy/](http://www.sugarresearch.com.au/page/About_SRA/Statutory_levy/) (accessed 9 April 2015).

89 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 27.

90 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 27.

are calculated on a percentage basis and some on a per-head basis, others are calculated on a certain amount of value basis.<sup>91</sup>

2.51 Mr Madigan held the view that a review into levies collection needs to take place across the livestock sector. He suggested a system whereby the states and federal agencies establish one levy, which is transmitted to a central agency from which the states can obtain their portion. To make his point regarding the complexity of the current arrangements, Mr Madigan informed the committee that:

If sheep or cattle are sold out of Victoria or New South Wales there is no levy to be paid in New South Wales. But if someone from New South Wales sells sheep in Victoria they have to pay the Victorian levy for no benefit to them, so they can claim it back. It is just a red-tape disaster.<sup>92</sup>

2.52 APAL argued that the high cost burden imposed upon the horticultural sector in terms of substantial levy collection costs reflected the complexity of the horticulture levy system whereby there are at least 40 different bases or rates used in relation to each of the 50 horticultural levies varying from a cents per kilogram method, to per square meter to an *ad valorem* rate.<sup>93</sup> The ACIL Allen review of Horticulture Australia Ltd (HAL) also highlighted the complex levy arrangements in the horticulture industry resulting from levies applied to nine different units (including cents/kg, \$/tonne, cents/box, *ad valorem*) and in excess of 40 different active rates being applied. The ACIL Allen review further noted that the complexities were in part a function of the number of peak industry body/HAL members making decisions about the levies and the administrative process by which levies were conceived, implemented and collected.<sup>94</sup>

2.53 Evidence to the committee suggested that the complexity in levy rates and arrangements, particularly where state and federal levies are paid, led to confusion on the part of growers regarding levies paid. According to WA Grains Group, some farmers are not receiving statements of their levies to reconcile what they have paid and recorded, and complex arrangements had led to concerns regarding overcharging. Mr Douglas Clarke, Chairman of WA Grains Group, suggested that the overcharge had arisen because farm gate prices were not taken into account by the traders when determining levy charges.<sup>95</sup> Mr Duncan Young, President of the WA Farmers Grain

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91 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 27.

92 Mr Andrew Madigan, Australian Livestock & Property Agents Association, *Committee Hansard*, 3 February 2015, p. 27.

93 Apple and Pear Australia Ltd, *Submission 95*, p. 17. *Ad valorem* is a method for charging a duty, fee or tax according to the value of goods and services instead of by a fixed rate, or by weight or quantity.

94 ACIL Allen Consulting, *Better Value for Growers – A future for HAL: Independent Review of HAL and Horticulture Levy System*, May 2014, p. 50.

95 Mr Douglas Clarke, WA Grains Group, *Committee Hansard*, 20 February 2015, p. 2.

Council within the WA Farmers Federation, made the point that the complexities of the system should be addressed by way of identifying the simplest way to predetermine where the farm gate price is.<sup>96</sup>

2.54 NSW Farmers noted that ACIL Allen's review of HAL had recognised the benefits of moving some commodities which attract the horticulture levy to an *ad valorem* rate, on the grounds of reduced collection costs through simpler administration processes. NSW Farmers further argued that application of the *ad valorem* rate would also provide an automatic stabiliser, whereby the rate of levy contributions – and therefore levy revenue – was maintained, given that prices fluctuate in relation to production. However, evidence to the committee was divided on the efficiency of an *ad valorem* rate with submitters such as the NGIA suggesting that the application of such a rate for the nursery industry would result in a significant increase in collection costs from the current three to four per cent to that of 40 per cent.<sup>97</sup>

2.55 NSW Farmers maintained that further consultation with relevant peak industry bodies should be undertaken before any amendments to specific horticultural levies were considered. Similarly, APAL raised several concerns, including the need for industry consensus for such reform. It also cautioned that a move to an *ad valorem* rate for horticultural levies may disadvantage some industries within the sector and fail to reduce levy collection costs.<sup>98</sup>

2.56 Another issue raised in evidence was the confusion regarding levy application in the red meat sector. ALFA argued that amendment of the *Primary Industries (Excise Levies) Act 1999* was required to provide greater clarity in relation to the payment of grain-fed cattle transaction levies. The association described the current arrangements as 'ambiguous, confusing, inconsistent with industry practice and inequitable'. ALFA also told the committee that the matter had been raised with the department, which had acknowledged the flaws in the current statute.<sup>99</sup>

2.57 The point was also made that the diverse systems and means by which levies are paid have implications for the capacity of industries to undertake levy payer identification. NSW Farmers argued that this reality made it more important that all RDCs develop levy payer identification mechanisms 'with a preference for the automated recognition and grading of applicable rights from the point of levy payment'.<sup>100</sup> The establishment of such a mechanism could provide the opportunity to

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96 Mr Duncan Young, WA Farmers Federation, *Committee Hansard*, 20 February 2015, p. 58.

97 Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 10.

98 NSW Farmers' Association, *Submission 140*, p. 7; Apple and Pear Australia Ltd, *Submission 95*, pp 17–18.

99 Australian Lot Feeders' Association, *Submission 29*, p. 8.

100 NSW Farmers' Association, *Submission 140*, p. 24.

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review levy collection with a view to streamlining the process and reducing duplication, particularly in relation to state-based levies.

### **Approval and modification of levies**

2.58 The government assesses all proposals to increase a levy against the same principles applicable to a new levy.<sup>101</sup> The Levy Principles and Guidelines require industry bodies to demonstrate that a proposed levy addresses a market failure and is equitable, efficient and supported by the industry involved. Principle 2 concerns the introduction of a new levy while Principle 12 details the process to amend an existing levy.

2.59 Beyond meeting the principles laid out in the guidelines, the manner in which an industry works together to agree on the need for a levy or a change to an existing one is a matter for each industry. In some industries including the cattle, sheep and goat industries (and others operating under an industry-owned RDC structure) levies can only be imposed or changed under legislation at the request of industry, with a significant majority of producer votes in favour of change, and approval by the minister.<sup>102</sup>

2.60 Under SRA's constitution, levy changes require a majority positive vote obtained through a formal Sugar Poll. Under its system, a poll is conducted when the SRA board and/or member delegates recommend a change to the sugarcane levy on the basis of an independence performance review.<sup>103</sup> The first such poll was undertaken in August 2012 to form SRA and fund it by way of a single statutory sugarcane levy. The wool and dairy industries also utilise a poll as the means to approve and re-approve respective levies.

2.61 One of the key roles of the representative bodies such as the prescribed industry body (PIB) in relation to agricultural levies is that they make recommendations regarding levy rates to levy payers in advance of levy payer ballots. It was emphasised in evidence to the committee that this role cannot be undertaken by RDCs as there would be a considerable conflict of interest if RDCs were required to make recommendations about their own future revenue to levy payers.<sup>104</sup>

2.62 While all industries must meet the requirements under the levy guidelines, levy changes are a matter for each industry. Therefore, there is no consistently applied means of engaging levy payers across agricultural commodities in the approval or re-approval of levies.<sup>105</sup> Similarly, while the responsibility for improving efficiency of

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101 Department of Agriculture Levies Revenue Service, *Levy Principles and Guidelines*, January 2009, p. 11.

102 Meat and Livestock Australia, *Submission 116*, p. 7.

103 Sugar Research Australia, *Submission 15*, p. 15.

104 Australian Farm Institute, *Submission 129*, p. 25.

105 NSW Farmers' Association, *Submission 140*, p. 13.

the levy system rests with the prescribed industry bodies and the Australian Government, there is no regular mechanism to review levies individually or as a whole.<sup>106</sup> The opportunities for levy payers to engage in these various mechanisms are considered further in the following chapter, in the context of accountability to levy payers.

### ***Demonstrating industry support***

2.63 Under the levy guidelines, industries must demonstrate that there is producer support for a new or modified levy. An industry must prove that it engaged in consultation with as many potential or existing levy payers and intermediaries involved in the collection of the levy as possible.<sup>107</sup> For a levy proposal to be considered by government, industry must show that there is majority support from actual and/or potential levy payers. Further, Principle 5 requires the initiator of the proposal to demonstrate that there is majority agreement on the levy imposition/collection mechanism or that despite objections, the proposed mechanism is equitable.

2.64 In regard to demonstrating industry support, the guidelines that that:

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.<sup>108</sup>

2.65 In terms of industry support, the primary factor is whether more than 50 per cent of levy payers vote in favour of a levy or levy change. When asked how this was possible for industries that did not know who their levy payers were, Mr Peter Otterson, Assistant Secretary at the department explained:

They have to be able to demonstrate that they have been out there to identify potential levy payers and they can prove to us, through the evidence they provide, that they know what the population is, that they have

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106 ACIL Allen Consulting, *Better Value for Growers – A future for HAL: Independent Review of HAL and Horticulture Levy System*, May 2014, 25.

107 Department of Agriculture, *Submission 28*, p. 6.

108 Department of Agriculture Levies Revenue Service, *Levy Principles and Guidelines*, January 2009, p. 6.

contacted those people, that they have consulted with them and have had the opportunity to have a say, that an independent voting process has been undertaken and that the numbers they put forward demonstrate support. The question about this is: how much more than 50 per cent is important? That is always the question.<sup>109</sup>

2.66 Mr Otterson continued that while the 50 per cent related in the first instance to enterprise, other matters that would be taken into consideration included the amount of production represented by that 50 per cent of producers.<sup>110</sup>

2.67 The levy guidelines state, however, that where an industry elects to conduct a ballot for a new levy or levy amendment, voting allocation can be based on either one vote per producer (business entity system) or that votes can be allocated based on the amount of levy paid (or payable). It is for an industry body to determine the type of voting most appropriate to its industry. The guidelines further note that:

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.<sup>111</sup>

2.68 The consultation process itself can be a complex one given the many stakeholders that may be involved in the development and imposition of a levy. An industry may have one or multiple peak industry councils. There may be one or several recipient bodies for the levy. The producers of the product subject to the levy can be widely disbursed and there may be a range of intermediaries responsible to collect the levy.<sup>112</sup>

2.69 Determining adequate industry support and how it is measured was a reoccurring theme throughout the inquiry. It was exemplified in the mango industry. At the 2011 poll to determine whether to increase the mango levy, questions were

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109 Mr Peter Otterson, Department of Agriculture, *Committee Hansard*, 15 May 2015, p. 34.

110 Mr Peter Otterson, Department of Agriculture, *Committee Hansard*, 15 May 2015, p. 34.

111 Department of Agriculture Levies Revenue Service, *Levy Principles and Guidelines*, January 2009, p. 12.

112 Department of Agriculture, *Submission 28*, p. 6.

raised in relation to the voting weightage. This was highlighted in relation to the Emergency Plant Pest Response (EPPR) component of the mango levy:

For the EPPR component of the levy/charge, of the 135 mango grower enterprises which voted, 74 were in favour, and 61 were opposed. On a production-weighted basis (capped at 20 votes per enterprise) out of the total 380 votes, 285 were in favour and 95 were opposed to the change to the EPPR component of the levy/charge.

There was a low rate of participation in the ballot of 17.0 per cent (135 valid grower votes versus an estimated 793 eligible voters).<sup>113</sup>

### ***Industry poll***

2.70 The levy guidelines state that 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 of the industry support the proposal.<sup>114</sup> Further, Principle 11 states that a review of levies should be conducted after a specified period of time 'in the manner determined by the Government and the industry when the levy was first imposed'.<sup>115</sup>

2.71 The PC noted that the department had strongly encouraged industry representative bodies to use electoral commissions and to conduct producer polls in order to demonstrate support for a proposed new levy or a changed levy rate.<sup>116</sup> However, only two industries are currently required to conduct a regular review by way of a poll on levy rates – the wool industry must engage in a wool poll every three years, while the dairy industry must review the dairy services levy every five years. Both industries are required to provide three to five options with regard to the future rate of the levy, one of which must be the capacity to approve a zero levy.<sup>117</sup>

2.72 Some submitters supported the introduction of a poll to introduce or modify a levy. NSW Farmers argued that as levies take the 'form of a tax that has been voluntarily consented to by a majority of the industry', producers impacted by the imposition of a new or amended levy should have to demonstrate support for or against the levy by way of a poll.<sup>118</sup> Notwithstanding this position, it also clarified that

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113 Department of Agriculture, Answer to Questions on Notice take at Budget Estimates May 2014, Senate Rural and Regional Affairs and Transport Legislation Committee, Question 13.

114 Department of Agriculture Levies Revenue Service, *Levy Principles and Guidelines*, January 2009, p. 6.

115 Department of Agriculture Levies Revenue Service, *Levy Principles and Guidelines*, January 2009, p. 3.

116 Productivity Commission, Rural Research and Development Corporations, Inquiry Report, No. 52, 10 February 2011, p. 261.

117 Section 32, *Wool Services Privatisation Act 2000* and Wool Services Privatisation (Wool Levy Poll) Regulations 2003 and section 9, *Dairy Produce Act 1986* (and Dairy Produce (Dairy Service Levy Poll) Regulations 2006.

118 NSW Farmers' Association, *Submission 140*, p. 13.

a balance should be struck to ensure that the review processes associated with levy rates remain an effective use of levy funds.<sup>119</sup>

2.73 The point was made that, without a comprehensive list of levy payers, there was considerable risk of such a process being discredited and of the industry involved being brought into disrepute.<sup>120</sup> This threat applies to both industries which engage in a poll as well as those for which a poll is prohibitively expensive and must, therefore, demonstrate majority industry support in other ways. Evidence suggested that, either way, the starting point to strengthen any such process and thereby alleviate the risk of it being discredited, was that of the establishment of a grower or producer database. The provision of such a database would enable industry bodies to actually understand who and where levy payers are.<sup>121</sup>

2.74 According to Australian Pork Limited (APL), employing the Australian Electoral Commission (AEC) to conduct the poll was the most expensive aspect of the process aside from the related costs of advertising, mail outs and campaigning.<sup>122</sup> AMGA highlighted that polls amount to the diversion of valuable levy funds from more useful investment which was outside the financial capacity of all but the largest industries.<sup>123</sup> Furthermore, on top of the expenses in running a poll, evidence to the committee indicated that preparing a levy proposal is time consuming. The PC noted that on average, it takes industries around twelve months to put together a proposal for a new or changed levy that complies with the Levy Principles.<sup>124</sup>

2.75 WoolPoll costs \$718,000 a year in actual project costs. The cost to AWI totals \$1.4 million per year, including the time and energy involved in managing the poll. To put these costs in context: according to a 2014 audit, AWI expended \$82.7 million that year with levies received amounting to \$43.3 million.<sup>125</sup>

2.76 AWI noted a series of downsides in relation to WoolPoll, including the fact that it is a significant resource burden on AWI, in terms of costs and demands on staff. It also submitted that the timeframe between polls was too frequent and that discussions had been initiated with government to reduce the frequency from every three years to every four or five.<sup>126</sup> WoolProducers Australia made the point that WoolPoll had been in place for 14 years and was due for specific review; to ensure

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119 NSW Farmers' Association, *Submission 140*, p. 13.

120 Mr Adam Kay, Cotton Australia, *Committee Hansard*, 3 February 2015, p. 47.

121 Mr David McKeon, GrainGrowers Ltd, *Committee Hansard*, 5 February 2015, p. 17.

122 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 34.

123 Australian Mushroom Growers' Association, *Submission 115*, p. 23.

124 Productivity Commission, Rural Research and Development Corporations, Inquiry Report, No. 52, 10 February 2011, p. 261.

125 Mr Stuart McCullough, Australian Wool Innovation, *Committee Hansard*, 5 February 2015, p. 21.

126 Australian Wool Innovation, *Submission 123*, p. 15.

that it is in line with best practice principles, the expectations of growers, and provides an efficient spend of levy funds. It noted in this regard that as wool growers continued to express a strong desire for a more cost-effective and robust consultation process, it was time for a specific and targeted review of WoolPoll.<sup>127</sup>

2.77 DA held polls in 2007 and 2012 with the next due in early 2017.<sup>128</sup> The 2012 poll and independent performance review (required to be completed six months prior to the poll) cost DA \$720,000.<sup>129</sup> Of the total, the poll roadshow comprised \$140,000 and the independent review \$110,000.<sup>130</sup>

2.78 Following its 2012 levy poll, in response to feedback that the poll process was 'costly, inefficient, time consuming and could have been done better', DA set up an independent panel to review the poll process.<sup>131</sup> Some industry members raised concerns during the inquiry that the dairy poll process was cumbersome and inflexible; requiring a considerable investment of time and resources by both DA and levy payers.<sup>132</sup> Mr Ian Halliday, Managing Director of DA, informed the committee that the RDC was required to send out a paper-based information memorandum, a paper-based ballot paper, and demonstrate that levy payers had been consulted. He noted that the consultation process with levy payers, which included 52 presentations around the country and on-farm regional visits, took approximately six months. Mr Halliday explained that, while there was a requirement to demonstrate that DA had consulted levy payers, the level of farmer participation in relation to some activities was very low. At one roadshow, for example, DA presented to only one person.<sup>133</sup>

2.79 A number of submitters raised concern with the cost of the dairy poll and wool poll, and offered alternative solutions. Australian Dairy Industry Council (ADIC) argued that a regular review of the dairy levy should be mandated with five year intervals but that a poll should only be conducted when the review recommended a change to the levy.<sup>134</sup> The South Australia Dairyfarmers' Association (SADA) suggested that as a cost-effective alternative to the dairy poll, a vote could be conducted at DA's AGM to confirm that the levy rate remain unchanged. If the vote were lost, a full poll could then be taken within 18 months of the AGM. SADA further argued in favour of a poll conducted by way of both electronic means and mail.<sup>135</sup> A similar proposition was made by the Western Australian Farmers Federation (WAFF)

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127 WoolProducers Australia, *Submission 132*, p. 11.

