Review

Structural Governance Options for the Grains Research and Development Corporation

SUBMISSION

WA GRAINS GROUP INC.
Incorporation No. A1013809U
C/- Post Office
Lake Grace 6353

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CONTACT
Doug Clarke
W.A. Grain Group (Inc) Chairman
PO Box 53, LAKE GRACE WA 6353
Telephone 08 98654041
wagrainsgroup1@bigpond.com
www.wagrainsgroup.com.au
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**Executive Summary**

The WA Grains Group (Inc) (WAGG) is a grower financed, and grower driven group, focused on delivering economic gain to growers.

WAGG presents this submission to provide an evidence based, plain English discussion relating to the fourteen questions asked by Marsden Jacobs & Associates, on the Issues Paper for the *Review of Structural Governance Options for the Grains Research and Development Corporation.*

It is the opinion of the WA Grains Group that the grower levy contribution is not intrinsically linked to the performance of the GRDC.

Organisational efficiency; functional performance; review of statutory levy and grains marketing are listed "outside" of the terms of reference of this review. Success in organisational efficiency, and performance functions, are critical to any change that should be made structurally in the interests of those who pay.

WAGG members want a dynamic, flexible, lithe organisation that can return value to growers both directly and indirectly.

We want the GRDC to be the Smartphone of the grains industry, where the rate of change is outpacing the grains industry declining terms of trade.

The GRDC needs to have global research partners and multidisciplinary RD&E teams. The GRDC needs the ability to invest in partnerships nationally and internationally, for the profitability of Australian Growers, where the returns show on grower’s balance sheet.

WAGG supports grower elected board.

WAGG supports a weighted levy vote.

WAGG supports an annual state by state AGM style meeting, where growers get to question the board directly.

**1.0 Introduction**

The WA Grains Group (Inc) (WAGG) is a grower financed, and grower driven group, focused on delivering economic gain to growers.

The objects of WA Grains Group are:

i) To represent the Western Australian grain industry in the areas of production, marketing, plant breeding, agronomic development, storage and handling, processing, bio-security, transport and any other issues in order to promote, sustain and safe-guard the Western Australian grain industry in the longer term.

ii) To encourage profitable and sustainable production and marketing of the Western Australian grain crop.
iii) To carry out, promote or assist in activities of any kind associated with the development, production, handling, processing, promotion and competitive services of Western Australian grain and its derivatives.

2. Submission
The WA Grains Group has produced this submission from the point of view of Grain Growers from Western Australia.

It is a response to Marsden Jacob & Associates call for submissions into the Issues Paper on the Review of Structural Governance Options for the Grains Research and Development Corporation (GRDC).

This submission is structured to answer the questions asked in the issues paper written by Marsden Jacob & Associates.

3. Terms of Reference
“The GRDC’s mission is to invest in research and development for the greatest benefit to its stakeholders – grain growers and the Australian Government. The Corporation links innovative research with industry needs. The GRDC’s vision is for a profitable, internationally competitive and ecologically sustainable grains industry”. (Source: - http://www.grdc.com.au/director/about/)

Terms of Reference

Purpose: Seek to ensure GRDC has a governance structure that will deliver robust, accountable and commercial research, development and extension outcomes to levy payers in a changing operating environment for years to come.

Scope: Review the current structure of GRDC to identify the structural and cultural strengths and impediments to delivering on the research, development and extension agenda that will enable world-class innovation in, and profitability of, the Australian grains industry, with particular examination of:

1. The strengths and weaknesses of other Research and Development Corporation (RDC) structures and other non-RDC organisations;
2. Whether potential changes to the Primary Industries and Energy Research and Development Act 1989 and Commonwealth Authorities and Companies Act 1997, or structural change, including but not limited to an industry owned company, are necessary to address impediments identified in (1);
3. Assess whether alternate models have the potential to improve the research, development and extension outcomes and profitability of the Grains industry; and
4. Identify costs associated with change, both transactional and operating impact.
4.0 Issues Paper Questions

4.1 What does future success for the GRDC look like?

**Summary**

- Commercially focused grower controlled Grains Research Organisation, that undertakes research (both traditional and in partnership/commercial arrangement), development (including market identification and development) and extension (with a much heightened focus on practice change and adoption identification).

- Our GRDC with a new governance structure that includes a greater say by the primary funders (the growers) in how the board is selected and how long board members can serve.

- Our GRDC which includes a grower weighted vote on setting the levy and a levy that is based on profitability not tonnes of grain sold.

