Draft Consultation Report


SUBMISSION

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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.


It is time for the GRDC to transition to an Unlisted public Company Limited by Guarantee (Industry Owned Company IOC).

The current Statutory Corporation does not protect growers rights, in fact the new legislation will cause the GRDC to increasingly become more bureaucratic.

The new legislation makes the GRDC, less flexible, less responsive and less able to support innovation.

Levy payers will have the right to vote on the levy

The IOC is to be based in Adelaide.

The IOC will have a skills based board with proportional representation elected by levy payers.

WAGG has researched and evidenced that proportional representation by GRDC region should be part of the board structure.

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 (GRDC Levy Payers) from Western Australia.


The Draft Consultation Report is the result of responses to the Marsden Jacob & Associates Issues Paper on the Review of Structural Governance Options for the Grains Research and Development Corporation (GRDC) of May 2014.
The WA Grains Group provided a submission into the Issues Paper, and that paper is referenced in this report. Copies of the WAGG response to the Issues Paper will shortly be found on the WAGG website at www.wagrainsgroup.com or can be found on the Marsden Jacobs website www.marsdenjacob.com.au.

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 Draft Report Responses
4.1 There is no Status Quo for the GRDC
4.1.1 More Bureaucratic

Section 3 of the report engages to the notion that there is a status quo model that can be considered in this review.

However regardless of what the industry chooses to do next, there is no status quo as a Statutory Corporation. The acts affecting the GRDC namely the Primary Industry Research and Development Act 1989, (PIRD Act) (previously the PIERD Act) and the Public Governance, Performance and Accountability Act 2013 (PGPA Act) (which replaces the Commonwealth Authorities and Companies Act 1997 (CAC Act)) enforce change in accountability and structure.

Table 1 provides evidence to support that there is no status quo alternative for the GRDC as a Statutory Corporation.

<table>
<thead>
<tr>
<th>Function</th>
<th>Before 1 July 2014</th>
<th>After 1 July 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountability</td>
<td>Minister for Agriculture under the PIERD Act 1989</td>
<td>• Minister for Agriculture (under the PIRD Act 1989)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Minister for Finance (under PGPA Act 2013)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Minister for Infrastructure (Public Works)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Department of Agriculture (under the PIRD Act 1989)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• General Policies of Government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• National Research Priorities</td>
</tr>
<tr>
<td>Head Office</td>
<td>Corporate Office in Canberra</td>
<td>National Commission of Audit recommended that &quot;departments should provide corporate services for all agencies within their portfolio with fewer than 200 staff&quot;(page xxii). The GRDC has fewer than 200 employees so if the recommendation is adopted it could be applied to the GRDC.</td>
</tr>
<tr>
<td>Board Appointments</td>
<td>• Representative Organisation (RO - at this time the Grain Producers of Australia GPA) Nominate to the Minister persons for appointment to the Selection Committee.</td>
<td>Industry responsibility has been reduced. The directors of the GRDC are still appointed by the Minister for Agriculture and nominated by a Selection Committee (Part 4, PIRD Act) except: 1/ The presiding member (Chairman) makes nominations to the Minister for membership of the Selection Committee after &quot;consultation&quot; with the industry RO.</td>
</tr>
<tr>
<td></td>
<td>• Where the minister is not satisfied that a person nominated for appointment should be appointed, then the minister may reject and request another nomination (Section 24, 3 &amp;4).</td>
<td></td>
</tr>
</tbody>
</table>
2/ Selection Committee makes nominations to the Minister for appointment to the Board. Nomination is based on diversity of expertise, experience and gender, details of which must be provided to the minister.

3/ The Selection Committee also have to provide a "reserve" list to the Minister to draw on if a candidate withdraws or is deemed unsuitable by the Minister.

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Government procurement arrangements.</th>
<th>Via government preferred supplier contracts in the first instance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Funding Agreements (SFA)</td>
<td>Not required.</td>
<td>Government procurement arrangements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Required.</td>
</tr>
</tbody>
</table>

- **4.1.2 Commonwealth Government does not "protect"**

Not only is there no status quo, but the lack of a status quo is magnified even further with the fact that the Commonwealth Government does not offer "protection" to the levy payers. In truth and as evidenced below the Commonwealth Government can change legislation that affects industry without any levy payer consultation because it is in the best interests of government (not levy payers).

- Marsden Jacobs, July 2014 pp 61 "These changes do not adversely impact the GRDC, but they confirm that the Australian Government has the power to change the functions and powers of the GRDC" in Reference to table 14:- Functional Changes.