128 Mr Ian Halliday, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 29.

129 Mr Ian Halliday, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 30.

130 Mr Ian Halliday, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 32.

131 Mr Ian Halliday, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 26.

132 Dairy Australia, *Submission 124*, p. 19.

133 Mr Ian Halliday, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 30.

134 Australian Dairy Industry Council, *Submission 137*, p. 12.

135 South Australia Dairyfarmers' Association, *Submission 104*.

in relation to Woolpoll. WAFF took the view that voting on the rate of the wool levy could be undertaken by way of a special resolution at the AGM at the same time as separate votes on R&D and marketing.<sup>136</sup> The use of AGMs raised questions regarding the distinction between members and levy payers which is further explored in the following chapter.

2.80 Another matter raised in relation to the prospect of a regular poll was the fluid nature of some industries which sees producers dip in and out of production. AUSVEG made the point that the fluid nature of horticulture farming meant that while a grower may produce leviable vegetables one year, they may rotate to a non-leviable crop the next season or the following year. Therefore, any list of levy payers produced in the horticulture sector may be redundant within a single voting cycle. Efforts to engage them in a poll may also be futile, given that they may not be levy payers by the time the poll is conducted.<sup>137</sup> Mr Richard Mulcahy, AUSVEG CEO concluded that:

Whilst we have historically supported, and continue to support, a democratic and open process for levy imposition and investment, the time and resources required to administer regular plebiscites would be onerous, expensive and unlikely to receive a high voter turnout from growers. Given the government does not have a definitive list of levy payers, the results would also be difficult to validate or verify.<sup>138</sup>

2.81 Notwithstanding the logistical complexities in managing a levy poll, other concerns were raised regarding the appropriateness of a poll as a mechanism of RDC accountability. AMGA made the point that a mandatory (three-year or five-year) poll imposed on industries or RDCs amounted to a 'blunt instrument' that could do more damage than good as levy management should not be reduced to a matter of turning the funding on or off.<sup>139</sup> It emphasised that polls are generally focused on past performance rather than on the objectives of the new strategic plan and its potential impact. It suggested that poor performance of RDCs should not be dealt with via a poll but rather was a matter for government in conjunction with PIBs, on behalf of levy payers.<sup>140</sup> Similarly, the Victorian Farmers Federation (VFF) made the point that a poll is a mechanism to set the levy amount and that it does not actually set the objectives of the RDC or its KPIs, to which an RDC should be held accountable.<sup>141</sup>

2.82 AWI noted that wool growers could potentially respond to a negative independent review of its performance by voting in favour of a zero levy and thereby closing down the RDC. It stated that this occurred in 2009 when the independent

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136 Western Australian Farmers Federation, *Submission 117*, p. 6.

137 Mr Richard Mulcahy, AUSVEG, *Committee Hansard*, 4 February 2015, p. 2.

138 Mr Richard Mulcahy, AUSVEG, *Committee Hansard*, 4 February 2015, p. 2.

139 Australian Mushroom Growers' Association, *Submission 115*, p. 23.

140 Australian Mushroom Growers' Association, *Submission 115*, p. 23.

141 Mr David Jochinke, Victorian Farmers Federation, *Committee Hansard*, 4 February 2015, pp 24–25.

review was 'extremely negative' about AWI's performance. However, at the 2009 Woolpoll, growers chose not to vote zero but rather 'there was wholesale change of the AWI Board'.<sup>142</sup>

### ***Periodic levy review***

2.83 As previously noted, industries are obliged to periodically review their levies. Principle 11 of the levy principles and guidelines requires that after a specified period, 'levies must be reviewed against these principles in the manner determined by the Government and the industry when the levy was first imposed'.<sup>143</sup>

2.84 One of the key discussions in relation to levies was that of the regularity of levy reviews, the method of review with particular focus on polls, and complementarity with the R&D cycle.

2.85 Some submitters were in favour of a review undertaken every five years.<sup>144</sup> Of them, submitters such as Citrus Australia specified that the review should comprise a ballot where the vote is counted as a proportion of production.<sup>145</sup> APAL made the point that as research projects are generally about five years in duration, if levies were subject to sunset at five years, the challenge would be to address concerns that research projects which begin later in the cycle would only have guaranteed funding for some, but not all, of the research period.<sup>146</sup>

2.86 AWI argued that a business cycle longer than three years would be more conducive to the investment and delivery of strategic R&D.<sup>147</sup> AWI continued:

This three year or 'triennial business cycle'... in which AWI is required to operate also creates an ongoing tension between balancing AWI's responsiveness to its industry and government stakeholders, with its reason for being – to invest in strategic RD&M. A three year business cycle is very short and vulnerable to the winds of change which can invariably occur.<sup>148</sup>

2.87 Others supported a review every six to nine years.<sup>149</sup>

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142 Australian Wool Innovation, *Submission 123*, p. 16.

143 Department of Agriculture Levies Revenue Service, *Levy Principles and Guidelines*, p. 3.

144 Nursery & Garden Industry Australia, *Submission 92*, p. 6 and Mr David McKeon, GrainGrowers Ltd, *Committee Hansard*, 5 February 2015, p. 13 and Citrus Australia, *Submission 126*, p. [3].

145 Citrus Australia, *Submission 126*, p. [4].

146 Ms Annie Farrow, Apple and Pear Australia Ltd, *Committee Hansard*, 4 February 2015, p. 63.

147 Australian Wool Innovation, *Submission 123*, p. 16.

148 Australian Wool Innovation, *Submission 123*, p. 15.

149 Mr William Hamilton, Ag Institute Australia, *Committee Hansard*, 3 February 2015, p. 15.

2.88 Mr Les Williams, a pineapple grower, argued that greater flexibility would allow industry to be more efficient and responsive. He suggested that levies should be subject to periodic review at least every five years as long as the review did not require a full voting procedure without a clear desire to do so.<sup>150</sup> Similarly, AECL and ALFA argued that there should not be an imposed and mandated levy review and poll timeframe, on the grounds that such a review was not necessary if it was not called for by levy payers, or because of the involved costs.<sup>151</sup> In light of these concerns, AECL made the following recommendation:

That the Government does not automatically mandate the need for RDCs to commission a poll among levy payers at set time intervals with zero being an option unless a large proportion of levy payers has formally and expressly requested this to occur.<sup>152</sup>

2.89 However, during the lead up to its 2011 levy increase, the APL Board recognised there would never be a 'right' time to go to the industry regarding a levy increase. APL explained that:

The process takes time, during which attitudes, confidence and unseen circumstances can always shift priorities. Cost pressures on producers make it hard for some to see the value of further cost increases. An affordable, staged approach to a levy increase was presented as an option and this staged approach was supported by the Australian pork industry.<sup>153</sup>

2.90 APAL argued that a call for a reduced or zero levy should only be introduced at least five years subsequent to the previous vote with reserves maintained to ensure that contracted projects are funded to their completion. Otherwise:

...research agencies and service providers would be very reluctant to commit resources and effort to any project that has a life span that exceeds the timing of a periodic election. They would perceive financial flows to be tenuous at best, with real possibilities that funding could "disappear" mid-way through a project. This would be especially detrimental to agencies that engage new PhD students and post-doctorate researchers as well as those that attempt to attract and maintain high calibre agricultural and scientific expertise, both nationally and internationally. This would be to the disadvantage of Australia's horticultural sector which already suffers from skilled labour shortages, especially in agronomy and scientific research.<sup>154</sup>

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150 Mr Les Williams, *Submission 99*, p. [2].

151 Mr James Kellaway, Australian Egg Corporation Ltd, *Committee Hansard*, 3 February 2015, p. 21; Mr Douglas Gordon, Australian Lot Feeders' Association, *Committee Hansard*, 3 February 2015, p. 79.

152 Australian Egg Corporation Ltd, *Submission 147*, p. 7.

153 Australian Pork Limited, *Submission 31*, p. 8.

154 Apple and Pear Australia Ltd, *Submission 95*, p. 25.

2.91 While some submitters supported the introduction of a mandatory poll, others urged caution. NFF argued that the time and costs involved in polling can detract from the level of funding that is available for use, and otherwise invested in R&D. In this regard, Mr Tony Mahar, NFF Deputy CEO, made the point that if you are 'constantly navel gazing and looking at how things are being done then perhaps you are not having enough of a longer-term view to be a bit more strategic about the investment in R&D that you are making'.<sup>155</sup>

### ***Modification of levy allocations***

2.92 Revenue generated through levies can vary considerably. As a case in point, CRDC noted that it was dependent upon annual cotton production which is highly variable. In the last ten years CRDC has managed its operations through cycles in annual revenue that varied from \$8 to \$31 million.<sup>156</sup> CRDC made the point that the ability to respond to these financial circumstances, whilst continuing to drive R&D led industry improvements, has been in no small part due to the flexibility enabled by the RDC model for accountable but independent governance arrangements.

2.93 ALFA informed the committee that the current legislative framework makes it extremely difficult to adjust and transfer levies between one or more of the four grass- or grain-fed cattle levy streams (AHA, NRS, R&D and marketing). It explained that as each levy is enshrined in several pieces of regulation, any adjustment or transfer requires regulatory change. ALFA noted in this regard:

For any regulatory amendment process to be successful, peak industry councils must embark on an arduous, exhaustive and expensive consultation process as set out in the Levies Revenue Service's Levy Principles and Guidelines document.<sup>157</sup>

2.94 ALFA made the point that there was limited flexibility under the legislation that would otherwise allow levies to be more effectively managed. This lack of flexibility is demonstrated by the fact that some levy streams have high reserves while others have 'dangerously' low reserve levels, and yet funds cannot be readily transferred between them.<sup>158</sup> Similarly, AFI noted that greater flexibility was required when some industries still have a levy on the statutes but don't want to collect it and are not sure what to do with the funds while others want to make modifications but are stymied in making those changes.<sup>159</sup>

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155 Mr John Mahar, National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 4.

156 Cotton Research and Development Corporation, Answer to questions taken on notice at 3 February 2015 hearing, received 20 February 2015.

157 Australian Lot Feeders' Association, *Submission 29*, p. 13.

158 Australian Lot Feeders' Association, *Submission 29*, p. 13.

159 Mr Michael Keogh, Australian Farm Institute, *Committee Hansard*, 5 February 2015, p. 28.

2.95 The Cattle Council of Australia (CCA) focused on the National Livestock Identification System (NLIS) and Cattle Disease Contingency Fund (CDCF) to highlight the need for greater flexibility in relation to levy allocations. It informed the committee that the red meat industry had agreed that NLIS should be transferred to AHA from MLA as AHA is viewed as a more appropriate organisation for the system for reasons including its disease management responsibilities. However, the transfer was complicated by the need to continue funding NLIS with the simplest method available being a reappportionment of the levy funds. However, under the current arrangements, the industry cannot do this without undergoing an extensive consultation process – despite the fact that the levy amount and usage has not changed.<sup>160</sup>

2.96 The Sheepmeat Council of Australia (SCA) argued in favour of greater legislative flexibility to allow for adjustment of levy allocations between AHA, NRS and MLA (including both the R&D and marketing components). It noted that under the current legislative framework, it was extremely difficult to adjust and transfer levies between their streams because 'each levy is enshrined in several pieces of regulation and hence any adjustment or transfer requires regulatory change'. Further:

For any regulatory amendment process to be successful, peak industry councils must embark on an arduous, exhaustive and expensive consultation process as set out in the Levies Revenue Service's Levy Principles and Guidelines document. The lack of flexibility is readily demonstrated when one levy stream has imprudently high reserves whilst another has dangerously low levy reserve levels, yet funds cannot be readily transferred between them (even when the 'purpose' or use of funds is extremely similar or identical).<sup>161</sup>

2.97 A primary case which exemplified the fundamental question of representation (and whether it should be based on production or democratic means) and the need to demonstrate adequate support for a levy change was that concerning chicken meat levy. The Australian Chicken Meat Federation (ACMF) informed the committee of the complexities involved in efforts to raise a component of the levy from zero to pay back the chicken meat industry's share of an emergency animal disease response. Dr Andreas Dubs, Executive Director of ACMF, explained that the industry wanted to increase the zero-based levy to 3 cents per 100 birds to pay back the costs for the last three avian influenza outbreaks (in the layer industry and the duck industry). However, as he detailed:

We have been really surprised at the red tape that had to be cut through to do this. Here we have a levy which is pre-agreed by all concerned as a condition of entering into the EADRA, which is the agreement with the Commonwealth—the Emergency Animal Disease Response Agreement. However, when we want to make it operational, the guidelines currently in place for levies require us to provide the same type of submission and go

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160 Cattle Council of Australia, *Submission 61*, p. [2].

161 Sheepmeat Council of Australia, *Submission 128*, p. 14.

through the same type of consultation as is required for a brand-new levy to be put in place. We believe that this is absolutely unnecessary and should be changed.<sup>162</sup>

2.98 Dr Dubs made the point that meeting the guidelines in relation to modifying a pre-existing levy included demonstrating industry support. The point was made that this was an understandable requirement in relation to a new levy, but that it appeared to be a cumbersome process when it comes to a pre-existing levy which entails paying back a debt.<sup>163</sup> He argued that the only question should be whether levy payers have been consulted in relation to the length of time of the spread of the payback and supported a system in relation to the emergency disease response whereby demonstrating the existence of the emergency disease should be sufficient to trigger the levy.<sup>164</sup> Dr Dubs concluded that one such solution would be to have a special case in the guidelines for an increase of a levy that relates to EADRA.

2.99 When it came before the committee on 15 May 2015, the department gave its assurance that the chicken meat case had been resolved and that efforts were underway to reduce the requirements in relation to biosecurity levies. According to the department, the levy guidelines are undergoing revision to streamline work around biosecurity levies in order to reduce the compliance burden on industries.<sup>165</sup>

2.100 Notwithstanding these efforts, the point remains that the underlying principle of the guidelines is that changes to levies cannot take place without demonstrated levy payer support. Therefore, the biosecurity levy raised important questions regarding the balance between accountability and representation with that of flexibility and responsiveness as Mr Peter Otterson, Assistant Secretary at the department explained:

It raises an interesting question, because part of this reasoning is that levy payers must have a say around striking a levy—in this case it is striking it at zero—because it is very important; it is a tax. The next thing is: what role should they have in the decision of raising it from zero to some other number? What level of say should they have? Do you go back and have the same test as the level of say or do you have a diminished say?<sup>166</sup>

### ***Challenges in achieving levy changes***

2.101 In its 2011 report, the PC noted that whilst in a general sense, periodic review is encouraged by Principle 11, in practice, the department:

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162 Dr Andreas Dubs, Australian Chicken Meat Federation, *Committee Hansard*, 3 February 2015, p. 2.

163 Dr Andreas Dubs, Australian Chicken Meat Federation, *Committee Hansard*, 3 February 2015, p. 2.

164 Dr Andreas Dubs, Australian Chicken Meat Federation, *Committee Hansard*, 3 February 2015, pp 2 and 5.

165 Mr Noel Robson, Department of Agriculture, *Committee Hansard*, 15 May 2015, p. 36.

166 Mr Peter Otterson, Department of Agriculture, *Committee Hansard*, 15 May 2015, p. 36.

... does not appear to monitor whether industries adhere to their stated levy review plans, and the effectiveness and adequacy of most levies has not been formally reviewed for many years.<sup>167</sup>

2.102 Further, the PC suggested that as part of a proposed new annual monitoring report – and to ensure that levy rates are adjusted if changing circumstances dictate – the department be explicitly required to comment on levy review plan matters.<sup>168</sup>

2.103 Concerns were raised across a number of industries regarding the flexibility of levy arrangements, in terms of changing the quantum of levies, establishing a new levy, or changing the respective allocations across a single levy.<sup>169</sup> The complexities and cumbersome administrative process involved in seeking such changes, particularly with regard to departmental involvement, was raised as a specific concern. Similarly, the ACIL Allen review of HAL noted of the levy changes:

The associated processes are perceived to be cumbersome, burdensome and risky. This means opportunities to rationalise levies, reduce collection costs and confirm who the appropriate prescribed industry body should be are not realised.<sup>170</sup>

2.104 In its 2011 inquiry report on RRDCs, the PC observed that the relative rarity of changes to levy rates was possibly due to the time and effort required to adjust the levy rates.<sup>171</sup> It noted that some rates had not changed since the current levy system was introduced in 1989. In its report on RRDCs, the PC noted the experience of industries in seeking to change a levy rate or introduce a new levy as one in which the process was slow, difficult and costly.<sup>172</sup> It recommended (recommendation 10.2) the introduction of an indicative time limit of six months for the implementation of new levies, and changes to the rates of existing levies, following receipt of a complying proposal. It further recommended that as part of a proposed annual monitoring report on RRDCs, the department should report on its performance against this requirement.<sup>173</sup>

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167 Productivity Commission, Rural Research and Development Corporations, Inquiry Report, No. 52, 10 February 2011, p. 262.