- A governance structure that has a higher transparency of exactly how many dollars each individual grower has contributed to the levy i.e. a statement of levies sent annually to the grower so that the grower can reconcile how much their business has paid out in levies versus how much the GRDC has received in levies. This is to overcome some of the perceived/real levy losses in the current system.

- A governance structure with higher and more transparent accountability of grower funds and a much sharper focus on Total Factor Productivity Gains and grower profitability.

- The GRDC is a legislated monopoly organisation who currently set their own rules of performance. Growers question if these performance standards are SMART (specific, measurable, achievable, and realistic and time bound) enough and rigorous enough if we apply a commercial standards of performance (return to shareholders) on the current GRDC.

- Organisational efficiency; functional performance; review of statutory levy and grains marketing are listed "outside" of the review. Success in organisational efficiency and performance functions are critical to any change that should be made structurally in the interests of those who pay

**Explanation Points made by WAGG members.**

1/ Success in organisational efficiency and performance functions are critical to any change that should be made structurally in the interests of those who pay. The grower levy contribution must be intrinsically linked to the performance of the organisation/company and should be given recognition as such by democratic process. Put simply, those who pay the most should say the most.

2/ Growers to set the levy percentage rate by vote on an annual or bi annual timeframe, as in Australian Wool Innovation (AWI). The levy has to have less impact on grower’s profits. In the 2010 Australian Government Productivity Commission review into Government investment into
Research and Development Corporations WAGG provided case study examples as to the cost of the Federal levy and End Point Royalties.

Example


The objection that WAGG has to the GRDC levy and EPR is that when growers are making a loss, the GRDC and the seed companies (through EPR) are leveraging money off grower’s equity.

In figures 7 and 8 we are depicting a real case study of a property in the <325mm average annual rainfall wheatbelt of WA. The farm is located in the second largest production shire in terms of Gross Value of Agricultural Production (GVAP) in WA (25th largest GVAP shire in Australia).

The case study graphs over a six year period for both wheat and barley the operating profit (before interest and tax (BIT)) against the GRDC levy.

It is clearly evidenced in figures 9 and 10 that for wheat that the value of the GRDC levy and the EPR represents 26% of the operating profit of the business. In 50% of the years graphed, the GRDC and EPR was more than 100% of the profit.

The GRDC levy is perceived as a tax on production and not profitability. If a farm makes a loss it still has to pay the GRDC levy and the EPR. Effectively the farm has to mortgage its assets, to pay the compulsory levy and EPR.

WAGG believes that growers should not have to borrow against equity to pay for research, development and extension. Potentially growers have to borrow money at 7 – 10% to get a return on investment is only - 0.9%.
The GRDC continue to take a levy to increase productivity without increasing grower profitability, and in fact they are achieving neither.

3/ Open accountability as to reserve funds held by GRDC. The GRDC is not a bank. 0.99% levy to be the maximum, the grower vote would be on a scale going down from this percentage.

4/ Higher transparency in accountability of levies raised in each state to stay within the state for state based positions. For nationally focused research a clear identification as to which states are contributing how much to that project or project area.

Example

To further compound the issue of how much money actually makes it to the research field, is the ongoing disparity between those who fund the levy and how much of those proportionate funds make it back to the funding regions. Figure 20 demonstrates total grain production by GRDC region expressed as a percentage which has been plotted against the percentage of GRDC funds flowing back to the region. It is clearly obvious that both the Northern and Southern GRDC regions receive
proportionally more than their production would dictate whilst clearly the Western region is receiving proportionally less.

![Graph showing grain production vs GRDC investment by region](image)

Figure 20. Grain Production Vs GRDC Investment by GRDC Region 2008/09.

5/ Growers to receive annual levy statements. Example Co-operative Bulk Handling CBH provide a statement to growers annually, which states how much growers have both delivered to and sold through the CBH system. This information is the informing strategy that allows rebates to flow back to growers based upon utilisation of the CBH system.

**Example**

**Levy collection failure.**

If a grower sells grain to a local transporter who then on-sells the grain to a dairy farmer. The transporter charges the grower the GRDC levy, but the question is how is this transaction traced and is the levy passed on to the GRDC. Or in actual fact is the levy charged and then never passed on? Particularly pertinent for the East Cost with so much domestic trading. Are the "me to you" transactions providing the levy to the GRDC?

**Example**


Grain growers in Western Australia are not satisfied with the performance of GRDC particularly when they are under enormous financial pressure. When the GRDC gets paid even though growers are producing negative returns then the levy and in particular the “bang for the buck” comes under intense scrutiny.