- Changes to the current funding model, consistent with Productivity Commission recommendations, would reduce the amount of government funding and better reflect the mix of private and public benefits. In particular, the current cap on dollar for dollar matching of industry contributions by government (currently set at 0.5 per cent of gross value of production) should be halved over a 10-year period.

• A new, uncapped subsidy at the rate of 20 cents in the dollar should be introduced for industry contributions above the level that attracts dollar-for-dollar matching. Duplication of administrative support and processes should be reduced by aligning ‘backroom’ processes across the various Rural Research and Development Corporations.


• The Commonwealth provides around $9 billion per year to support Australian research and innovation. The Commission recommends the Government take a more strategic, whole of government approach to the funding of research and development, including by:
  ❖ abolishing sector-specific research and development programmes;
  ❖ reducing government support for Rural Research and Development Corporations to better reflect the mix of private and public benefits;


4.1.3 Grain Growers - a Threatened Species.

On top of the fact that there is no status quo, and that the Commonwealth Government is actually a significant risk to the GRDC as a statutory corporation rather than a protector of the GRDC. If the GRDC levy payer was an animal they would be on the threatened species list.

In the Marsden Jacobs report, the massive rate of consolidation in the grains industry was clearly highlighted. "The rate of farm consolidation continues to outstrip all forecasts. In 2004, the Grains Council of Australia and the GRDC developed the Towards a Single Vision Strategy, which forecast that the number of growers was unlikely to fall below 30,000 by 2025.

*By 2013 the number of grain growers was estimated to be 21,000 and the rate of consolidation has been accelerating over the past decade."  (Marsden Jacobs , June 2014 pp 18)

Whilst industries like the Dairy Industry highlight the gross decline of producers in their industry, the Grains Industry either does not know the rate of decline, or does not use the decline to help redesign the Grains Industry future.

Figure 1 demonstrates the decline in numbers of Grain Growers versus Dairy Producers. Factually, the rate of rationalisation in the Grains Industry has been more severe than the rationalisation in the Dairy Industry. On average 723 Grain Growers annually over the last 37 years have left the industry. If the trend was to continue the new 2025 figure for the number of grain growers will be around 13,000 which is 56% lower than was predicted in the Towards a Single Vision Strategy in 2004.

Figure 1 - Grain Growers decline in farmer numbers versus Dairy Producer Decline from 1978 to 2014 with projections for the Grains industry to 2025.

Reference
• Australian Dairy in Focus 2012 p9
• Australian Bureau of Statistics Yearbook Australia 1980 No 64 p 306
• Australian Bureau of Statistics Yearbook Australian 1990 No 73 p 392
• Australian Bureau of Statistics Yearbook Australia 2000 p 410
• Marsden Jacobs (June 2014) p 18
• Grain Grower = Cereal & Oilseed + Sheep/Grain + Beef/Grain
4.1.4 Less Grain Producing Entities & Older Farmers?

In 2012 the National Farmers Federation used Australian Bureau of Statistics Australian Social Trends data from March 2009 to graph farmer population by age and average age (including observed and predicted average age trends) of Australian Farmers.

The 1970's saw the impact of both WWI and WWII on the average age of the farmers. These farmers grew their businesses and their families and we as a nation began to live longer.

Marsden Jacobs (June 2014 p18) state that the average age of farmers is now 57 years of age which further demonstrates that farmers are staying on the farm longer. However in that statement lies a key question. Who really is a farmer? What definition is applied to the data, and how are corporate farms captured?

Question: - If you are 70+ years of age and still live on the farm (or travel to the farm regularly) and you do some checking of sheep and help your family by helping shift machinery around, are you a farmer? If you were not taking an old age pension, and were answering a census, you will probably put your occupation as primary producer. Is that information skewing the average age of farmers?

Grain producers need a much higher understanding of who we are, including our demographic profile, age projections, skills and knowledge profiles, gender analysis, education profile, property profile, technical skill profile including computing analysis skills, in order to help set the “True North” of the future of Research, Development and Extension in Australia over the next 20 years. Knowing the sector intimately will fundamentally assist in re-writing the intent of the “Towards a Single Vision Strategy” so that it is truly levy payer owned, and becomes the blueprint for GRDC investments.