168 Productivity Commission, Rural Research and Development Corporations, Inquiry Report, No. 52, 10 February 2011, p. 263.

169 Winemakers Federation of Australia and Wine Grape Growers Association, *Submission 4*, p. 14.

170 ACIL Allen Consulting, *Better Value for Growers – A future for HAL: Independent Review of HAL and Horticulture Levy System*, May 2014, 25.

171 Productivity Commission, Rural Research and Development Corporations, Inquiry Report, No. 52, 10 February 2011, p. 262.

172 Productivity Commission, Rural Research and Development Corporations, Inquiry Report, No. 52, 10 February 2011, p. 266.

173 Productivity Commission, Rural Research and Development Corporations, Inquiry Report, No. 52, 10 February 2011, p. 269.

2.105 The PC's observations and recommendations were supported in evidence. For instance, the levy rate for the grains industry has not been changed in 16 years.<sup>174</sup> Mr Selwyn Snell, Chairman of Horticulture Innovation Australia Ltd (HIAL) told the committee that changing the horticulture levy rate was difficult, and made the point that upholding the 12 principles was demanding:

Actually I think it is so arduous that it puts people off going to increase or decrease their levies, because sometimes it can be a two-year process, and that is even before it gets to the minister's office.<sup>175</sup>

2.106 Similarly, ALFA noted that while it is more easily able to adjust the R&D and marketing levy allocations compared to the grass-fed cattle sector (because of its direct membership model), the levy principles and guidelines process 'makes this a costly and burdensome process'.<sup>176</sup>

2.107 AMGA submitted that while the levy principles and guidelines provided a useful framework for the imposition of levies, time constraints should be imposed around the decision making process once levy applications are submitted to the department. In the case of the process to increase the Agaricus Mushroom levy, the process from development of the strategic plan through to final government approval took over four years. AMGA noted that in its final administrative review stage, the proposal was in the hands of the department, two governments and three ministers over a period of two-and-a-half years.<sup>177</sup>

2.108 AMGA's General Manager, Mr Gregory Seymour argued that in order to keep industries informed, the decision making process should be more transparent.<sup>178</sup> He surmised that there were probably other industries which wanted to increase their levy rates and enjoy higher R&D investment levels but which were not prepared to endure the cost and invest the time required to undertake the lengthy process.<sup>179</sup>

2.109 In July 2013, members of Thoroughbred Breeders Australia voted to support the introduction of a statutory levy. The industry's formal request for a levy was provided to government in November 2013. According to the Rural Industries Research and Development Corporation (RIRDC):

Unfortunately, despite appearing to have met the requirements for introducing a levy, the Thoroughbred industry is still waiting for final

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174 GrainGrowers Ltd, *Submission 36*, p. 3.

175 Mr Selwyn Snell, Horticulture Innovation Australia Ltd, *Committee Hansard*, 4 February 2015, p. 46.

176 Australian Lot Feeders' Association, *Submission 29*, p. 6.

177 Australian Mushroom Growers' Association, *Submission 115*, p. 14.

178 Mr Gregory Seymour, Australian Mushroom Growers' Association, *Committee Hansard*, 3 February 2015, pp 34 & 37.

179 Mr Gregory Seymour, Australian Mushroom Growers' Association, *Committee Hansard*, 3 February 2015, p. 37.

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approval and the required legislation. There is no indication of when this might be forthcoming and until it occurs, the industry is unable to progress its R&D investment plans. It is likely that there will be no horse-related R&D funded during 2014-15 and it is unclear when they will be in a position to move forward.<sup>180</sup>

2.110 According to RIRDC, the difficulties experienced by the thoroughbred industry were 'flowing through to the decisions of other industries'. It noted that the fodder and tea tree industries were interested in moving towards a statutory levy. However, they were reluctant to invest the time and energy into developing a proposal while uncertainty remained as to whether it would be approved.<sup>181</sup> RIRDC noted that certainty was required about the current R&D model, not only for existing levy-paying industries but also for potential-paying industries.<sup>182</sup>

2.111 The Australian Fodder Industry Association (AFIA) noted in this regard that while there was general agreement across its industry for a dedicated fodder levy, there was a need for a system to create or impose a levy which is thorough, yet simple enough to ensure that it is not an 'inhibiting factor to an industry'. Further, it argued that the system should be simple and cost-effective with the exact process reflective of the size and needs of the industry.<sup>183</sup>

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180 Rural Industries Research and Development Corporation, *Submission 89*, p. [2].

181 Rural Industries Research and Development Corporation, *Submission 89*, p. [2].

182 Rural Industries Research and Development Corporation, *Submission 89*, p. [3.]

183 Australian Fodder Industry Association, *Submission 90*, p. 4.



## Chapter 3

### Accountability and representation

3.1 As levy recipients and service providers, RDCs utilise industry levy funds to commission research on behalf of primary producers, processors and the Australian Government. They are dually accountable to both the industry that pays the levy and the Australian Government which provides matching R&D funds.<sup>1</sup> This accountability extends to levy payers through levy investment.<sup>2</sup>

3.2 This chapter details the roles of respective stakeholders in the levy system and considers the mechanisms in place to ensure the accountability of levy recipients to levy payers, the Australian Government and to tax payers.

#### Accountability to government and the tax payer

3.3 As recipients of the levy funds, RDCs are required to meet certain obligations under legislation and Statutory Funding Agreements (SFAs) with the Australian Government.<sup>3</sup> Both statutory and industry-owned RDCs are required to develop SFAs.<sup>4</sup>

3.4 Reporting is one of the key aspects of RDC accountability. RDCs are required to report agency documents to government including strategic plans, annual operating plans and annual reports.<sup>5</sup> AWI noted in this regard that while it was required to publish an annual report under corporations law, the SFA required RDCs to report the following information:

- all sources of income, separately identified;
- full costs of marketing and R&D programs;
- progress against plans;
- key outcomes delivered by marketing and R&D programs;
- progress in implementing the Rural Research and Development Policy Statement;
- collaboration with industry and other research providers;
- directions given by the minister;
- consultation with levy payers and key industry representative bodies;

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1 Department of Agriculture, *Submission 33*, p. 8.

2 Mr Tim Lester, Council of Rural Research and Development Corporations, *Committee Hansard*, 28 November 2014, p. 16.

3 Department of Agriculture, *Submission 33*, p. vi.

4 Recent amendment to the PIRD Act requires statutory RDCs to develop such funding agreements. SFA's are required to be agreed to by 30 June 2015.

5 Dairy Australia, *Submission 123*, p. 32.

- details of senior executive and board remuneration;
- the rationale for the portfolio balance; and
- 'other reasonable matters' notified by government.<sup>6</sup>

3.5 SFAs set out the expected content of the strategic plans, annual operating plans and annual reports. RDCs are required to consult with the department and industry in the preparation of their plans and also seek the department's approval for them.<sup>7</sup>

3.6 CRDC listed the following accountability and compliance requirements it is required to meet (for the Australian Government) under the SFA. RDCs must:

- establish accounting systems, processes and controls to adequately manage funds and contributions;
- meet at six-monthly intervals with the department;
- report annually on their compliance with the SFA;
- report to the department on matters that materially impact their ability to meet their objectives or comply with the SFA; and
- undertake periodic independent performance reviews.<sup>8</sup>

3.7 The primary vehicle for RDC accountability to government, therefore, is through SFAs.<sup>9</sup>

3.8 One of the key components of SFAs is a requirement upon RDCs to commission periodic independent reviews of their performance.<sup>10</sup> The review must take place prior to entering into negotiations for a new SFA between the RDC and department as the review's findings inform those negotiations.<sup>11</sup> In fact, the review provides an independent assessment of an RDC's performance against its strategic plan, annual operating plans and compliance with the SFA.<sup>12</sup>

3.9 As a case in point, under the 2014–2018 Deed of Agreement between HIAL and the Australian Government (represented by the department), HIAL is required to

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6 Australian Wool Innovation, *Submission 123*, p. 18.

7 Cotton Research and Development Corporation, Answer to questions on notice at 3 February 2015 hearing, received 20 February 2015.

8 Cotton Research and Development Corporation, Answer to questions on notice at 3 February 2015 hearing, received 20 February 2015.

9 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 12.

10 Mr Aeger Kingma, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 33; Australian Wool Innovation, *Submission 123*, p. 16; Deed of Agreement 2014–2018 between the Commonwealth of Australia and HIAL, p. 4.

11 Mr Matthew Koval, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 9; Forrest & Wood Products Australia, *Submission 83*, p. 3.

12 Australian Wool Innovation, *Submission 123*, p. 16.

engage an independent organisation to undertake a review of its performance six months prior to expiration of its four-year funding agreement. Under the terms of the deed, HIAL must publish the performance review report and its own response to the report's recommendations on its website.<sup>13</sup>

3.10 The requirement to conduct an independent performance review was recognised as an important accountability mechanism by submitters to the inquiry. Noting its support, NSW Farmers suggested that such reviews should be scheduled to ensure their completion prior to any re-approval of a levy by the relevant industry.<sup>14</sup> As noted in the previous chapter, this is already the process in relation to SRA, AWI and DA.

3.11 AWI noted that this requirement enables woolgrowers to respond directly to the review's findings by way of voting in the WoolPoll. Therefore, woolgrowers could potentially respond to a negative review of AWI's performance by voting in favour of a zero levy and thereby closing down the RDC.<sup>15</sup>

### ***Statutory RDC model***

3.12 The point was made to the committee that, of the fifteen original RDCs, most had moved away from the statutory model (whereby RDCs operate under statute as government agencies) to that of an industry-owned model.<sup>16</sup> Industry-owned RDC operations are governed by SFAs with government and also by its obligations under corporations law and other relevant legislation and regulations.<sup>17</sup> Most recently, the horticultural RDC became an industry-owned RDC. According to Mr John Lloyd, HIAL's CEO, under the statutory model, the RDC had 'no exposure to growers themselves'. All interaction was carried out through the peak bodies.<sup>18</sup>

3.13 One of the key differences in relation to the two models concerns the appointment of RDC boards. It was suggested that, as the minister appoints the board, the general governance of statutory RDCs requires that they are more accountable to the responsible minister than to levy-payer growers.<sup>19</sup> Mr John Harvey, CEO of GRDC, explained the statutory RDC board appointment process:

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13 Deed of Agreement 2014–2018 between the Commonwealth of Australia represented by the Department of Agriculture and Horticulture Innovation Australia Ltd, pp 39–40, <http://www.horticulture.com.au/wp-content/uploads/2014/10/2014-11-18-Contract-Deed-of-Agreement-2014-18.pdf> (accessed 38 April 2015).

14 NSW Farmers' Association, *Submission 140*, p. 15.

15 Australian Wool Innovation, *Submission 123*, p. 16.

16 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 15 May 2015, p. 6.

17 Australian Wool Innovation, *Submission 123*, p. 4.

18 Mr John Lloyd, Horticulture Innovation Australia, *Committee Hansard*, 15 May 2015, p. 15.

19 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 25.

Under the act, the minister appoints a presiding officer. The presiding officer forms a selection committee, which is a mixture of industry and skills. The selection committee then selects, following applications, directors and makes a recommendation back to the minister and the minister appoints the directors to the board.<sup>20</sup>

3.14 The involvement of industry in relation to this process is one of consultation as the representative organisation will often be consulted on the make-up of the selection committee.<sup>21</sup> This consultation process was outlined by CRDC:

The Minister for Agriculture in consultation with the industry representative organisation, Cotton Australia, appoints the Chairperson for CRDC. The Minister also appoints the Chairperson for the Selection Committee. The Selection Committee Chair in consultation with Cotton Australia recommends the members of the Selection Committee to the Minister for Agriculture. This committee interviews applicants and recommends to the Minister the board members for CRDC. The directors of CRDC are appointed for a period up to 3 years and may reapply for a second term. The Executive Director is appointed by the Board.<sup>22</sup>

3.15 In its review of GRDC, Marsden Jacobs Associates argued that changes to the PIRD Act and PGPA Act as well as the accountabilities prescribed under its industry-specific legislation increased GRDC's accountability to the Australian Government and reduced its accountability to levy paying growers.<sup>23</sup> In regard to GRDC, the report noted that:

The general governance of a statutory corporation requires that the organisation is ultimately more accountable to the responsible government Ministers than to growers, because the Board is appointed by the Minister for Agriculture. As a result, our consultation has confirmed that the organisation is generally seen as a governmental body. Furthermore, we understand that while levies may be tax deductible because they are collected by the Australian Government they are viewed as public monies rather than private contributions of growers to a grower grants body.<sup>24</sup>

3.16 Under the industry-owned model, levy payer members vote on the appointment of new RDC directors.<sup>25</sup> In the case of DA, the board selection

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20 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 15 May 2015, p. 10.

21 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 15 May 2015, p. 10.

22 Cotton Research and Development Corporation, Answer to questions on notice at 3 February 2014 hearing, received 20 February 2015.

23 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 5.

24 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 25.

25 Australian Wool Innovation, *Submission 123*, p. 24.

committee, which manages the board selection process, comprises industry representative bodies.<sup>26</sup>

3.17 In relation to industry-owned RDC board appointment process, AFI expressed the view that:

Government policy and good corporate governance provisions dictate that, generally, levy payers do not have the opportunity to directly elect persons to the Board of RDCs via a popular ballot, although levy payers do have the opportunity to endorse those nominated for Board positions via a selection committee process, or to elect directors from amongst those [nominating] for positions and who have met the requirements for that position. This may include having been endorsed to stand for election to a board position by a minimum number of levy payers.<sup>27</sup>

3.18 The government accountability requirements for statutory RDCs were strengthened under the 2013 legislation. CRRDC expressed the view that RDC accountability requirements were now heavily focused on the governance of funds.<sup>28</sup>

3.19 Evidence to the committee suggested that compliance and reporting against the SFA and other government requirements has placed a significant 'red tape' burden on statutory RDCs.<sup>29</sup> CRDC also highlighted the increasing costs associated with compliance. Over the past five years, its estimated costs (including the time required by its board and staff to address government compliance requirements) doubled to \$450,000 per annum. CRDC expressed the view that the compliance burden came at the 'expense of RD&E investment and independent governance arrangements'. Further, it argued that the recent introduction of additional compliance requirements, including obligations in relation to SFAs, were not commensurate with the level of risk appropriate to its operations.<sup>30</sup>

3.20 Marsden Jacob Associates also noted that the new PGPA Act had introduced a more 'government' like financial framework on statutory RDCs, with an increased set of duties, reporting requirements, rules and enhanced ministerial authority.<sup>31</sup>

#### *Financial reserves and extraordinary circumstances*

3.21 Evidence to the committee suggested the need for greater flexibility in relation to the utilisation of statutory RDC reserves, particularly during periods of crises, such as drought.

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26 Dairy Australia, *Submission 124*, p. 15.

27 Australian Farm Institute, *Submission 129*, p. 25.

28 Mr Tim Lester, Council of Rural Research and Development Corporations, *Committee Hansard*, 28 November 2014, p. 20.

29 Australian Livestock Exporters' Council, *Submission 74*, p. 7.

30 Cotton Research and Development Corporation, Answer to questions on notice at 3 February 2015 hearing, received 20 February 2015.

31 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 28.

3.22 RDCs accumulate financial reserves to manage the risk of future volatility in levy revenue. Mr Stuart McCullough, CEO of AWI explained that AWI, (an industry-owned RDC) is currently drawing down on its reserves:

We went to the last WoolPoll and said we had excessive reserves and that we wanted to draw down on them, and we have put in a program. We tendered that at the time—a \$15 million draw-down followed by a \$12 million draw-down followed by a \$9 million draw-down. And we draw down those funds.<sup>32</sup>

3.23 Current financial arrangements stipulate that statutory RDCs seek government pre-approval to use their reserves and operate a deficit budget.<sup>33</sup> While RDC revenue is variable, RDCs are often required to undertake large RD&E investments. The point was made that flexibility is required to enable RDCs to draw on reserves, particularly during difficult periods to maintain their R&D agenda.<sup>34</sup> CRDC noted that:

[T]he current whole of government budgeting process is not conducive to approving use of reserves via loss applications for future years, adding additional administrative cost, creating uncertainty, and taking away the board's ability to govern – all at a time when resources are already stretched.<sup>35</sup>

3.24 NSW Farmers cited the Marsden Jacobs report which highlighted restrictions on alteration of proposed expenditures without approval and difficulties in running down equity reserves due to the impact on government budget surpluses (or deficits). NSW Farmers argued that these restrictions can impact on the capacity of statutory RDCs to use reserves to maintain research programs during years in which lower levy revenue is collected for reasons including lower levels of production or price; or alternatively to make strategic 'lumpy' investments, such as investment in capital required for specific research or extension activities.<sup>36</sup> Similarly, NFF argued that greater flexibility was required in order that reserves could be utilised to respond to and address specific challenges as they arose.<sup>37</sup> In this regard, the WA Grains Group argued the point that GRDC has amassed up to \$200 million in reserves while at the same time, growers had to borrow money to pay the levy.<sup>38</sup>

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32 Mr Stuart McCullough, Australian Wool Innovation, *Committee Hansard*, 5 February 2015, p. 22.