Figure 18 depicts the type of press that is being generated from the dissatisfaction of growers on the performance of GRDC, and in particular the payment of the levy regardless of the performance of GRDC and indeed the financial performance of the industry.

Not only does WA produce the most wheat, it also generates significantly more income for the GRDC through its grain production in particular wheat and coarse grains combined that of the other GRDC regions. And yet a greatly reduced research dollar is returned to WA as previously evidenced in figure 20 above.
The levies are being paid, but distribution back to the regions that generate the levy is inequitable, as are the “losses” in the system before the industry funded dollars reach the ground.

Figure 19 contains an excerpt from the GRDC grower report 2008/09. In the table on the left of the figure is the GRDC financial overview. The estimated gross value of agricultural production was cited as $11,154M (ABARE estimate).

The GRDC levies collected from this production were $89.2M. Where did the $22.34M (20.02%) of expected revenue go?

Of the $89.2M in GRDC levies collected $15.01M is used for; suppliers and others $8.91M on employees $6.1M within GRDC. This represents 13.45% of the collected levies being used to operate GRDC directly.
In recapping to this point, of the $111.54M of expected levies, by the time the “unexplained losses” and GRDC’s operating costs have been removed only 66.53% of the expected levy is able to move to the next step of the research system.

The next step is for research to be funded through research providers. Informal discussions with individuals working for different research institutions in a range of research fields (who wish not to be named in this report) suggests that the type of “overheads” for an organisation to undertake the research is in the order of 28% of the cost of the research itself.

In the example being given here that would suggest of the $74.19M (66.53% of estimated maximum levy) available to go into the research projects another 28% or $20.77M is charged to the research work for providing the organisational needs of hosting the research. Typically this would include, “on costs” such as superannuation, leave liability, workers compensation, vehicle usage, office space etc.

What is left is what can be categorised as “on ground” those monies that will be directly applied to research work by way of salaries, field trials, plot markers, chemical analysis etc. The GRDC annual report is the only document that allows growers to scrutinise the funding of research within GRDC and this would mean that just $53.42M of a possible $111.54M (47.89%) reaches a point that growers would call “on the ground” research.

In the same year being analysed here, the Federal government contributed 27% of GRDC’s total revenue. Conceivably only 12.9% of those monies actually make it to on ground research. While we are concerned as growers about the inherent “losses” in the revenue stream, the taxpayers’ dollars are receiving the same treatment.

6/ The GRDC Board are to be elected by a weighted voting system. Voting rights to be 1 vote for every 500 tonne of levied grain. Simple voting procedure with no proxy votes.

7/ Grower elected board. WA and NSW should have 3 Board members. SA Victoria and Queensland 2 each. Twelve board members with the Chairman elected by the board. Board member tenure 2 years with a right to re-nominate. Chairman tenure 2 years with a right to re-nominate. Maximum 2 terms only. Keep it fresh. Pre-requisite that the Chairman must have served a minimum of 2 years on the board before being eligible for the Chairmanship. Chairman may then be available for 2 * 2 years terms as chairman (6 years on the board).

8/ A governance structure that requires the GRDC Board to conduct stakeholder reviews in open forum in each State annually. There is little or no opportunity for the rank and file stakeholders (the growers) to question the GRDC Board. The suggestion is for AGM style meetings in each state. West Australian growers contribute $35-$45 million annually we would like the opportunity to question and have a say in the organisational performance. Not all growers belong to grower groups that sometimes get to meet western panel members.

9/ A governance structure that requires an external review of GRDC Operations every 2 years and a 5 year review of GRDC organisational structure and governance. PIRD Act requires a "consultative discussion" WAGG would like to see a more robust 360degree review of performance in line with
commercial reality. WAGG acknowledges that the Federal Senate can question the GRDC but this tends only to happen if there is a perceived problem not as a process of good governance.

10/ A governance structure that pushes the GRDC as far as possible towards commerciality and exposes the GRDC to market forces at every opportunity. All activities need to have their funded partners to have "skin in the game".

Example

**Commercial Partners & Contracts to have 'skin in the game'**.

As growers we can all cite trials that have been mis-managed. Where weeds or disease have not been controlled in a timely manner, where sowing dates are unreasonable for the area the trial is sown, and where the trial is sprayed out and the potential data lost. Is the contractor paid for these 'lost' plots or is there recourse against the company for failure to meet the needs of the contract? Does the Public Governance, Performance and Accountability Act 2013 (PGPA act) within the current structure allow for commerciality?

11/ A governance structure that allows a global, customer focused GRDC. More emphasis on funding RD&E to meet overseas customer requirements. We now live in a global economy and must be competitive.

Example

**Market Development Failure**

The Australian Wheat Board (AWB) as the monopoly seller of Australian wheat also acted as the face of the Australian Wheat brand and was the primary developer of markets and market products for the Australian Wheat industry. Since de-regulation in 2008 as evidenced by the GRDC sponsored visit to China by WAGG and members of AEGIC, this space has fallen into dis-repair with all of the customers stating that they had not heard from Australia in over 5 years. The customers also brought to the table wheats with baking signatures that they were sourcing from our competitors. When tested, Australian has wheat varieties that would compete in this market place. It is the lack of market development from Australia, that has lead these customers to sourcing product from another country. Our competitors are investing the time in making sure that the product meets the needs of the market (or at least proving to them it does). At the Australian Grains Industry Conference (AGIC) in Singapore in March 2014, the nine WAGG growers who attended (WAGG sponsored the Conference fees and the growers self funded the trip) it became clear from talking to industry that the China experience was just as common for buyers for Indonesia, Hong Kong and the Philippines.

12/ A governance structure that ensures that RD&E projects are not only linked to programs and the strategic direction of the GRDC but also to commercial applicability and market reality.

13/ A governance structure that can purchase strategic assets and employ staff, perhaps share staff in an attempt to achieve more positive outcomes. For instance, in the space of information consolidation and the inability to deliver projects to the ground where they are needed as the state infrastructure is sold off and the staff are not being replaced.

Example
By example, in the 2008/09 GRDC Annual Report there is a 32 page list of current research work. There is no ability via the website to access information on any of those projects either by key word searches or by code searches. It cannot be ascertained as to the research priorities of any project, where it is being run, and what findings are being made…..nothing.

Not only is information not available on any 2008/09 projects there are 4196 projects listed from 2002/03 to 2008/09 (not including 2003/04 year which has no listed projects on the website) and of those only 7% have any information about the project that can be accessed by growers, and none of these has a final project paper to review the project as a whole.

Effectively for every 700 projects listed by GRDC only 1% has any information listed on the website that growers or stakeholders can access. Indeed in a conversation with a very senior Department of Agriculture and Food Western Australia (DAFWA) manager he clearly indicated that organisations such as DAFWA are unable to “drill down” into GRDC funded projects to better target future projects due to the lack of transparency in the GRDC system.

In effect the inability to source R D & E information is denying growers the ability to make “evidence based” decisions on the value of the GRDC’s investment of grower and taxpayers dollars. The lack of transparency does not allow for growers to source information for use in their own businesses or for dynamic farmers (industry systems and technological innovators) to undertake potentially cutting edge technological advances in the face of research and science.

Additionally how poorly is research being co-ordinated now within the GRDC and across Agricultural R D & E in Australia, because of the lack of transparency on projects and outcomes? The evidence clearly proves that the GRDC is a project based organisation rather than an outcome based organisation.

GRDC information should be public as it has been funded publically. It is unacceptable in this age of technology that the GRDC’s repository of information is not widely accessible. It is particularly heinous as under the GRDC funding guidelines all the information is required to be held on file, and for many years the data has been required to be submitted electronically.

The GRDC is not the only culprit in this area, state department of agriculture’s are also very culpable hiding behind the guise of “corporate knowledge”.

Each State Department of Agriculture has its own database of all its work including all the work conducted in partnership with the GRDC. In WA the system is the Research Index System (RIS) and all trials are submitted and held in this system.
Higher levels of accountability of research against the historical trials of the GRDC to avoid duplication. This may need some extensive investment into the digitisation and development of historical trial records databases and the synergies with the state department of agriculture databases.

**Example**

**People/Infrastructure Capacity Failure**

The withdrawal of State Departments of Agriculture in regional locations both in physical assets such as research stations and research capability (personnel and specialist in house analysis) has been nothing short of extensive in WA.

By example in 2005 the Lake Grace Advisory District of the Department of Agriculture and Food in WA which covers 2.7 million ha, (1.7 million arable ha) produces around 1.5 million tonne of all grains annually and is situated in the less than 350mm rainfall isohyets (low rainfall zone).