33 Mr Bruce Finney, Cotton Research and Development Corporation, *Committee Hansard*, 3 February 2015, p. 49 and Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 10.

34 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 10.

35 Cotton Research and Development Corporation, *Submission 135*, p. 9.

36 NSW Farmers' Association, *Submission 140*, p. 9.

37 Mr Tony Mahar, National Farmers Federation, *Committee Hansard*, 5 February 2015, p. 3.

38 Mr Douglas Clarke, WA Grains Group, *Committee Hansard*, 20 February 2015, p. 1.

3.25 CRDC noted that, while it manages its reserves to ensure that the industry is able to sustain R&D during dry seasons, extreme circumstances such as prolonged periods of drought and floods have a serious impact on production and with it R&D. It argued that the RDC model does not provide an effective way of managing reduced RD&E funding during such periods.<sup>39</sup>

3.26 CRDC emphasised the need to consider effective ways of supporting RDCs to sustain their RD&E capacity during these extraordinary circumstances. It identified a number of options for consideration including increased government contributions during periods of drought-reduced levy income, which industry would repay in future non-drought, high-levy seasons. It also suggested that RDCs should be allowed to forward plan the use of existing reserves in periods of prolonged drought.<sup>40</sup>

3.27 ALPA argued in favour of an 'exceptional circumstance' criteria whereby levy payers who meet the criteria are excused from paying the levies whilst under hardship. It noted that such flexibility would provide cost relief to producers, such as those affected by drought or fire, and that such a system could operate as a 'claim back' scheme.<sup>41</sup>

3.28 ALFA highlighted the lack of flexibility in relation to the red meat sector's flat levy rate. It made the point that, producers are required to pay the flat rate regardless of the price they sell cattle for.<sup>42</sup> GrainGrowers Ltd supported an *ad valorem* levy rate for grain for this reason. It argued that the introduction of an *ad valorem* rate in place of the current fixed dollar per tonne rate for grain would enable automatic adjustment of the levy to prevailing market conditions and inflation. It suggested that providing such flexibility would also reduce the necessity to review the levy rate more often than at five year intervals.<sup>43</sup>

### **Accountability to industry and levy payers**

3.29 RDCs use a variety of methods to consult with industry representatives and, in some cases, directly with producers on RDC strategic plans, annual operating plans and R&D investment decisions. These mechanisms, which vary considerably, may include grower or producer groups such as member delegates and industry advisory committees, regional forums, field days, conferences, written submissions and surveys. In some instances, consultation processes, which include direct input from levy payers and industry representative bodies, focus on establishing priority areas for

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39 Cotton Research and Development Corporation, *Submission 135*, p. 9.

40 Cotton Australia, *Submission 131*, Attachment 1, pp 4–5.

41 Australian Livestock & Property Agents Association, *Submission 11*, p. 5.

42 Mr Douglas Gordon, Australian Lot Feeders' Association, *Committee Hansard*, 3 February 2015, p. 80.

43 GrainGrowers Ltd, *Submission 36*, p. 12.

R&D investment and strategic planning (SRA)<sup>44</sup> and culminate in annual planning and consultation cycles (AWI).<sup>45</sup>

3.30 RDCs utilise a range of media through which to engage, including newsletters and communicate as regularly as weekly through publications including R&D updates.<sup>46</sup>

3.31 The specifics of these arrangements vary by industry, depending on the particular characteristics of the industry and its RDC model.<sup>47</sup> While submitters argued that there was no single accountability framework that would be appropriate for all commodities, the levy principles and guidelines require that levy payers have adequate opportunities to engage with their specific sector.<sup>48</sup>

3.32 Nevertheless, the point was made that the extent to which RDCs have the scope to directly connect with producers is largely determined by their structure.

### ***Statutory RDCs***

3.33 A number of submitters raised concerns regarding the statutory RDC model and specifically the indirect relationship between statutory RDCs and levy payers.<sup>49</sup>

3.34 Under the PIRD Act, statutory RDCs are made accountable to levy payers through industry representative organisations or the Representative Organisation (RO). As a case in point, CRDC is accountable to the cotton industry through its RO, Cotton Australia.<sup>50</sup> Cotton Australia and its advisory panels (which include producer representatives across cotton growing regions and ginning organisations) advise on R&D priorities for the cotton industry and research project proposals.<sup>51</sup> It is voluntary for cotton growers to pay a levy of \$1.50 per bale to Cotton Australia (in addition to the compulsory cotton levy) to pursue the policy, stewardship and education aims of the industry. The Cotton Australia levy is also collected by the processors (cotton gins).<sup>52</sup>

3.35 The PIRD Act outlines a generic role for ROs and prescribes their relationship with RDCs.<sup>53</sup> ROs are the industry organisations to whom RDCs are accountable for performance. Under the PIRD Act, GRDC is made accountable to Australian grain

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44 Sugar Research Australia, *Submission 15*, p. 13.

45 Australian Wool Innovation, *Submission 123*, pp 24–25.

46 Ms Deb Kerr, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 35.

47 Australian Farm Institute, *Submission 129*, Executive Summary.

48 Australian Farm Institute, *Submission 129*, Executive Summary.

49 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, pp 5, 7 & 25.

50 Cotton Research and Development Corporation, *Annual Report 2013–14*, p. 11.

51 Cotton Research and Development Corporation, *Submission 135*, p. 9.

52 Cotton Australia, *Submission 131*, pp 5–6.

53 National Farmers' Federation, *Submission 143*, p. 21.

growers through the industry's RO, Grain Producers Australia (GPA).<sup>54</sup> GRDC consults with GPA twice-yearly to consider forward planning and budget matters.<sup>55</sup> At such meetings, it also invites various state bodies and grower organisations such as NSW Farmers, AgForce, Victorian Farmers as well as geographically-focused groups such as the WA Farmers Federation and WA Grains Group.<sup>56</sup> Furthermore, every year, GPA will utilise GRDC's stakeholder report to assist it in formulating its advice to the minister on setting the R&D levy rate.<sup>57</sup>

3.36 The Marsden Jacob review of GRDC found that a statutory RDC was by definition, 'more at arm's length from growers than an OIC'. It suggested that GRDC needed a governance structure that would 'sharpen its connection to growers' and their needs.<sup>58</sup> The Marsden Jacob report concluded that these arrangements made it more challenging for GRDC to establish processes and methods to engage with growers and reflect their views appropriately in decision-making.<sup>59</sup> One of the primary mechanisms identified in the report to assist in addressing this challenge was that of a means to identify all levy payers.<sup>60</sup>

3.37 Grain Growers Ltd made the point that board representation is an effective way to offer growers influence over RDC outcomes, given the primary task of the board of a statutory corporation is setting priorities through strategic direction.<sup>61</sup>

3.38 Mr Jock Munro argued that GRDC has a top-down corporate structure with directors who do not have to place themselves before levy payers in an open process.<sup>62</sup> It was noted that greater board accountability to levy payers would improve R&D outcomes vis-à-vis improved alignment of grower and board vision and research

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54 Grains Research and Development Corporation, *Annual Report 2013–14*, p. 89 and Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 41.

55 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 41.

56 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 41.

57 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 42 and Grains Research and Development Corporation, GRDC Stakeholder Report, <https://www.grdc.com.au/About-Us/Corporate-Governance/GRDC-Stakeholder-Report> (accessed 30 April 2015).

58 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, pp 5, 7 & 25.

59 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 27.

60 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 27.

61 Grain Growers Ltd, *Submission 36*, p. 12.

62 Mr Jock Munro, *Submission 125*.

imperatives.<sup>63</sup> As Mr Tony Gooch, Member of the WA Farmers Federation Wool Executive, noted, if mechanisms such as AGMs were in place, growers would be able to take their concerns directly to the board at an AGM.<sup>64</sup>

3.39 While GRDC utilises three regional panels to consult with growers, Marsden Jacob Associates suggested that GRDC hold regional annual general meetings, as provided for (but not mandatory) under the current legislation.<sup>65</sup> It suggested that such meetings would facilitate more personal engagement, and improve accountability (both of the board and levy paying growers) for decisions of the GRDC.<sup>66</sup>

### ***Industry-owned RDCs***

3.40 Industry-owned RDCs are directly accountable to their levy-paying members under corporations law principles.

3.41 The structure of industry-owned RDCs provide for membership arrangements whereby eligible levy payer members can vote at AGMs. Under the Corporations Act, directors must put the RDC's financial report, directors' report and auditor's report for the previous financial year before the AGM.<sup>67</sup> As a case in point, the AECL constitution stipulates that its members have a right to attend, speak and vote at the AECL AGM on any matter.<sup>68</sup>

3.42 As levy payers are entitled to membership, the industry-owned RDC structure provides greater scope for more direct levy payer engagement when compared to statutory RDCs. Whether this structure provides for enhanced levy payer accountability, however, remains a matter of debate.

3.43 One of the key issues in relation to RDC membership is that it is not automatically provided to eligible levy payers. As a case in point, under SRA's constitution, all sugarcane levy payers are entitled to membership of SRA but membership is not automatically assigned. SRA informed the committee that the Corporations Act requires that levy payers register to become SRA members.<sup>69</sup> Similarly, the Pastoralists and Graziers Association of Western Australia (PGAWA) noted the argument put forward by MLA that automatic membership implied the

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63 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 9.

64 Mr Tony Gooch, Western Australian Farmers Federation, *Committee Hansard*, 20 February 2015, p. 53.

65 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 41 and Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 10.

66 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 10.

67 Sugar Research Australia, *Annual Report 2013–14*, p. 59.

68 Australian Egg Corporation Ltd, Constitution, 2007, p. 13.

69 Sugar Research Australia, *Submission 15*, p. 20.

imposition of membership obligations without consent upon producers, which is not permitted under the Corporations Act.<sup>70</sup>

### ***Voting entitlements***

3.44 In addition to applying for membership of industry-owned RDCs, levy payers must also apply for their voting entitlements. This requirement creates an additional hurdle for farmers who are already time poor. Farmer Power Australia put the view that:

The current situation of a Levy payer having to apply for their right to vote at general meetings is convoluted and if abolished, would generate a more connected and comprehensive decision making process.<sup>71</sup>

3.45 For a number of reasons, including the lack of automatic membership, not all levy payers are members of RDCs. In fact, industry-owned RDC members comprise a 'subset' of levy payers.<sup>72</sup> Therefore, not all levy payers are eligible to vote on levy-related matters.

3.46 As noted in the previous chapter, HIAL is currently in the process of developing a database of (levy payer) members. A database of horticulture levy payers is a separate task. In relation to the latter, HIAL is working with the department, GRDC and MLA to develop a more universal database of levy payers.<sup>73</sup>

3.47 AWI provided a summary of its voting arrangements and levy payer engagement in levy decisions:

We have 55,964 levy payers. Of those 55,964, we have 40,446 eligible levy payers. Those eligible levy payers are levy payers the [sic] pay \$100 in levies or more for three consecutive years. They become eligible levy payers. Those eligible levy payers are the people that get to vote at WoolPoll. Of those eligible levy payers, every year AWI writes to them and asks the ones who are not shareholders whether they want to be a shareholder. Of those 40,446, we have 26,596 shareholders of AWI. They are the people who get to vote at AGMs.<sup>74</sup>

3.48 Similarly, 62 per cent of dairy levy payers are members of DA and can therefore vote at AGMs on issues including appointment of the DA board.<sup>75</sup>

3.49 It was argued that to be equitable, levy payers must be eligible to vote on levy arrangements by virtue of levies paid on production rather than membership of a

70 Pastoralists and Graziers Association of Western Australia, *Submission 54*, p. 2.

71 Farmer Power Australia, *Submission 27*, p. 3.

72 Mr Matthew Koval, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 5.

73 Mr John Lloyd, Horticulture Innovation Australia Ltd, *Committee Hansard*, 15 May 2015, p. 16.

74 Mr Stuart McCullough, Australian Wool Innovation, *Committee Hansard*, 5 February 2015, p. 20.

75 Dairy Australia, *Submission 124*, p. 15.

particular body.<sup>76</sup> Submitters suggested that provisions should be made for automatic registration of levy payers as members of the relevant industry-owned RDC.<sup>77</sup> Under current arrangements, the onus is placed on producers to apply for membership. South Australian Fresh Fruit Growers Association suggested that if automatic membership was applied, the onus should shift to those who wanted to opt out of membership having to notify the relevant RDC.<sup>78</sup>

3.50 Notwithstanding concerns regarding the distinction between levy payers and RDC members, RDCs are required to 'make an attempt to consult all levy payers', not just members.<sup>79</sup> Such consultation can take the form of general media or can be conducted through intermediaries such as processors and brokers.<sup>80</sup>

### **Representation**

3.51 One of the issues raised throughout the course of the inquiry was the representation of levy payers. These considerations went to questions regarding the role of industry-owned RDCs in relation to levy payers.

3.52 In terms of representation, prescribed industry bodies (PIBs) or peak industry councils represent their respective industry in relation to industry-owned RDCs. PIBs operate as the conduit between RDCs and levy payers across many industries. They seek to provide a collective voice for their levy payer members, who are levy payers, and provide a communication pathway between RDCs and levy payers. They work directly with RDCs to set the strategic direction and priorities for RD&E on behalf of levy payer members and usually manage the process of determining whether the introduction of a levy or change to one is warranted.<sup>81</sup>

3.53 PIBs play a fundamental role in providing opportunities for levy payers to influence levy investment decisions. A key requirement upon PIBs is that they set up arrangements to ensure that levy payers engage in, and can consult on, their respective levy programs.<sup>82</sup> While some industries have more than one PIB, others, such as the wool industry do not have any.<sup>83</sup>

3.54 The role of PIBs was summarised by Mr Gregory Seymour, General Manager of AMGA:

Our role is really important. We are the ones who consult with potential levy payers to establish the levies, and it is our job to consult with them

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76 North Coast Avocado Growers Sub-branch NSW Farmers, *Submission 107*, p. 1.

77 Farmer Power Australia, *Submission 27*, p. 3.

78 South Australian Fresh Fruit Growers Association, *Submission 50*, p. [1].

79 Mr Matthew Koval, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 5.

80 Mr Matthew Koval, Department of Agriculture, *Committee Hansard*, 28 November 2014, p. 5.

81 Australian Farm Institute, *Submission 129*, p. 25.

82 Mr Dougal Gordon, Australian Lot Feeders' Association, *Committee Hansard*, 3 February 2015, p. 74.

83 Department of Agriculture, *Submission 33*, p. 13.

very, very carefully in making any changes to the levy. We also consult with them very, very heavily in the development of industry strategic plans, and that is where the accountability for performance is noted, because we are measuring against KPIs on an annual basis and on a five-year basis, and then we can look at those things historically over 10 or 20 years. So people have, under the existing system, we believe, significant opportunities for input about the levies and the levy system in the mushroom industry.<sup>84</sup>

3.55 A concern raised during the inquiry regarding PIBs was that of how they are recognised under the legislation. Costa questioned how an industry body comes to be recognised by the government as the default body with authority to propose the imposition of a levy and levy increase.<sup>85</sup>

3.56 The different voting systems utilised by PIBs was raised in evidence. Within the horticultural sector, while the proportional system was used in relation to some commodities such as citrus, other industries have utilised a one grower, one vote system. As a case in point, both the mushroom spawn levy and rubus levy voting systems are determined on the basis of one grower, one vote.<sup>86</sup>

3.57 Some views in relation to the most appropriate voting structure reflected the changing characteristics of the specific industry including, in some industries, a reduction in the number of producers and commensurate concentration of production. Avocado producer, Mr Neil Delroy argued that PIBs should be required to provide for a proportional voting system so that 'growers with a greater amount invested in the business have a greater proportion of the say'. He observed that, in relation to the avocado sector, levy payers who have 10 trees currently have the same proportion of the vote as a levy payer with 100,000 trees.<sup>87</sup>

3.58 HIAL noted that the *Pareto* effect was particularly apparent in horticulture whereby in most horticultural industries, the top five to ten growers will account for more than 50 per cent of production. Mr Lloyd noted that, to have any validity, the 50 per cent of production would have to be represented in HIAL's voting process.<sup>88</sup> However, APAL warned against a voting system based on proportion of production:

It is imperative that the grower membership base and associated voting rights of HIA are reflective of the horticulture sector and is not dominated by large well resourced corporate businesses.<sup>89</sup>

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84 Mr Gregory Seymour, Australian Mushroom Growers Association, *Committee Hansard*, 3 February 2015, p. 35.