There was a research station at Newdegate and a full District Office in Lake Grace with a Biosecurity office in Hyden. There were 4 full time equivalents at the research station putting in some 63 trials consisting of over 4,000 plots throughout the district.

The Research Station had equipment upgrades to full auto steer and was tramlining. In the district office and satellite offices there were 10 staff conducting research and extension activities across the district with most positions in a co-funded arrangement with research organisations such as GRDC, National Landcare, Sheep CRC etc.

By 2009 the research station had closed and in 2013 the town office closed after working with a skeleton staff for 4 years. The closest research stations are now Katanning that is in a different rainfall zone and Merredin that is also operating with less than half the staff as in 2005, and the work is at closest nearly 200km away.

If we assume an average grain income of $250/tonne and a 0.99% GRDC levy then on average $3.75 million is generated from this area in GRDC levy annually.

There is no Department of Agriculture support and only 30% of growers in the district employ consultants and there is only one full time and one part time company agronomist located in the area.

How do these growers get “bang for their GRDC buck”?

Any existing or new governance structure of the GRDC will need to be able to potentially own strategic assets and directly employ staff.

14/ WAGG want the GRDC to be the Smartphone of the grains industry. Smartphone advancement of technology over the last 5 years has been nothing short of outstanding.

15/ The growers have had to significantly change the way they do business to stay viable. But the research industry still relies on publish or perish, and a silo mentality between research bodies while still being project based and not outcomes based. The disconnect between researchers and growers is now too large.
What we don’t want is another AWB where the AWB wrote its own performance criteria and then critiqued its own performance and paid itself and its staff bonuses while growers lost millions in areas not included in performance criteria i.e. demurrage.

4.2 What are the key emerging opportunities and threats for the grains industry?

Opportunities

- Growing middle class in Asia
- Taking rapid baking process to Asia. Our wheat, our bread maker. (Like the Nespresso home coffee machines and the Nespresso coffee pod).
- Untapped markets i.e. 2 minute noodle market – using ASW and feed types, high yielding ASW varieties, matching market requirements i.e. flour type wanted by buyers versus what is being grown.
- Frozen dough market in China. Buy at supermarket; bake it in the oven at home.
- Feed grains are an enormous emerging market, exporting feed grains to international livestock feedlots.
- International research partnerships to fast track research using multi-disciplinary teams working collaboratively all over the world.
- Direct sales from farm to customer.
- Increased strategic capability within Australian Research by requiring projects to be in larger overarching projects rather than one researcher in one site.

Example

The Soil Acidity Research Development and Extension Program in WA that ran from the early 1990's to early 2002. Team members were from the University of Western Australia, CSIRO, Centre for Legumes in Mediterranean Agriculture and the Department of Agriculture WA.

Funding came from these member organisations plus the GRDC and the National Landcare Program (Extension).

The project manager came from DAFWA but could have come from any one of the member organisations.

The synergy allowed the team to research acid soils issues at the coalface, and develop new quality parameters for lime selection and efficacy in a more commercial style of extension (branded Time to Lime).

This included an annual update for all work in the project to ensure that at any time if someone left the collective, the program had published information as to where the project was up to.

The project undertook its own team building exercises to break down the interagency tensions and boundaries.
The project was the principal driver for industry structure, the project wrote the code of practice for industry, developed lime haulage route with the Department of Main Roads, and benchmarked its performance in tonnes of lime as evidenced by a question paid for in the state agricultural survey.

The project worked with similar project types in all states (Vic and SA in particular).

A multi agency, multidisciplinary team that greatly improved the project output because of the synergies that the member organisations brought to the table.

**Threats**

- Inefficient and expensive research in Australia.
- Inefficient and expensive supply chain costs in Australia.
- Baking signatures required by millers is not being articulated to the market i.e. there are some baking signatures that can be supplied by current varieties but this market signal is not getting to growers.
- Climate change. We already have farms with significant rainfall reductions well in excess of predictions and happening now not in 2050. We need to learn from these farms if the medium rainfall zone is to become the new low rainfall zone in the future. We need to grow grain profitably with less than 160mm of Growing Season Rainfall (GSR).
- Reluctance of breeders to breed high yielding feed grains, or to acknowledge that our customers want qualities that Australia is not currently producing. It is inconsistent that in 2014 that the method of testing wheat extensibility characteristic's (Alveograph) in China is not a standard test in Australia.
- Not being able to get our inputs at world prices i.e. DAP at $350USD versus $670AUD.
- AGIC Melbourne 2013, Plum Grove and Mr John Murray (CEO Emerald Grain) stated that in order to increase the profitability of the supply chain that there needs to be greater throughput to maximise efficiencies at the port. The inference was that if research on productivity was better then there would be more grain and therefore the supply chain profitability would be better.

4.3 **What are the implications of changes to public investment in R, D and E?**

- Public investment means that the Minister decides the makeup of the board and selection of the Chairman.
- Public investment allows direction of research dollars by the Federal Minister.
- Changes to the GRDC might result in a loss of the federal government funding.
- No public investment removes federal government intervention, and may lead to higher outcomes based partnerships with commercial partners, or other research organisations in collaborative work i.e. Green on Green spray research in sugar and pyrethrum applicability to grains.
4.4 How important is it that GRDC can exploit emerging opportunities (e.g., commercialisation and international partnerships)?

Very. The GRDC need to take every opportunity that allows the advancement of Australian agriculture at the most cost efficient and time efficient manner possible for example do the pre-breeding in China at a fraction of the cost to complete the work in Australia. Another example is the unmanned aerial vehicles (UAV) assessment of green on green (weeds in crop), and the ability to spray weeds using multi product multi relational spray technology. If an international collaborative approach was taken rather than an Australian fragmented approach, and significant dollars were contributed to the larger project, then it is anticipated that the outcomes would be more rapid and the results more applicable.

The GRDC needs to be to be commercially focused with a vision of financial return. Work that does not directly improve Australian grower’s profitability is not acceptable.

4.5 What are the strengths and weaknesses of the current structure?

Strengths

- GRDC acknowledges the lack of productivity gains in Total Factor Productivity.
- GRDC acknowledges that growers are not profitable.
- Gives growers an opportunity to pool money to be able to do research into areas that they would like to have researched.
- GRDC can amass large reserves of capital.
- GRDC has been there since 1991.
- The GRDC is recognised by the entire grains industry (25 grains).
- Levy based/tonne farm gate price.
- Generates significant income annually.
- History of being peak Research body in Grains in Australia.
- GRDC structure is stated (by the GRDC) as the envy of other grain growing nations.
- Enshrined in legislation.
- Fund research at local, state, national and international levels.
- GRDC has improved the grain quality of other countries i.e. Wyalkatchem wheat to India.
- GRDC gets paid regardless of farming profitability.
- Levy increases if the price of grain goes up.

Weakness

- Paying more in GRDC levies than the Medicare levy and the flood levy.
- Can amass large reserves of capital while growers have to borrow the money to pay the levy
- Seen by some (many) in Western Australia to be East Coast Centric
• GRDC has improved the grain quality of other countries at no financial return to growers i.e. Wyalkatchem wheat to India.

• Board structure decided by Minister for Agriculture not by growers.

• Current governance structure not reviewed since inception in 1991, even though the grains industry both physically and technologically has changed massively, i.e. in WA in 1994 there was 15,000 farmers in 2014 there is less than 4000 farmers. A survey after the Merredin (WA) crisis meeting in 2013 stated that over 50% of farmers had no one to hand the farm onto, and 50% would sell out at a reasonable price.

• Levy not transparent at payment i.e. some companies simply say levies and not stipulate state or federal levies.

• Levy payment per grower not transparent i.e. not get statement of levies paid to reconcile versus levies recorded.

• Farmer to farmer/business trading of grain does not necessarily pay the levy. GRDC claims > 95% of levels paid but total wheat multiplied by $/tonnes net multiplied by 0.99% does not equal the amount of levies collected.

• GRDC needs to be lithe and flexible to take on partnership opportunities and to generate profit for activities. Hard to do in a system that is tied up with Federal Government requirements.

• There are no income flows from investments in the financial reports despite partnering with Monsanto in partnerships like Intergrain. The inference is that surely some work generates a positive cash flow and if not why not.

• Profitability of farmers has decreased since 1991.

• Profitability of suppliers to farmers i.e. Elders, Farmworks has declined since 1991. Only companies making profits are monopolies or statutory monopolies.

• GRDC gets paid regardless of farming profitability.

• Levy increases if the price of grain goes up.

• People who do not pay the levy have a right to have a say in this review.

• Research bodies who receive funds have a right to have a say in this review. Who may be biased towards no change as their personal financial wellbeing depends on these funds flowing.

• Profitability not productivity. GRDC have changed the language but not the intent.

• The GRDC/GPA consultations need to be more robust, a half day twice a year is completely inadequate to oversee a corporation that is custodian of millions of grower’s dollars.