85 Costa, *Submission 12*, p. 12.

86 Mr Gregory Seymour, Australian Mushroom Growers Association, *Committee Hansard*, 3 February 2015, p. 40 and Costa, *Submission 12*, p. 17.

87 Mr Neil Delroy, Jasper Farms, *Committee Hansard*, 20 February 2015, p. 28.

88 Mr John Lloyd, Horticulture Innovation Australia Ltd, *Committee Hansard*, 15 May 2015, p. 17.

89 Apple and Pear Australia, *Submission 95*, p. 42.

3.59 Other submitters supported a two-tiered voting system whereby votes are determined on the basis of volume of production and on a one grower, one vote basis.<sup>90</sup> APAL highlighted that such a system provided an opportunity for larger producers to have their say while also diffusing their influence to provide smaller producers with a voice.<sup>91</sup> Farmer Power noted that the way in which the two-tiered model operated effectively provided a checks and balances mechanism.<sup>92</sup>

3.60 The matter of representation in this regard brought to the fore the reality that the levy system has not adjusted to changing agricultural market conditions, including the decline in the number of small producers across many industries.

3.61 These concerns go to matters of levy payer engagement and opportunities for levy payers to influence levy investment.

### **Opportunities for levy payers to influence levy investment**

3.62 There is a considerable range of levy-payer consultation processes across agricultural industries, with no single levy payer consultation model universally applied.<sup>93</sup> For these reasons, the points of engagement for levy payers, and opportunities to influence levy investment, vary considerably.

3.63 The department noted in its submission that:

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.<sup>94</sup>

3.64 Notwithstanding the various methods of engagement, the point was repeatedly made that identifying the levy payers is fundamental to strengthening RDC accountability. Such information provides a mechanism through which levy payers can influence the investment of their levies through formal voting rights or other processes whereby levy payers contribute to R&D prioritisation.<sup>95</sup>

3.65 There are a number of formal and informal levy payer engagement mechanisms within each industry. The effectiveness of these mechanisms and related participation rates, as well as levy payer perception regarding the extent of their

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90 South Australian Fresh Fruit Growers Association, *Submission 50*, p. [2].

91 Apple and Pear Australia Ltd, *Submission 95*, p. 25 and North Coast Avocado Growers Sub-branch NSW Farmers, *Submission 107*, p. 3.

92 Farmer Power Australia, *Submission 27*, pp 3–4.

93 Australian Farm Institute, *Submission 129*, p. 25.

94 Department of Agriculture, *Submission 33*, p. vi.

95 NSW Farmers' Association, *Submission 140*, p. 24.

influence over them, vary considerably across industries. For example, ALFA noted that it was more easily able to influence the adjustment of the R&D and marketing levy allocation on behalf of lot feeders compared to the grass-fed cattle sector. This is because of its direct membership model, smaller industry size and the fact that its members comprise 82 per cent of the cattle feedlot sector.<sup>96</sup>

3.66 There were a few submitters who argued that levy payers had little opportunity to engage in the decision-making process. In some instances, levy payers argued that they were provided inadequate information to provide input into strategic plans.<sup>97</sup> In others, they sought greater detailed and more accessible information on completed projects.<sup>98</sup> However, one of the key concerns raised by producers was that of a dilution of regional or commodity-specific influence over levy decision making.<sup>99</sup>

3.67 Some growers in the horticulture sector were concerned about the potential dissolution of their influence in relation to other commodity-specific groups. They were concerned about the prospect of the merger of their levy funds with other horticultural levy funds into 'one horticulture bucket'.<sup>100</sup> As a case in point, Australian Sweetpotato growers pay the vegetable R&D levy. As the peak body representing sweetpotato growers in Australia, Australian Sweetpotato Growers Inc. (ASPG) raised the concern that its members had not derived fair or equitable benefit from their levy investment. The organisation argued that it had limited opportunity to influence the investment of their contribution to the levy. Highlighting the unique characteristics of sweetpotatoes, including the different growing conditions and practices required, (which are distinctly different to that for potatoes), ASPG argued that the R&D interests of its grower members had been diluted under the vegetable levy, as reflected in an inequitable benefit derived from R&D investment.<sup>101</sup>

3.68 However, Mr John Lloyd, CEO of HIAL informed the committee that under the new model:

...we have made a commitment that a levy dollar raised, let us say, by the cherry industry, and paid by a cherry grower will stay in the cherry industry for the benefit of the cherry industry, and we will match that—at this stage, while our funding formula remains the same—with a Commonwealth dollar.<sup>102</sup>

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96 Australian Lot Feeders' Association, *Submission 29*, p. 6.

97 Western Australian Farmers Federation, *Submission 117*, p. 2.

98 Commercial Egg Producers' Association of Western Australia, *Submission 120*, p. 2.

99 Mr Douglas Clarke, WA Grains Group, *Committee Hansard*, 20 February 2015, p. 3 and Mr Paul McKenzie, private capacity, *Committee Hansard*, 20 February 2015, p. 22.

100 Mr Frank Diaco, *Submission 73*; Mr Ross Stuhmcke, *Submission 75*; Mr Tim Byl, *Submission 76*; Mr Adrian Conti, *Submission 77*; A.C.N Orchards, *Submission 78* and Mr TJ & RM Dunn, *Submission 79*.

101 Australian Sweetpotato Growers Inc., *Submission 94*, pp 9–10.

102 Mr John Lloyd, Horticulture Innovation Australia Ltd, *Committee Hansard*, 15 May 2015, p. 19.

3.69 Thereafter, HIAL will publish a set of accounts by that fund. Therefore, in this instance, there would be a cherry fund with its own set of accounts. It would detail how much levy was raised by the cherry industry, how much was matched, and how much was spent and on what.<sup>103</sup>

3.70 Many submitters identified a range of initiatives by which levy payers can influence the investment of their levies. While these vary from one industry to the next, evidence to the committee focused on opportunities for levy payers to engage in three key areas.

- RDC performance including strategic planning and governance;
- levy rate management including the approval and modification of levy rates; and
- levy investment decisions and review of returns on levy investment.<sup>104</sup>

*RDC performance including strategic planning and governance*

3.71 Industry-owned RDC AGMs provide eligible levy payers with an opportunity to question board members and senior executives, elect or endorse board members and to vote on a range of resolutions. AECL argued that feedback from levy payers is given at AGMs as well as at industry forums, during ad hoc workshops with egg producers and strategic planning meetings.<sup>105</sup>

3.72 The Goat Industry Council (GICA) noted the following efforts to engage in RDC strategic direction:

GICA has been proactive in engaging with the above organisations that manage levy funds. Although there does not appear to be any statutory requirement for producer involvement in setting priorities and strategic direction, GICA, through collaborative involvement, gives direction to these organisations in relation to the use of levy funds.<sup>106</sup>

3.73 APAL highlighted the importance of grower engagement in the strategic plan, noting that the first element of any rationing system is the establishment of an Industry Strategic Investment Plan which serves as the 'cornerstone of any levy investment decision'.<sup>107</sup>

*Levy rate management including the approval and modification of levy rates*

3.74 The previous chapter outlined the various processes by which levy payers can engage in the approval and modification of levy rates. Examples include levy payer

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103 Mr John Lloyd, Horticulture Innovation Australia Ltd, *Committee Hansard*, 15 May 2015, p. 22.

104 Victorian Farmers Federation, *Submission 85*, p. [4] and Apple and Pear Australia Ltd, *Submission 95*, pp 22–23.

105 Mr James Kellaway, Australian Egg Corporation Ltd, *Committee Hansard*, 3 February 2015, p. 22.

106 *Goat Industry Council*, *Submission 30*, p. 7.

107 Apple and Pear Australia Ltd, *Submission 95*, pp 19–20.

members of ALFA who have an opportunity to approve and re-approve their levy via a motion on programs, projects and budgets for the upcoming year. ALFA noted that the AGM provides the opportunity for its members to voice their concerns about particular matters and vote on them.<sup>108</sup> Mr Douglas Gordon, CEO of ALFA noted that there were other consultative mechanisms in place where members could raise their concerns and have them considered rather than wait to raise them at an AGM.<sup>109</sup>

3.75 APL informed the committee that it is able to gauge the views of its industry through a delegate system. Delegates, who represent 98 per cent of production, meet twice yearly to discuss industry matters. APL put the view that as the delegate system is robust, there was little need for a poll which, it argued, served as an additional set of regulation over the top of existing arrangements.<sup>110</sup> NSW Farmers noted that at the APL AGMs, levy payers had the ability to raise concerns about levy expenditure rather than wait until a poll was organised.<sup>111</sup>

3.76 While the matter of levy rates is one for industry rather than RDCs, the grains industry utilises GRDC's stakeholders' report to consider the appropriate rate of the respective grains levy.

3.77 However, other industry bodies highlighted the lack of engagement. GICA, the designated Commodity Council of the Federation by the Australian Government noted the following in this regard:

The rate of the levies are prescribed by Regulation. Levy payer involvement in setting the rates is not clear.<sup>112</sup>

*Levy investment decisions and review of returns on levy investment*

3.78 Industries utilise a variety of mechanisms to engage levy payers in investment decisions. As each industry has its own set of characteristics, not all mechanisms are suitable for all industries. Notwithstanding this point, most industries had in place committees, panels or delegates systems whereby growers could engage in consideration of levy investments. One such example was the key stakeholder roundtable described by APAL:

The apple and pear industry Key Stakeholders Roundtable was formed in early 2013 as a direct result of feedback received from APAL's annual grower roadshows. The Roundtable comprises around 22 of the industry's largest growers and largest packhouse operators from across Australia's eight major growing regions. This group has "most skin in the game" and together account for over 60% of the apple and pear crop and nearly 80% of

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108 Mr Dougal Gordon, Australian Lot Feeders' Association, *Committee Hansard*, 3 February 2015, p. 77.

109 Mr Douglas Gordon, Australian Lot Feeders' Association, *Committee Hansard*, 3 February 2015, p. 78.

110 Mr Aeger Kingma, Australian Pork Limited, *Committee Hansard*, 28 November 2014, p. 35.

111 Mr Matt Brand, NSW Farmers' Association, *Committee Hansard*, 3 February 2015, p. 70.

112 Goat Industry Council of Australia, *Submission 30*, p. 10.

industry throughput. It provides a forum for industry leaders to share ideas about ways to move the industry forward including priorities for research and extension as well as marketing. The views of the key stakeholders are fed directly to the APAL Board and up until recently, HAL's apple and pear R&D and Marketing Sub-committees, and Industry Advisory Committee (IAC).<sup>113</sup>

3.79 GRDC utilise three regional panels – north, south and west – which are made up of growers and researchers. The panels are responsible to consult with growers, understand their concerns and feed back to growers the work that GRDC is engaged in researching. GRDC also engages regional cropping solution groups comprising growers and advisers responsible to determine research issue and challenges that require R&D for their respective locations.<sup>114</sup>

3.80 In the nursery and garden industry sector, NGIA informed the committee that investment decisions regarding the nursery levy are undertaken in accordance with the industry strategic investment plan, developed in consultation with the 'top levy payers within the sector' and circulated to all levy payers for consideration and discussion at the industry national conference.<sup>115</sup> In terms of monitoring programs, industry levy payers sit on the industry advisory committees responsible for monitoring program delivery. Other committees provide advice on project direction and research gaps.

3.81 Grain Growers Ltd made the point that there are three primary ways in which growers can influence the investment of the grain levies including through:

- ongoing industry consultation – through regional panels, networks, consultation meetings, surveys, research advisory committee meetings and adviser/grower updates in all regions;
- RO – whereby the grains RDC operates under a statutory arrangement which legislates that grain producers have an industry RO to address issues raised by grain producers;<sup>116</sup> and
- RO board representation – in which a proportion of its board appointments are filled by growers.<sup>117</sup>

3.82 One of the primary forums where levy payers can liaise directly with RDCs and engage in levy decision making is at AGMs. OIC's are required to hold AGMs but statutory RDCs are not. While the PIRD Act does not require statutory RDC boards to conduct AGMs, it is permitted. According to the Marsden Jacob report, GRDC's

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113 Apple and Pear Australia Ltd, *Submission 95*, p. 22.

114 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 28 November 2014, p. 41.

115 Nursery and Garden Industry Australia, *Submission 92*, p. 5.

116 An RO has not been appointed to oversight GRDC. According to Grain Growers Ltd, applications for the position of the RO are currently with the Minister's office. Grain Growers Ltd, *Submission 36*, pp 11–12.

117 Grain Growers Ltd, *Submission 36*, pp 11–12.

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approach of not conducting AGMs appears to reflect 'perceived costs, benefits and the absence of a requirement'.<sup>118</sup>

3.83 While statutory RDCs don't hold AGMs, many industry representative bodies do. Cotton Australia, as the peak representative body for cotton growers, conducts three general meetings a year where growers' and members' representatives from every region converge to consider key issues. The cotton RDC, CRDC uses the peak body AGM as an opportunity to report directly to those grower representatives, while growers can directly raise their concerns with the cotton RDC.<sup>119</sup>

### *Navigating complexity*

3.84 One of the primary reasons for the complexity across the agricultural levies system is the sheer diversity in governance, management and membership structures across the plethora of organisations and bodies engaged with levies, R&D and marketing. This diversity extends to how levy payers are represented and the extent to which they engage with RDCs. Some have a direct relationship through voting mechanisms, while for others the relationship is filtered through industry representative bodies. This diversity stems from the different histories, characteristics and makeup of each industry which also carry with them lingering legacy issues. The diversity extends to the RDC and representative body membership structures which also vary considerably. These differences and the diversity from one industry to the next provide considerable scope for confusion and uncertainty.

3.85 Along with the officially recognised PIBs and ROs, there are a number of other grower representative bodies including industry-specific bodies and broader based groups such as farmer organisations. Estimates suggested that there are up to 90 farmer organisations, including state farming organisations (SFOs), national farm organisations and agriculture commodity organisations that carry out industry representation and advocacy activities, largely funded by voluntary membership contributions.<sup>120</sup> For any levy payer, establishing an understanding of the roles, responsibilities and relationships between these bodies, and in respect to RDCs (and to themselves as payers of the levy) is an extremely difficult task.

3.86 The horticulture industry is characterised by a number of separate peak bodies for its component commodities. Membership of the former Horticulture Australia Ltd consisted of 43 separate industry bodies, covering a range of horticulture products.<sup>121</sup> These bodies had the power to propose the imposition of, and changes to, levies. The point was made that in contrast, it is only the statutory organisation that has the power to propose levies.<sup>122</sup> With such a large number of industry representative bodies

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118 Marsden Jacob Associates, *Grain Research and Development Corporation: Independent Strategic Governance Review: Final Report*, July 2014, p. 26.

119 Mr Adam Kay, Cotton Australia, *Committee Hansard*, 3 February 2015, p. 47.

120 Australian Farm Institute, *Submission 129*, p. 18.

121 Mr John Lloyd, Horticulture Innovation Australia Ltd, *Committee Hansard*, 15 May 2015, p. 17.

122 Costa, *Submission 12*, p. 6.

within the horticultural sector, the tasks of management and coordination were described as cumbersome and difficult. In light of the extent of variation and representation across horticulture, it was argued that under the new HIAL structure, methods to consolidate industry-wide projects should be clear and transparent to all.<sup>123</sup>

3.87 A different example is that of the wool industry. AWI is a not-for-profit company owned by over 56,000 wool levy payers, including over 26,000 who have registered as AWI shareholders. AWI's SFA does not define a specific industry representative body to consult with and ensure that growers' priorities are reflected in their business. There is no formalised feedback mechanism therefore, between a wool grower PIB that sets policy and AWI.<sup>124</sup>

3.88 As there is no defined industry representative body in relation to the wool industry, AWI is required to consult with the four national representative woolgrower groups (as well as state farm organisations) to meet its SFA obligations. To streamline this process and bring together these respective representative groups, AWI established the Woolgrower Industry Consultative Committee (ICC) which meets quarterly.<sup>125</sup> The role of the ICC is to provide grower stakeholders with input into AWI business planning and priority-setting processes including strategic and annual operating plans.<sup>126</sup>

3.89 To add to the complexity of the levy system, more than one term is used to describe industry representative bodies. The ACIL Allen report on HAL noted in this regard that prescribed industry bodies (PIBs) were also referred to as peak industry bodies and as industry representative bodies. That is, three different names to describe the same organisation.<sup>127</sup>

#### *Representation and service provision*

3.90 Representative bodies including ROs and PIBs are structured to provide opportunities for their members to influence policy decisions. In contrast, RDCs are mandated to invest in R&D and marketing to enhance the profitability, international competitiveness and sustainability of agricultural industries.<sup>128</sup>

3.91 Much of the debate regarding representation stemmed from the fact that the roles and responsibilities of RDCs and industry representative bodies have become confused. RDCs have a mandate to enhance production, while the validity of representative bodies rests on their ability to secure support from producers. In this regard, PIBs have a role in holding RDCs, as levy investment organisations, to

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123 Dorrian Farms, *Submission 112*, p. 6.