• Ground cover magazine is cumbersome as a broadsheet and needs to be magazine styled and more in line with the AWI (Beyond the Bale) and MLA (Feedback) where the articles are succinct and readable with links for more information.

• GRDC extension needs to be more timely. Putting information about Canola reduction in plants per metre of row from a trial that is 3 years old in an issue just before seeding in 2014 is at the least inadequate.
4.6 How significant are the legislative changes to the PIRD and PGPA Act for the GRDC?

WAGG understands that changes to the PIRD Act will allow GRDC under the current governance structure to enter the market development area and to receive voluntary contributions which is positive.

WAGG also understands that the Federal Minister of Agriculture wants a more competitive process for board positions i.e. more than one candidate will need to be nominated before appointment. The GRDC will also be required to enter into a Statutory Funding Agreement with the Federal Government on how the Commonwealth funds will be spent. This will bring the GRDC into line with Industry owned Corporations like AWI and MLA who are required to have these funding agreements.

The PGPA Act gives the semblance of the GRDC having to operate as a body of government rather than an organisation of the growers for the growers. Greater alignment with whole of government activities is not a key driver of what the majority stakeholders (growers) want.

The issues paper cites the establishment of new performance reporting requirements, but WAGG understands that these are yet to be articulated.

4.7 How will the legislative changes affect organisational agility, culture, direction and delivery of R, D and E?

It is hard to see the legislative changes improving the GRDC's capability. However a major change in the GRDC (to another structure) will also see significant hurdles in transitioning to a new governance model i.e. and Industry Owned Corporation or similar.

Granted that the ability to accept voluntary contributions and to move into market development are positives improvements to the PIRD Act, WAGG members are asking for substantial change in the GRDC's current operations. The question is can the GRDC achieve what growers want of their organisation whilst operating in a legislative environment? If we understand the PGPA Act requirements then the GRDC will need to put in place 5 year budgets with rolling 3 and 1 year budgets, and even if a project is planned for 3 years out and all things are in place ready to go in three years time, the Commonwealth can change its mind and not allow funds to be directed in that way at the point of inception.

4.8 What are the strengths and weaknesses of alternative governance structures?

Strengths

- Competitive board appointments voted upon by the members.
- Ability to direct levies where most emphasis needed (some do this by grower vote).
- Not hamstrung by Federal Government Panel Contracts.

Weaknesses

- AWI levy question is asked triennially yet does not change despite some states i.e. WA being quite vocal in the poll for a reduced levy.
• MLA, the levy varies depending on class of animal being sold i.e. ewes versus lambs.
• There are current checks and balances and they may be adequate but growers don't think they are transparent.

4.9 What can be learnt from other institutions, including RDCs?

Australian Wool Innovation (AWI) was established as a not for profit company in 2001 and has 25,000 registered shareholders (Australian Wool Innovation Limited - Annual Report 2012/13). AWI purchased the Woolmark Company in 2007/08 with a $15 Million grant from the Federal Government. The current wool levy currently set at 2% of greasy yield price. The levy is voted on every 3 years. In total, 60.94% of all possible woolgrower votes were cast as part of Wool Poll 2012, the biggest return since the triennial vote began 12 years ago. This compares to 53.7% of votes returned in 2009.

However in an ABC Countryhour interview with the WA Farmers Federation (WAFF) in December 2012 when WAFF wanted the AWI, to release the full results of the poll on a state by state basis and zone by zone basis, this was declined by the AWI. The following is an excerpt from that media release.

WAFF urges AWI to release full results of Woolpoll 2012
By Belinda Varischetti
Tuesday, 11 December 2012

Excerpt

"Western Australia was disappointing, if they were aiming to send us a message they've sent that message, it's heard, understood and we're very disappointed."

"We've got some soul searching to do in Western Australia, we think in terms of the energy we've put into Western Australia in the last two or three years has been increased... we're spending more money there, we're visiting more often, we're very conscious of the efforts that we've put into Western Australia in the last couple of years and it hasn't yielded."

"That means everything we do in Western Australia we're going to have to look at very very closely."

The insinuation without the detail is that WA clearly did not vote for the current 2% wool levy rate and indeed quite possibly put in a vote considerably lower than this figure, hence the reticence of the AWI to release the figures and to be interviewed on the matter.

There is ongoing debate amongst woolgrowers as to where the levy money is spent. Prior to the 2012 wool poll 50% was to fund RD & E and 50% was to be spent on marketing. The 50% was evenly divided between on farm R&D and off farm R & D. In the 2012 Woolpoll this changed to 60% to fund marketing and 40% to fund RD&E with 25% being spent on farm and 15% spent off farm.

This is just one example we look forward to the Marsden Jacobs & Associates interrogation of different organisations and their structures, their strengths and weaknesses against the current
GRDC Governance model and how that might inform changes to the existing model or a new governance model.

4.10 Are there other governance structures that should be considered?

WAGG members are not aware of any other alternatives, but WAGG has an open mind to change.

4.11 What are the risks of change or no change?

**Change**
- Will the change be better? The counter argument is could it be worse?
- Change might be an opportunity for the Federal Government to withdraw its funding.
- The decreased profitability of growers means the GRDC itself by way of the levy is a financial impost with little net return.

**No Change**
- No change will lead to increasing numbers of disenfranchised growers.
- Risk of continued productivity stasis or decline of the negative 0.9% productivity gain in the national RD&E
- State Departments did do extension, however there is very little extension being done by the Department of Agriculture in Western Australia. The fact that there have been extensive closures of State Department of Agriculture offices in WA has reduced the extension in this space. It is clear that the GRDC needs to step into this space.
- Will the change be better? The counter argument is could it be worse.
- Increased Federal Government Compliance under the new act/s?

4.12 What are the costs of change?

Research conducted by WAGG has sourced the following indicative costs of AWI AGM, Woolpoll and annual reporting.

1. AGM – $1.11/shareholder ($30K/27,000 shareholders) this cost includes: room hire, catering, webcasting and Link Market Services. Geelong 2007 AGM, the figure was $37.93/shareholder ($1.1Millon/29,000 shareholders)

2. Woolpoll 2012 – costs less than $15/member, Covers 43,000 eligible levy payers

3. Annual Report - $2.29/shareholder (27,000 shareholders)

4. In a board election year there are approximately $5,000 in ancillary costs, Includes advertising, Board Nomination Committee fees, Link Marketing
4.13 How does structure affect research and development, commercialisation of research, raising finance, partnering and stability of forward planning?

• Structure is the vehicle to allow the GRDC to be the lithe and flexible organisation we want it to be.
• Structure becomes the way that GRDC can take up opportunities in a dynamic fast paced environment.

4.14 Does structure affect organisational culture?

• Yes. The current structure does not link income to performance.
• Commercial partners with “skin in the game” will drive outcomes.
• The decline in Agriculture started some time ago as identified by Port Jackson Partners in their Insight Report for ANZ October 2012;

Serious underlying issues were already emerging in Australian agriculture before the turn of the last century:

– Productivity growth was already slowing in major industries. ABARES research identified a fall in broadacre productivity growth from 2.2% per annum during 1953-94 to 0.4% per annum in subsequent years. While the drought exacerbated the decline, the slowdown was on trend to occur52.

– Farm performance varied enormously and many made little or no profit, limiting the ability of farmers to prepare for adverse situations. Since the 1990s, more than a quarter of broadacre farms made a loss every year, and half achieved a yearly cash income of no more than A$43,000 on average53.

– Skill shortages54 and succession issues were already evident, as median farmer age rose from 44 in 1981 to 50 by 200155. Median farmer age is now around 53.

– Capital required by farms was largely sourced from (and constrained by) bank debt and internal farm equity, with few alternative external sources available.

5.0 Summary

WAGG members want a dynamic, flexible, lithe organisation that can return value to growers both directly and indirectly.

We want the GRDC to be the Smartphone of the grains industry where the pace of change is phenomenal. The GRDC needs to have global research partners, multidisciplinary RD&E teams, with the ability to invest nationally and internationally for the profitability of Australian Growers where the returns show on their balance sheet.

WAGG supports grower elected board.
WAGG supports a weighted levy vote.

WAGG supports annual state by state AGM style meetings where growers get to question the board directly.
6.0 References

**ABC Countryhour**, 11 December 2012 Varischetti, Belinda, WAFF urges AWI to release full results of Woolpoll 2012. http://www.abc.net.au/site-archive/rural/wa/content/2012/12/s3652453.htm


**ANZ October 2012, Port Jackson Partners, Insight Report – Greener Pasture**
http://www.anzbusiness.com/content/dam/anz-superregional/AgricultureInsightsGreenerPastures.pdf

**2010 WA Grains Group.** Grains Research Development Corporation Investment Analysis of Research, Development and Extension Issues in Australian Grain Farming Systems'