124 WoolProducers Australia, *Submission 132*, p. 9.

125 Ms Peta Slack-Smith, Australian Wool Innovation, *Committee Hansard*, 5 February 2015, p. 24 and Australian Wool Innovation, *Submission 123*, p. 4.

126 Australian Wool Innovation, *Submission 123*, p. 18.

127 ACIL Allen Consulting, *Better Value for Growers – A future for HAL*. Independent review of HAL and Horticulture Levy System, May 2014, iv.

128 Australian Wool Innovation, *Submission 123*, p. 6.

account for the effective investment of levy funds on behalf of levy payers.<sup>129</sup> These organisations are the representative and advocacy organisations for their specific commodity sector. They play an important role in providing a collective voice for members (who are also RDC levy payers), providing a communications pathway between RDCs and their levy payers, and working directly with the RDC to set the strategic direction and priorities for RD&E on behalf of levy payers.<sup>130</sup>

3.92 The different mandates of RDCs and representative bodies are evident in their membership structures and respective board selection processes. AFI noted that the contention surrounding RDC boards and whether they should be skills-based recruitments or appointed by way of popular ballot, stemmed from confusion about the respective roles of representative organisations and RDCs. It made the point that while levy payers have the opportunity to endorse nominations for RDC board positions via a selection committee process, or to elect directors from nominations, they do not have the opportunity to directly elect RDC boards via popular ballot. AFI continued:

This arrangement is the same as those that apply more generally in Australian shareholder corporations, which operate on the basis that good corporate governance requirements dictate that a board requires a balance[d] mix of relevant skills and experience, and that a purely popular ballot is not an appropriate way to achieve such an outcome around the board table.<sup>131</sup>

3.93 However, in the case of commodity organisations or advocacy organisations such as state farming organisations, it is 'entirely appropriate to elect leaders and representatives by popular ballot', as the objective in this case is to elect representatives who 'best reflect the collective views of members'.<sup>132</sup>

3.94 In terms of industry-owned RDC membership, the former HAL comprised industry representative bodies while membership of DA comprises both dairy farmers and SFOs.<sup>133</sup> DA has two groups of members. Group A members comprise eligible levy payer dairy farmers and group B members comprise Australian Dairy Farmers (the six SFOs) and the Australian Dairy Products Federation.<sup>134</sup>

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129 Mr Gregory Seymour, Australian Mushroom Growers Association, *Committee Hansard*, 3 February 2015, p. 35.

130 Australian Farm Institute, *Submission 129*, p. 25.

131 Australian Farm Institute, *Submission 129*, p. 25.

132 Australian Farm Institute, *Submission 129*, pp 25–26.

133 ACIL Allen Consulting, *Better Value for Growers – A future for HAL*. Independent review of HAL and Horticulture Levy System, May 2014, vii.

134 Dairy Australia, *Submission 124*, p. 31.

3.95 Membership arrangements of industry representative bodies also vary considerably. Membership of some PIBs such as the Sheepmeat Council of Australia comprises SFOs, whereas in others, producers can become direct members.<sup>135</sup>

3.96 It should be further noted that not all levy payers are members of industry representative bodies. The Goat Industry Council of Australia (GICA) acknowledged:

Members of the organisations represented on GICA have the opportunity to input directly into the debate on levy investment via their representatives. However, GICA recognises that not all levy payers are members of these organisations and need the opportunity to influence levy investment and the opportunity to hear how the levies are being invested.<sup>136</sup>

3.97 There are substantial differences between representative organisations which are structured to provide opportunities to members to influence policy decisions and that of RDCs. In light of the complex relationships and diverse representative and membership structures, evidence to the committee suggested that these differences were not well understood by levy payers. CRDC also acknowledged that there was confusion in distinguishing between roles, responsibilities and representation.<sup>137</sup> AFI noted in this regard that:

A lack of understanding of the fundamental differences between the two types of organisations often leads to misunderstandings by farmers and policy makers about the role they believe RDCs should play, and how they should be structured and governed.<sup>138</sup>

3.98 AFI's Executive Director, Mr Michael Keogh, noted that there was a lot of confusion about representation structures and the linkages they have to RDCs, as well as in relation to the role of RDCs themselves. Furthermore, he acknowledged that misunderstandings about representative structures got confused in discussions about the management and operations of RDCs.<sup>139</sup>

3.99 Depending on the complexity of the industry, number of representative bodies involved, and mechanisms through which levy payers can have a say about their levies, understanding these differences and interrelationships can be extremely difficult for levy payers. Acting upon this understanding, in order to identify the most effective ways to engage in levy decision-making processes and influence levy

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135 Sheepmeat Council of Australia, SCA Background, <http://www.agforceqld.org.au/file.php?id=2878&open=yes> (accessed 12 May 2015). In late 2013, Cattle Council of Australia (CCA) adopted a new structure which provided for direct membership to beef producers. Previously, beef producers could only become members of CCA if they were members of an existing SFO. Cattle Council of Australia membership, <http://www.cattlecouncil.com.au/members/about> (accessed 12 May 2015).

136 Goat Industry Council of Australia, *Submission 30*, p. 9.

137 Mr Bruce Finney, Cotton Research and Development Corporation, *Committee Hansard*, 3 February 2015, p. 49.

138 Australian Farm Institute, *Submission 129*, p. 19.

139 Mr Michael Keogh, Australian Farm Institute, *Committee Hansard*, 5 February 2015, p. 26.

investment becomes even more difficult. The prospect of tracing their levies throughout the process from initial payment to investment and return is, therefore, very remote indeed.

3.100 Under these circumstances, particularly where producers do not have a direct relationship with the industry RDC, that disconnect extends to the relationship between levy payer and levy recipient.

3.101 Farmer Power noted that:

Farmer Power has found a high level of discontent and disconnection amongst dairy farmers with their levy funded representative body. Levy payers have questioned the use of their rate payments, feeling there is a lack of real return of investment to farm gate operations. We also question the depth of analysis in previous performance reviews, and feel that more scope should be given in reviews to more thoroughly investigate the use of levy rate payments.<sup>140</sup>

### ***Participation***

3.102 While some submitters highlighted the inadequate opportunities to engage in the strategic direction of RDCs or levy rate changes, considerable evidence to the committee pointed to the modest levels of levy payer engagement in levy decision making processes such as AGMs and polls. As a case in point, 42 per cent of levy payers (representing 51 per cent of DA members) participated in the 2012 dairy poll.<sup>141</sup>

3.103 SRA informed the committee that at its most recent AGM in October 2014, 100 canegrowers (of its 2300 canegrower members) participated in person or by proxy alongside seven (of the eight) miller members.<sup>142</sup> It argued the case that the turnout was interpreted as a vote of confidence in the company.<sup>143</sup>

3.104 As farmers are 'time poor', one of the primary challenges before DA and other RDCs is maintaining dialogue with them about R&D while also meeting their consultation obligations.<sup>144</sup> However, the matter goes again to the question of representation and the ability of levy payers to negotiate their way through the system. As GRDC noted in its evidence to the committee, while it conducts a telephone survey of 1200 grain growers every year, only 18 per cent of them understand what GRDC is doing.<sup>145</sup>

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140 Farmer Power, *Submission 27*, pp 1–2.

141 Mr Ian Halliday, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 31.

142 Mr Neil Fisher, Sugar Research Australia, *Committee Hansard*, 28 November 2014, p. 25.

143 Mr Neil Fisher, Sugar Research Australia, *Committee Hansard*, 28 November 2014, p. 26.

144 Mr Ian Halliday, Dairy Australia Ltd, *Committee Hansard*, 4 February 2015, p. 30.

145 Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 15 May 2015, p. 2.

3.105 This is also the challenge for industry representative bodies including Summerfruit Australia, a peak industry body.<sup>146</sup> It initiated a process to increase the levy on apricots, nectarines, peaches and plums in June 2010, with roadshows in 14 locations. In some places, only five people attended the roadshows. While 304 registrations were received to participate in the vote, ABS estimates suggest that there are between 800 to 1000 stone fruit growers in Australia.<sup>147</sup> An AEC-managed poll was conducted in October 2011, following advertisements in over 18 regional and national newspapers. However, 91 people did not send in their returns while seven were incorrect. Therefore, of 304 registered votes, only 213 were counted.<sup>148</sup>

3.106 Participation was also a matter raised in relation to a poll conducted through an independent agent, Secure Vote, by Avocados Australia Ltd, the prescribed industry body for avocado growers, to increase R&D and marketing levies in 2005. While 661 levy payers were eligible to vote, 145 participated in the poll.<sup>149</sup>

3.107 These modest levels of engagement were equally reflected at educational events such as field days. Mr Halliday from DA explained that the challenge before RDCs and their industry representative bodies was how to help levy payers to make an informed decision when a lot of the information provided to them does not get read.<sup>150</sup> In this regard, the point was made by GRDC that knowing who the levy payers are would permit the RDC to tailor information to grain growers.<sup>151</sup>

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146 Summerfruit Australia is the peak industry body for growers of fresh apricots, nectarines, peaches and plums. Summerfruit Australia, *Submission 51*, p. 1.

147 Mr John Moore, Summerfruit Australia, *Committee Hansard*, 4 February 2015, p. 57.

148 Mr John Moore, Summerfruit Australia, *Committee Hansard*, 4 February 2015, pp 56 and 60.

149 Avocados Australia Ltd, *Submission 121*, p. 3.

150 Mr Ian Halliday, Dairy Australia, *Committee Hansard*, 4 February 2015, p. 31.

151 Mr John Harvey, Mr John Harvey, Grains Research and Development Corporation, *Committee Hansard*, 15 May 2015, p. 9.

# Chapter 4

## Committee view and recommendations

4.1 While the committee acknowledges the mixed views regarding industry representation and levy investment matters, the inquiry has revealed that there is general support across the agricultural sector for the levy system.<sup>1</sup> Notwithstanding this point, the committee recognises that there are a number of challenges within the levy system which need to be addressed.

4.2 Considerable evidence to the committee focused on governance and management arrangements within RDCs rather than R&D and marketing investment. For these reasons, the following recommendations focus on providing greater flexibility and responsiveness within the levy system in order that industry aspirations can be realised in a timely, cost-effective manner.

4.3 There is no question that the levy system and the structures that underpin it are complex, convoluted and difficult to penetrate. This complexity is evident at every stage of the process, including in relation to the introduction and modification of levy rates, collection arrangements, investment decision-making, extension and return, and representation and oversight. While there is considerable diversity across industries in terms of these dynamics, processes and visibility, the key issue of commonality across all industries was the need to know who the producer levy payers are.

### Fundamental principles underpinning the agriculture levy system

4.4 The committee appreciates that a one-size-fits-all approach to agricultural levies would be totally inappropriate, given the diversity across the various commodities subject to levies and the unique characteristics of each industry. Nevertheless, the committee recognises that the underpinning principle of the levy system should be that producer levy payers can trace their levies from payment to investment and return. They should also have a say on the investment and utilisation of their own levy. For many levy payers, the levy system is abstract, removed from

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1 Dr Andreas Dubs, Australian Chicken Meat Federation, *Committee Hansard*, 3 February 2015, p. 1; Mr Robert Prince, Nursery & Garden Industry Australia, *Committee Hansard*, 3 February 2015, p. 12; Mr William Hamilton, Ag Institute Australia, *Committee Hansard*, 3 February 2015, p. 15; Mr Gregory Seymour, Australian Mushroom Growers Association, *Committee Hansard*, 3 February 2015, p. 34; Mr Adam Kay, Cotton Australia, *Committee Hansard*, 3 February 2015, p. 44; Mr Matt Brand, NSW Farmers Association, *Committee Hansard*, 3 February 2015, p. 67; Mr Adam Kay, Cotton Australia, *Committee Hansard*, 3 February 2015, p. 44; Mr Matt Brand, NSW Farmers' Association, *Committee Hansard*, 3 February 2015, p. 67; Mr Richard Mulcahy, AUSVEG, *Committee Hansard*, 4 February 2015, p. 2; Mr David Jochinke, Victorian Farmers Federation, *Committee Hansard*, 4 February 2015, p. 20; Ms Annie Farrow, Apple and Pear Australia Ltd, *Committee Hansard*, 4 February 2015, p. 63; Mr Tony Mahar, National Farmers Federation, *Committee Hansard*, 5 February 2015, p. 1; Mr David McKeon, GrainGrowers Ltd, *Committee Hansard*, 5 February 2015, p. 13; Southern Rocklobster Ltd, Submission 18, p. 3; Australian Sugar Industry Alliance, *Submission 35*, p. 1; Grain Growers Ltd, *Submission 36*, p. 2 and Mr David and Ms Janet Haynes, *Submission 96*.

their daily lives and confusing. Decision-making processes in relation to levy investment are perceived by some to be unreachable and intangible. However, the integrity of the agriculture levy system into the future rests on the fundamental principle of levy payer engagement.

4.5 The mechanism and means through which this is achieved is a matter for each industry. Nevertheless, the committee recognises that AGMs provide an important opportunity for levy payers to raise their concerns directly with RDC boards and thereby improve board accountability. For this reason, the committee strongly encourages statutory RDCs to seriously consider cost-effective methods to initiate AGMs as a means to engage directly with levy payers and their representative bodies. The ability to discuss concerns and priorities directly, and in an open forum, could only contribute to greater understanding and agreement upon research imperatives and levy investment priorities.

4.6 The following committee recommendations are not directed at addressing each of the concerns raised during the inquiry across all agricultural industries but rather seek to ensure that the structures that underpin the levy system are reformed to provide producers with the means to manage their own levies. It is not the place of the committee to comment on the best methods to engage levy payers or to detail the most appropriate representation models, except to say that levy payers must have a clear say about R&D decisions and where relevant, marketing investment decisions. They must have oversight of how their levies are invested and the process undertaken to make that determination.

4.7 While there was considerable debate as to whether a regular poll should be required across agricultural industries to determine the levy rate and allocations within the levy, this is a matter for each respective industry. However, it is noted that without a comprehensive database or register of levy payers, there is considerable risk that mandating a regular poll (or prescribing other opportunities directed at securing levy payers with a greater say in the levy) would lead to decision making based on assumptions, rather than serve as a true reflection of the aspirations and priorities of levy payers themselves.

### **Automated and transparent levy collection and vote entitlement system**

4.8 The levy collection systems used in relation to agricultural commodities vary considerably in terms of method of collection, collection point, rate and means of measurement, as well as documentation provided to levy payers on their levies paid. It is at the point of levy collection that the important information regarding levy payers is diluted. Yet, much of the complexity and confusion in relation to levy arrangements, and questions regarding transparency and accountability to levy payers, arises from the lack of a mechanism to identify those payers.

4.9 The committee repeatedly made the point throughout the inquiry that a levy payer register was fundamental to the levy system. Furthermore, it could potentially be used in a variety of additional and exceptional circumstances (such as biosecurity, quarantine and food safety events) to contact producers immediately, and thereby serve a wider public good.

4.10 The committee holds the view that the premise of a transparent and accountable levy system is that of knowing who the levy payers are. Without a levy payer database, the basis on which RDCs and industry bodies communicate with levy payers will remain ad hoc. In this regard, the committee recognises as a fundamental flaw, the fact that there is no mechanism to directly advise levy payers about the ways in which their levy funds are being invested.

4.11 For this reason, the committee strongly encourages agricultural industries, in cooperation with the department, to consult on the most appropriate and cost-effective way to develop an electronic levy payer database. In this regard, the committee reiterates its 2014 recommendation for such a system in relation to the grass-fed cattle levy. The committee notes that the introduction of an automated levy collection system would:

- provide for transparency in terms of levy collection;
- provide an accurate mechanism to record levy payers' details;
- enable the rapid settlement of levy payment and timely transfer of levy revenue to the department;
- provide a mechanism to determine voting entitlements;
- be subject to regular independent auditing and verification; and
- provide an accurate audit trail.

4.12 The committee recognises that an electronic system may also positively impact levy collection costs and the administrative charges that industries are subject to. It has the potential to alleviate the reporting burden currently placed on agents as levy collectors. It may also address other challenges in relation to agents, including that of payment for services and liquidation.

4.13 The committee notes the department's concern that one model for the identification and documentation of levy payers should be established across all agricultural industries, and that the introduction of fifteen or more different models should be avoided. While the establishment of levy payer databases should not serve as an additional layer of difference or divergence between industries, the committee appreciates the challenges in establishing one model when levy collection systems vary considerably across the agricultural sector. Nevertheless, the committee strongly encourages agricultural industries to work together, and with the department, to identify appropriate mechanisms to capture levy payer details.

4.14 The move to an automated mechanism to identify levy payers against levies paid also provides the opportunity for relevant industries to allocate voting entitlements to levy payers. In this regard, the committee supports the evidence that eligibility for membership of industry-owned RDCs should be automatically assigned to levy payers.

4.15 Furthermore, the committee understands that agricultural levies are paid at both the federal and state levels. Ideally, therefore, any such database or databases should capture both levy structures. Such an effort would require industry, in conjunction with the federal and respective state departments, to identify a system that

can be used uniformly. Furthermore, the establishment of a database could serve as an opportunity for industries to review their levy collection methods, with a view to streamlining the collection process, particularly in relation to state-based levies, which should be merged where possible in order to reduce duplication.

4.16 As the levy system is extremely complex and opaque for many levy payers, the provision of information on levy payers would enable industry bodies (including relevant RDCs) to target and tailor the information they provide to levy payers. The committee takes the view that if used appropriately, information gleaned vis-à-vis the database will provide for voting entitlements of levy payers and enable levy recipients to demonstrate to levy payers where and how their levies are invested.

4.17 The committee further considers the collection of such data would assist relevant authorities and industry to communicate timely information to levy payers in the event of biosecurity emergencies, and assist authorities in better identifying risks in such emergencies.

4.18 As a first step towards achieving these objectives, the committee recommends that the *Primary Industries Levies and Charges Collection Act 1991* be amended, consistent with subsections 27(3) concerning wool and 27(3A) concerning dairy to allow for the collection and distribution of levy payer information in relation to other agricultural industries. Such an amendment, which identifies both the authorised person and eligible recipient in relation to the publication of levy payer information, would make it clear which bodies have responsibility for, and access to, levy payer data.

### **Recommendation 1**

**4.19 The committee recommends that the *Primary Industries Levies and Charges Collection Act 1991* be amended, consistent with subsections 27(3) and 27(3A), to enable the collection and distribution of levy payer information which will allow the creation of levy payer databases for all agricultural industries that pay agricultural levies. The committee further recommends that levy payer databases be established within two years of the legislative amendment.**

### **Recommendation 2**

**4.20 The committee recommends that data collected for the purposes of levy databases and held by the Department of Agriculture should be limited to information sufficient to enable organisations responsible for spending or allocating levy funds to communicate with levy payers and enable votes to be allocated on a production basis. Data should include location, contact details, crop or enterprise type and production volume and/or value. Databases should be held by the appropriate levy-payer owned body, and be available to appropriate authorities under circumstances of biosecurity emergencies.**

### **Recommendation 3**

**4.21 The committee recommends the establishment of a cost-effective, automated agricultural levy system. The system should identify levy payers against levies paid. The automated system should provide for more immediate**

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**settlement of levy fees paid and the allocation of voting entitlements where relevant. It should be subject to regular independent auditing and verification.**

#### **Recommendation 4**

**4.22 The committee recommends that where industry sectors are subject to levies by both states and territories and the Commonwealth, the merging of record keeping and levy collection should be investigated to avoid duplication and reduce costs to producers.**

#### **Flexibility and transparency in levy change arrangements**

4.23 Evidence to the committee highlighted the often lengthy and complex processes involved in seeking changes to levies – including introducing new levies, changing the rate of existing levies and changing the amounts allocated within a single levy. The evidence focused on the extensive, time-consuming and resource intensive processes and administrative burden placed on industries in this regard.

4.24 The committee acknowledges concerns raised by both RDCs and industry representative bodies regarding what has become an inflexible and time-consuming process. Evidence to the committee suggested that at times, this resource-intensive process hindered rather than supported the process of levy modification, and with it, industry aspirations for R&D and marketing.

4.25 It was suggested to the committee that it was excessive red tape which deterred agricultural industries from increasing investment in R&D, marketing and biosecurity rather than a lack of desire. While the committee recognises that there may be other contributing factors, the point remains that these administrative obstacles have contributed to a situation in which levy adjustments are rarely undertaken. The committee is sympathetic to the view that if such adjustments were carried out more regularly, levy increases may not seem as substantial when submissions for them are made.<sup>2</sup> Furthermore, opportunities to rationalise levies (and potentially reduce collection costs which could accompany such adjustments) are also not undertaken. The efforts of the Australian Chicken Meat Federation to pay back a debt by raising a component of its levy to repay its industry's share of the emergency animal disease response was one such example which highlighted the unnecessary complexity of the process.

4.26 While the committee acknowledges that industries must demonstrate producer levy payer support for any modification to a levy, the point was repeatedly made that the bureaucratic burden placed on industries hinders and prevents responsiveness to industry changes while also redirecting focus and resources away from R&D and marketing investment. What is fundamental to such a system is certainty and responsiveness in terms of funding arrangements to ensure the realisation of long-term outcomes in RD&E as well as the ability to respond to issues that arise suddenly, such as a biosecurity incident.<sup>3</sup> For these reasons, the committee acknowledges that there is

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2 Australian Mushroom Growers' Association, *Submission 115*, p. 8.

3 Mr Tony Maher, National Farmers Federation, *Committee Hansard*, 5 February 2015, pp 2 & 3.

a need to identify methods to reduce the compliance burden and therefore the time, resources and costs involved, particularly in relation to levy rate amendment proposals.

4.27 The committee takes the view that there is scope for the department to rationalise the process without compromising the levy principles and guidelines. To this end, the committee strongly encourages the department to establish a clear and transparent timeframe in relation to the decision making process once levy applications are submitted. Further, the committee recommends that the department in cooperation with agricultural industries and RDCs, conduct a review of levy introduction and amendment processes, with a view to identifying methods to provide for a more cost-effective and responsive levy change process.

### **Recommendation 5**

**4.28 The committee recommends that the Department of Agriculture provide agricultural industries with a timeframe for levy application and amendment decisions.**

### **Recommendation 6**

**4.29 The committee recommends that the Department of Agriculture, in cooperation with relevant agricultural industries, conduct a review of the process to establish and amend agricultural levies including modifications to levy components. The review should identify methods to provide for a more cost-effective and responsive process while maintaining an appropriate level of accountability.**

### **Prescribed Industry Bodies**

4.30 The committee notes, and to an extent, agrees with concerns raised by some submitters and witnesses regarding the true level of representation provided to levy payers by peak industry bodies and the lack of uniform, transparent criteria determining the recognition of PIBs under legislation. The committee further notes concerns raised about voting systems based on volume, area or value as opposed to 'one man, one vote' systems; the former allows relatively few large levy payers to dominate votes determining expenditure of levies – potentially at the expense of smaller levy payers – while the latter may potentially not reflect large levy payers' significant investment in R&D with an expectation to have a proportional influence over expenditure.

4.31 The committee notes the diversity and disparity of various PIB voting systems, and significant under-representation in some cases in votes determining levy rates and expenditure.

### **Recommendation 7**

**4.32 The committee recommends that the Department of Agriculture review and if necessary, redraft the criteria for Prescribed Industry Bodies (PIBs) with a view to developing a transparent, uniform and contestable process, including published criteria and thresholds as applicable, for the recognition of PIBs for the purposes of collecting levies.**

**4.33 The committee further recommends that PIBs already recognised under legislation should be required by the Department of Agriculture to conclusively demonstrate, within a period of no more than five years, that they meet the criteria referred to in Recommendation 7 in order to remain the recognised PIB for their relevant industry sector.**

**Senator Glenn Sterle  
Chair**



## **Additional Comments by Senator David Leyonhjelm**

1.1 This inquiry was established in response to a motion to disallow increases in levies on mushrooms, onions and mangoes, in light of information suggesting the processes undertaken to confirm levy payer approval of the increases were seriously flawed.

1.2 The main concerns were that the number of levy payers who actually voted was small relative to the total number of producers, the cost of undertaking the vote was excessive, the issue was not impartially presented, and small producers had equal voting rights to major producers. As a consequence, small producers were essentially voting on whether to impose additional costs on major producers.

1.3 While the recommendations contained in the majority report are endorsed, there is concern that, if implemented, they would still not necessarily overcome those problems. Unless genuine accountability to levy payers is achieved, there may be a need to move similar disallowances in future.

1.4 The need for databases of levy payers, maintained with due respect for privacy but accessible to those with a legitimate purpose, is paramount.

1.5 The only practical means of establishing these is through capture of data at the point of levy payment. Compulsory registration of levy payers, other than to comply with levy collection requirements, is not conducive to positive engagement.

1.6 The wool and dairy sectors both allow levy payers to vote on the level of levies to be imposed, including the option of zero. While neither is perfect, they are considerably more representative than other sectors where voting only occurs when there is a proposal to impose a new levy or increase an existing one, and particularly in sectors where no vote has ever occurred.

1.7 Opposition to voting on levy matters at regular intervals came mainly from those with a strong interest in maintaining the status quo. The principal concerns were:

- (i) The possibility that levy payers might vote in favour of a zero levy. This was described as producing the “wrong result”.
- (ii) Disruption to long term R&D projects if levy revenue were suddenly discontinued.
- (iii) Cost and practicality, based on the approach taken with wool and dairy.

1.8 None of these is a sound reason for opposing accountability to levy payers. It is incumbent on levy spenders and others with an interest in maintaining levy revenue to convince levy payers not to vote for a zero option.

1.9 Both Australian Wool Innovation and Dairy Australia have established capital reserves that allow them to continue R&D projects and meet contractual obligations should levy payers ever vote for the zero option. Other sectors could do the same, as

well as enter into contracts with an eye to the (relatively small) possibility that funding might cease.

1.10 The history of voting in the wool and dairy sectors suggests support for a zero option is unlikely except where there is a dominant producer which prefers to undertake its own R&D. If this were to occur, it would indicate there was no market failure.

1.11 The cost of the polls in the dairy and wool sectors is largely attributable to advocating a vote and promoting a particular outcome via roadshows. The cost of a poll undertaken online or via post, with no more than an information memorandum supplied to levy payers, would be a fraction of this.

1.12 Once the identities of levy payers and the amount of levies paid are known, it would be a relatively simple matter to consult levy payers on a regular basis as to the level of levies to be paid and their preferences as to how the revenue is spent.

1.13 Such accountability would have many benefits:

- (i) Those paying levies would have representation to accompany their taxation.
- (ii) Discontent with RDCs could be channelled via the polling process, thus relieving politicians and bureaucrats of a source of complaints.
- (iii) RDCs and others reliant on levy funds would be sensitive to levy payer expectations, potentially leading to more effective use of funds.
- (iv) Use of levy funds on projects that do not contribute to increased productivity (eg mental health, climate change) could be individually approved.

1.14 Given the presence of a database of levy payers, it would also be a relatively simple matter to undertake polls of levy payers to determine:

- (i) Whether to impose a levy for a particular purpose (eg marketing as well as R&D and biosecurity).
- (ii) Whether to utilise levy revenue for a particular purpose (eg export market development).
- (iii) Nomination of a PIB where there are competing claims.
- (iv) Composition of the board of a PIB and representative directors of RDCs.

1.15 Fluctuating numbers of levy payers are no justification for failing to undertake a poll. It would be entirely reasonable to undertake a vote every four or five years, with every levy payer since the last poll entitled to vote in proportion to the levies paid.

1.16 AGMs and other meetings of industry bodies including RDCs, while useful for providing feedback, do not ensure levy spender accountability.

### **Additional Recommendations**

- 1. That once such databases are established, each industry sector undertake a regular poll of levy payers to decide:**
  - **The rate of levies imposed (including a zero option) until the next poll.**
  - **The split of levy funds (if relevant) between R&D and marketing.**
- 2. That database information be used to determine proportional voting by producers according to the amount of levies paid.**
- 3. That polls be conducted at intervals of 4 years with the option to defer a particular poll for a maximum of 2 years in exceptional circumstances (eg severe drought)**
- 4. That each industry have the option of undertaking polls to decide the choice of PIB, representative directors of R&D organisations and the allocation of levy expenditure for particular objectives or strategies.**
- 5. That the cost of polls be paid from levy revenue but only to the extent of:**
  - **the actual costs incurred for voting and counting of votes**
  - **providing an information memorandum that gives equal weight to each side of a proposition.**
- 6. That levy or government funds not be utilised for advocating a particular poll outcome.**
- 7. That voting in any poll is voluntary.**
- 8. That any claim of market failure relating to the imposition of a marketing levy be assessed by the Office of Best Practice Regulation (OBPR) prior to the inclusion of such a claim in an information memorandum, with the OBPR assessment to then be included in the information memorandum.**

**Senator David Leyonhjelm**

**Liberal Democratic Party Senator for New South Wales**



# Appendix 1

## Submissions received

<b>Submission Number</b>	<b>Submitter</b>
1	Mr Warren Hunt
2	Marine Fishfarmers Association WA
3	National Aquaculture Council
4	Winemakers Federation of Australia and Wine Grape Growers Association
5	Onions Australia
6	WA Deer Industry Association
7	PMA Australia-New Zealand Limited
8	Deer Industry Association of Australia
9	Mr Phillip Silver CPA OAM
10	Cherry Growers Australia Inc
11	Australian Livestock & Property Agents Association Ltd
12	Costa
13	Queensland Dairyfarmers' Organisation
14	Select Oyster Company
15	Sugar Research Australia
16	Sunnyspot Packhouse pty ltd
17	Mr Andy Cowan
18	Southern Rocklobster Limited
19	Tinaroo Falls Avocado Pty Ltd
20	Mr Richard Coffin
21	AUSVEG
22	NSW Aquaculture Research Advisory Committee
23	Mr John Savio
24	Mr Paul McKenzie
25	Botanical Resources Australia Pty Ltd
26	Mr Andrew Hansen
27	Farmer Power Australia
28	Dr Lindsay Campbell
29	Australian Lot Feeders' Association
30	Goat Industry Council of Australia
31	Australian Pork Limited
32	Grains Research and Development Corporation
33	Department of Agriculture
34	Australia Cane Farmers Association Ltd

- 35 Australian Sugar Industry Alliance
- 36 Grain Growers Limited
- 37 CBH Group
- 38 Mr Neil Young
- 39 J & B Sawyer
- 40 Mr Bruce Ley
- 41 Mr Ian Grant
- 42 WAFarmers Grains Council
- 43 Ag Institute Australia
- 44 Thoroughbred Breeders Australia
- 45 Almond Board of Australia
- 46 Mr John DeLaine
- 47 McFarlane Strategic Services
- 48 Persimmons Australia Inc
- 49 Mr Kevin Sanders
- 50 South Australian Fresh Fruit Growers Association
- 51 Summerfruit Australia Ltd
- 52 Mr Peter Gubler
- 53 Mr Peter Bell
- 54 Pastoralists & Graziers Association of Western Australia
- 55 Recfishwest
- 56 Nexus Agriculture Pty. Ltd
- 57 2PH Farms Pty Ltd
- 58 Chestnuts Australia Inc
- 59 Pistachio Growers' Association Inc
- 60 Hazelnut Growers of Australia Inc
- 61 Cattle Council of Australia
- 62 Australian Banana Growers' Council
- 63 Mr William Deer
- 64 Simpson Farms Pty Ltd
- 65 Mr Stephen and Erika Chesworth
- 66 The Australian Wine Research Institute
- 67 Office of NSW Small Business Commissioner
- 68 Agricultural Levies Institute of Australia
- 69 Australian Mango Industry Association Ltd
- 70 Raspberries & Blackberries Australia Inc
- 71 Tasmanian Department of Primary Industries, Parks, Water and Environment
- 72 Commonwealth Fisheries Association
- 73 Mr Frank Diaco
- 74 Australian Livestock Exporters' Council
- 75 Mr Ross Stuhmcke

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- 76 Mr Tim Byl  
77 Mr Adrian Conti  
78 A.C.N Orchards  
79 Mr TJ & RM Dunn  
80 Growcom  
81 Womens Industry Network Seafood Community  
82 Wildcatch Fisheries SA  
83 Forest and Wood Products Australia  
84 Murray Dairy  
85 Victorian Farmers Federation  
86 Mr John Hassell  
87 Western Grain Growers Committee  
88 Dairy Futures CRC  
89 Rural Industries Research Development Corporation (RIRDC)  
90 Australian Fodder Industry Association  
91 Australian Grape and Wine Authority  
92 Nursery & Garden Industry Australia  
93 Australian Prawn Farmers Association  
94 Australian Sweetpotato Growers Inc  
95 Apple and Pear Australia Limited  
96 Mr David and Janet Haynes  
97 Australian Meat Processor Corporation  
98 Mr Frank Ekin  
99 Mr Les Williams  
100 Western Australian Fishing Industry Council  
101 Mr David Basham  
102 Mr Steve Harrison  
103 Mr Heinz Gugger  
104 South Australian Dairyfarmers Association  
105 J Toohey and Associates Pty Ltd  
106 Australian Honey Bee Industry Council  
107 North Coast Avocado Growers Sub-branch NSW Farmers  
108 Moraitis Group  
109 When Bee Foundation  
110 The Australian Chamber of Fruit & Vegetable Industries  
111 Ms Nola Anderson  
112 Dorrian Farms  
113 Mr Ken and Mary Lang  
114 NSW Apiarists' Association  
115 Australian Mushroom Growers' Association  
116 Meat and Livestock Australia

<b>117</b>	Western Australian Farmers Federation
<b>118</b>	Lucerne Australia
<b>119</b>	United Stockowners of Australia
<b>120</b>	Commercial Egg Producers Association of Western Australia
<b>121</b>	Avocados Australia Limited
<b>122</b>	Dr Graeme Robertson
<b>123</b>	Australian Wool Innovation
<b>124</b>	Dairy Australia Limited
<b>125</b>	Mr Jock Munro
<b>126</b>	Citrus Australia
<b>127</b>	Queensland Government
<b>128</b>	Sheepmeat Council of Australia
<b>129</b>	Australian Farm Institute
<b>130</b>	Ricegrowers' Association of Australia
<b>131</b>	Cotton Australia
<b>132</b>	WoolProducers Australia
<b>133</b>	Australian Superfine Wool Growers' Association
<b>134</b>	Australian Meat Industry Council
<b>135</b>	Cotton Research & Development Corporation
<b>136</b>	Australian Macadamia Society
<b>137</b>	Australian Dairy Industry Council
<b>138</b>	Tasmanian Farmers and Graziers Association
<b>139</b>	Australian Chicken Meat Federation
<b>140</b>	NSW Farmers' Association
<b>141</b>	Ms Noeline Franklin
<b>142</b>	Australian Livestock Export Corporation Ltd (LiveCorp)
<b>143</b>	National Farmers' Federation
<b>144</b>	Voice of Horticulture
<b>145</b>	Council of Rural Research and Development Corporations
<b>146</b>	Mr Neil Delroy, Mr Russell Delroy and Mr George Ispen
<b>147</b>	Australian Egg Corporation Limited
<b>148</b>	Victorian Department of Environment and Primary Industries
<b>149</b>	WA Grains Group
<b>150</b>	Dr Jim Scott
<b>151</b>	Bindaree Beef

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## **Additional information received**

- Received on 23 October 2014, from Horticulture Australia Limited. Additional information, Better Value for Growers - A Future for HAL report.
- Received on 28 November 2014, from the Department of Agriculture. Additional information Guidelines for declaring Representative Organisations for Research and Development Corporations.
- Received on 8 December 2014, from Australian Pork Limited. Answers to questions taken on notice on 28 November 2014.
- Received on 12 December 2014, from Sugar Research Australia. Answers to questions taken on notice on 28 November 2014.
- Received on 9 January 2015, from Grains Research and Development Corporation. Answers to questions taken on notice on 28 November 2014.
- Received on 16 January 2015, from the Department of Agriculture. Answers to questions taken on notice on 28 November 2014.
- Received on 5 February 2015 from Mr Bruce Finney, Executive Director, Cotton Research and Development Corporation. Correspondence to the committee clarifying a statement made at 3 February 2015 hearing.
- Received on 6 February 2015, from Australian Meat Processors Corporation. Answers to questions taken on notice on 3 February 2015.
- Received on 9 February 2015, from the National Farmers' Federation. Answers to questions taken on notice on 5 February 2015.
- Received on 10 February 2015, from Nursery and Garden Industry Australia. Answers to questions taken on notice on 3 February 2015.
- Received on 10 February 2015, from Australian Egg Corporation Limited. Answers to questions taken on notice on 3 February 2015.
- Received on 13 February 2015, from Grain Growers Limited. Answers to questions taken on notice on 5 February 2015.
- Received on 18 February 2015, from Australian Wool Innovation Limited. Answers to questions taken on notice on 5 February 2015.
- Received on 18 February 2015, from the Australian Wool Innovation Limited. Additional information.
- Received on 19 February 2015, from Australian Chicken Meat Federation. Answers to questions taken on notice on 3 February 2015.
- Received on 20 February 2015, from Cotton Research and Development Corporation. Answers to questions taken on notice on 3 February 2015.
- Received on 20 February 2015, from AUSVEG. Answers to questions taken on notice on 4 February 2015.
- Received on 20 February 2015, from Dairy Australia Limited. Answers to questions taken on notice on 4 February 2015.

- Received on 20 February 2015, from Australian Superfine Wool Growers' Association. Answers to questions taken on notice on 4 February 2015.
- Received on 20 February 2015, from Ms Irene Clarke, Senior Policy Manager, Australian Dairy Industry Council. Correspondence to the committee clarifying a statement made at 4 February 2015 hearing.
- Received on 20 February 2015, from Mr Paul McKenzie. Answers to questions taken on notice on 20 February 2015.
- Received on 25 February 2015, from Agricultural Institute of Australia. Answers to questions taken on notice on 3 February 2015.
- Received on 26 February 2015, from Australian Mushroom Growers' Association. Answers to questions taken on notice on 3 February 2015.
- Received on 28 February 2015, from Mr Neil Delroy. Answers to questions taken on notice on 20 February 2015.
- Received on 6 March 2015, from WoolProducers Australia. Answers to questions taken on notice on 5 February 2015.
- Received on 11 March 2015, from CBH Group. Answers to questions taken on notice on 20 February 2015.
- Received on 12 March 2015, from Western Australian Farmers Federation. Answers to questions taken on notice on 20 February 2015.
- Received on 15 March 2015, from Mr Paul McKenzie. Additional information.
- Received on 20 March 2015, from WA Grains Group. Answers to questions taken on notice on 20 February 2015.
- Received on 29 May 2015, from the Grains Research and Development Corporation. Answers to questions taken on notice on 15 May 2015.
- Received on 1 June 2015, from Horticulture Innovation Australia Limited. Answers to questions taken on notice on 15 May 2015.
- Received on 4 June 2015, from Ms Lee Cale, Acting First Assistant Secretary, Corporate Strategy and Governance Division, Department of Agriculture. Correspondence to committee clarifying a statement made at 15 May 2015 hearing.

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## Tabled documents

### 28 November 2014, Canberra, ACT

- Tabled by Ms Deb Kerr, General Manager, Policy, Australian Pork Limited. Map of Australia which shows producers on PigPass system.

### 3 February 2015, Sydney, NSW

- Tabled by Mr William Hamilton, Chair, Agricultural Institute of Australia. One page summary of Agricultural Institute of Australia's submission to the inquiry – including suggestions for improving the performance of Research and Development Corporations (RDC's).

### 4 February 2015, Melbourne, VIC

- Tabled by Mr Richard Mulcahy, Chief Executive Officer, AUSVEG.
  - Copy of report titled *Vegetable: Industry Advisory Committee Annual Report 2013/14*, AUSVEG/HAL.
  - Opening Statement – Mr Richard Mulcahy.
- Tabled by Mrs Helen Cathles, Past President, Secretary to the Executive, Australian Superfine Woolgrowers' Association.
  - Copy of *Superfine Wool Industry Strategic Review* by John Powell, Optimal ICM, dated 30 January 2013.
  - Document titled *AWEX-ID Superfine Breed Codes: Mean Fibre Curvature Guide Zones – includes a table titled Indicative volumes of Superfine Fleece wool since 2004 using MFC as a proxy for Breed Group*.

### 5 February 2015, Canberra, ACT

- Tabled by Ms Peta Slack-Smith, Group Manager, Corporate Affairs and International Market Access, Australian Wool Innovation. Copy of brochure titled *WoolPoll 2012: Voter Information Memorandum*, published by Australian Wool Innovation.

### 20 February 2015, Perth, WA

- Tabled by Mr Doug Clarke, WA Grains Group. *Graph titled Graph 5B.2 Rural Debt and Income: 1965-2015'*: Source, ABS, APRA, RBA Rural Debt Survey.
- Tabled by Mr Neil Delroy.
  - Document titled *Panel's rating of the different components of the current AB research proposal that was prepared by project manager Hugh King AB panel meeting Thu 11 October 2012*.
  - Final Report: *Scoping Study for Avocado Alternate Bearing Research*, Simon D.E. Newett, Agri-Science Queensland, Department of Agriculture, DAFF Queensland AV12028.

- Tabled by Mr Duncan Young, WAFF/WAFarmers Grains Council. *Graph: Points for Consideration: WAFF Appearance at Levies Inquiry Committee Hearing: Western Investment.*
- Tabled by Mr Julian Krieg. Document titled *Notes on Presentation to Senate enquiry held on 20 Feb 2015.*

**15 May 2015, Canberra, ACT**

- Tabled by Ms Kylie Dunstan, Communication Manager, Grains Research and Development Corporation. Senate Estimates Brief: Forest Research, May 2015.

## **Appendix 2**

### **Public hearings and witnesses**

#### **28 November 2014, Canberra, ACT**

- CLEMENT, Ms Leigh, Manager, Planning and Reporting, Sugar Research Australia
- DUNSTAN, Mrs Kylie, Communication Manager, Grains Research and Development Corporation
- FISHER, Mr Neil, Chief Executive Officer, Sugar Research Australia
- HARVEY, Mr John, Managing Director, Grains Research and Development Corporation
- HOWITT, Mrs Tanya, Executive Manager, Corporate Services, Grains Research and Development Corporation
- KERR, Ms Deb, General Manager, Policy, Australian Pork Limited
- KINGMA, Mr Aeger, Deputy Chairman and Elected Board Director, Australian Pork Limited
- KOVAL, Mr Matthew, Acting First Assistant Secretary, Agricultural Policy Division, Department of Agriculture
- LESTER, Mr Timothy, Operations Manager, Council of Rural Research and Development Corporations
- ROBSON, Mr Noel, Director, Levies Section, Industry Support Branch, Finance and Business Support Division, Department of Agriculture
- RYAN, Mr Matthew, Assistant Secretary, Industry Support Branch, Finance and Business Support Division, Department of Agriculture
- SNELL, Mr Selwyn, Chairman, Council of Rural Research and Development Corporations
- STEPHENSON, Ms Cathrine, Assistant Secretary, Agriculture Policy Taskforce, Agricultural Policy Division, Department of Agriculture

#### **3 February 2015, Sydney, NSW**

- BLAIR, Dr Shona, Executive Committee Member, New South Wales Apiarists' Association Inc; and CEO, When Bee Foundation
- BRADBURN, Mrs Angela, Policy Officer, Cotton Australia
- BRAND, Mr Matt, Chief Executive Officer, NSW Farmers Association

- COOPER, Mr Colin Casey, President, New South Wales Apiarists' Association Inc
- CORBETT, Dr Mary Elizabeth, Chair, Cotton Research and Development Corporation
- CROSBY, Mr Justin, Policy Director, Cropping and Horticulture, NSW Farmers Association
- DUBS, Dr Andreas, Executive Director, Australian Chicken Meat Federation Inc.
- DUNN, Mr John, Policy Director, Livestock, NSW Farmers Association
- ECCLES, Mr Jonathan, Executive Officer, Raspberries and Blackberries Australia Inc
- FINNEY, Mr Bruce Raymond, Executive Director, Cotton Research and Development Corporation
- GORDON, Mr Dougal, Chief Executive Officer, Australian Lot Feeders' Association
- HAMILTON, Mr William David, Chair, Ag Institute Australia
- KAY, Mr Adam, Chief Executive Officer, Cotton Australia
- KELLAWAY, Mr James, Managing Director, Australian Egg Corporation Limited
- KELLY, Mr Stephen, Chairman, Australian Meat Processor Corporation
- LANE, Mr Joseph Gerard, Member, Ag Institute Australia
- MADIGAN, Mr Andrew Richard, Chief Executive Officer, Australian Livestock & Property Agents Association Ltd
- PRINCE, Mr Robert, Chief Executive Officer, Nursery & Garden Industry Australia Limited
- SEYMOUR, Mr Gregory Kenneth, General Manager, Australian Mushroom Growers Association Ltd
- TOLSON, Mr David Warren, Deputy Chairman, Australian Mushroom Growers Association Ltd
- TOLSON, Mr Graeme Peter, General Manager, Business and Finance, Cotton Research and Development Corporation
- WHITTEN, Dr Maxwell John, Chairman of the Board, When Bee Foundation

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#### **4 February 2015, Melbourne, VIC**

- AKERS, Mr Geoff, Chairman,  
Dairy Australia Ltd
- CAMPBELL, Mr Noel, Chairman, Australian Dairy Industry Council; and  
President, Australian Dairy Farmers Ltd
- CATHLES, Mrs Helen Marguerite, Past President, Secretary to the Executive,  
Australian Superfine Woolgrowers' Association
- CLARKE, Ms Irene, Senior Policy Manager, Australian Dairy Industry  
Council; and Senior Policy Manager, Australian Dairy Farmers Ltd
- FARROW, Ms Annie, Industry Services Manager,  
Apple and Pear Australia Limited
- HALLIDAY, Mr Ian, Managing Director,  
Dairy Australia Ltd
- HUNT, Mr Peter, Executive Director, Policy and Commodities,  
Victorian Farmers Federation
- JOBLIN, Mr Ross, Group Manager, Business Operations, and Company  
Secretary, Dairy Australia Ltd
- JOCHINKE, Mr David, Vice President,  
Victorian Farmers Federation
- McSPEDDEN, Mr Jeff, Grower,  
AUSVEG Ltd
- MOORE, Mr John, Chief Executive Officer,  
Summerfruit Australia
- MULCAHY, Mr Richard, Chief Executive Officer,  
AUSVEG Ltd
- NATION, Dr David Peter, Chief Executive Officer,  
Dairy Futures Cooperative Research Centre
- SANDERS, Mr Kevin, Deputy Chairman,  
Apple and Pear Australia Limited
- SINCLAIR, Mr Ric, Managing Director,  
Forest and Wood Products Australia Limited
- SNELL, Mr Selwyn, Chairman,  
Horticulture Innovation Australia Ltd
- TOBY, Mr Michael, Corporate Affairs Manager,  
Costa
- TOOLEY, Ms Alina, Livestock Manager,  
Victorian Farmers Federation
- WHITE, Mr Andrew, Deputy Chief Executive Officer,  
AUSVEG Ltd

## **5 February 2015, Canberra, ACT**

- BATTAGLENE, Mr Anthony Nicholas, General Manager, Strategy and International Affairs, Winemakers' Federation of Australia
- HALL, Ms Jo, Chief Executive Officer, WoolProducers Australia
- HALLIDAY, Mr Richard, President, WoolProducers Australia
- KALISCH GORDON, Dr Cheryl, Manager, Trade and Market Access, GrainGrowers Limited
- KEOGH, Mr Michael John, OAM, Private capacity
- MAHAR, Mr Tony, Deputy Chief Executive Officer, National Farmers Federation
- McCULLOUGH, Mr Stuart, Chief Executive Officer, Australian Wool Innovation
- McKEON, Mr David, General Manager, Policy and Advocacy, GrainGrowers Limited
- MERRIMAN, Mr Walter, Chairman, Australian Wool Innovation
- MORROW, Ms Genevieve, Policy Manager, WoolProducers Australia
- SLACK-SMITH, Ms Peta, Group Manager, Corporate Affairs and International Market Access, Australian Wool Innovation
- YOUNG, Mr Chris, Policy Officer, National Farmers Federation

## **20 February 2015, Perth, WA**

- CLARKE, Mr Douglas Neil, Chairman, WA Grains Group
- DELROY, Mr Neil Donald, Private Capacity
- FALCONER, Mr Alistair, Private capacity
- GOOCH, Mr Tony, Member, Wool Executive, Western Australian Farmers Federation
- HARRISON, Mr John, Chief Executive Officer, Western Australian Fishing Industry Council
- IPSEN, Mr George Athol, Private capacity

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- JENKINS, Mr Greg, Secretary and Treasurer, Marine Fishfarmers Association Inc
  - KRIEG, Mr Julian, Board Chairperson, Rural Financial Counselling Service of Western Australia
  - McKENZIE, Mr Paul, Private capacity
  - MILTON, Mr Graham, Committee Member, WA Grains Group
  - MUCJANKO, Ms Karlie, General Manager of Grower and External Relations, CBH Group
  - PEAKE, Ms Brianna, Government and External Relations Manager, CBH Group
  - ROBERTSON, Dr Graeme, Private capacity
  - SNOOKE, Mr John, Chairman, Western Graingrowers Committee, Pastoralists and Graziers Association of Western Australia
  - WARE, Mr Peter, System and Administrations Manager, Accumulations, CBH Group
  - YOUNG, Mr Duncan, President, WAFarmers Grains Council, Western Australian Farmers Federation

### **15 May 2015, Canberra, ACT**

- DUNSTAN, Mrs Kylie, Communications Manager, Grains Research and Development Corporation
- FREEMAN, Ms Fran, First Assistant Secretary, Department of Agriculture
- HARVEY, Mr John, Managing Director, Grains Research and Development Corporation
- JONES, Ms Barbara, Assistant Secretary, Department of Agriculture
- LLOYD, Mr John, Chief Executive Officer, Horticulture Innovation Australia Limited
- OTTERSON, Mr Peter, Assistant Secretary, Department of Agriculture
- PADOVAN, Mr Nico, Acting Deputy Secretary, Department of Agriculture
- ROBSON, Mr Noel, Director, Department of Agriculture
- RYAN, Mr Matt, Assistant Secretary, Department of Agriculture

- STEPHENSON, Ms Cathrine, Assistant Secretary,  
Department of Agriculture