1This Australian Grains Industry Strategy 2005–2025 report aims to generate industry-wide consideration of the steps required to bring all stakeholders together for the sustainable prosperity of growers and the industry itself. The achievement of this objective builds on the goodwill, trust and high level of commitment identified in the reports. As well it allows the industry to build a sustainable future in the face of issues such as salinity, acidification, water management and climate variability. (Towards a Single Vision - For the Australian Grains Industry 2005-2025, March 2004 Grains Research Development Corporation http://www.grdc.com.au/uploads/documents/strategic_plan.pdf)

To do this the status quo for the GRDC cannot remain. The GRDC does not know who the levy payers are let alone what skills, knowledge, farm size, corporate structure, or average age they are.
At best the GRDC has a mailing list which is a "catch all" for the grains industry. A simple test of this fact was put by the Steering Committee for this project. In the room of active levy payers many received the GRDC flagship publication "Groundcover" of up to 6 copies. Some had managed to reduce the duplication whilst others had never achieved being able to receive less copies and in fact one levy payer on the National Research, Development and Extension Strategy wanted to receive 2 copies for his business partner and himself and was told that there could only be one copy per farming business. We are a long way from knowing who our levy payers are.

4.2 Transition to an Industry Owned Company (IOC)

4.2.1 Not a Hybrid model - Active Transition Model to an IOC

Marsden Jacobs state on page 56 of their report state that the move to an IOC would give :-

- more control over strategic direction setting
- improved organisational capability to deliver better more lithe RD&E outcomes for levy payers
- will support the development of a much more commercial and agile GRDC
- industry lead change
- levy payer appointed board

Evidence states that the status quo is not possible even if the GRDC remains a Statutory Corporation.

The WA Grains Group support transitioning to an Industry Owned Company (IOC) i.e. Private Company limited by guarantee. WAGG want to see the pre-requisite arrangements being put in place over the next 12 months to allow the industry to vote on the change. This will require significant effort on behalf of the GRDC to obtain an accurate database of levy payers.

Refer section 4.3 of this report for potential membership models.

4.2.2 Skills Based Board with GRDC Zone representation

4.2.2.1 Selection Criteria

The Draft Consultation Report on page 35 states that "the Australian Government have confirmed that a skills-based board is a foundational prerequisite for government co-funding".

All boards should be skills based. That means that the board should have sector relevant expertise but does not mean that GRDC production zones cannot be proportionately represented. If an appointment by the Federal Minister of Agriculture requires gender to be a part of the nomination and appointments (i.e. gender equity of the board. Refer Table 1) then why cannot GRDC regions be similarly part of the appointment matrix?

For instance Marsden Jacobs refer to Dairy Australia having "finessed" the interpretation of "skills-based" to allow the inclusion of sector-relevant expertise as well as technical expertise." The report goes on the list what an IOC skills based board might include.

- Knowledge, expertise and technical qualification in the sector,
- Understanding of industry organisational arrangements, networks and interfaces with government,
- Knowledge of and expertise in government policy and its development
- Strategic planning expertise
- Economic expertise
- Financial management expertise, and
- Corporate governance expertise.
By contrast the GRDC recently called for applications for Non-Executive Directors for a three year term, commencing in October 2014.

The listed criteria were :-

Expertise in one or more of the following fields:
- grains production, processing or marketing
- conservation and management of natural resources
- good communication skills
- capacity to represent GRDC to all stakeholders
- environmental and ecological matters
- science
- technology and technology transfer
- economics
- finance and business management
- administration of research and development
- an understanding of corporate governance and responsibilities
- public administration

WAGG would like to see a board that has much stronger selection criteria that is more focused on specific industry based skills and a much stronger link to levy payers. For example the selection criteria might look as follows:-

- Expertise in one or more of the following fields:
  - grains production, processing and or marketing
  - conservation and management of natural resources as they specifically relate to grain production
  - environmental and ecological matters as they specifically relate to grain production
  - scientific practice as it specifically relates to grain production
  - technology and technology transfer as it relates to rural industries
  - economics as it relates specifically to grain production

- Capacity to represent levy payers interests to the GRDC.
- Capacity to represent the GRDC to levy payers.
- Understanding of industry organisational arrangements, networks and interfaces with government.
- Knowledge of, and expertise in policy development with special reference to Government Policy.
- Strategic planning expertise, specifically whole of industry strategic planning.
- Economic and Financial management expertise with preference for specific skills in the area or research, development and extension in the grains industry.
- Corporate governance expertise with special reference to the administration of research development and extension.
- Be a demonstrated active levy payer of the grains industry.
- For board appointments to seek to have a proportional skills based representation of the 3 GRDC regions.

# proportional GRDC production region representation means the appointment of skills based non executive directors with consideration of the Gross Value of Agricultural Commodity of the 25 grains represented by the GRDC.

4.2.2.2 GRDC Production Region Representation
The reference to proportional GRDC production region representation means the appointment of skills based non executive directors with consideration of the Gross Value of Agricultural Commodity of the 25 grains represented by the GRDC.
Table 2 demonstrate the analysis of total tonnes of grain production (all grains) by state by year over a 10 year timeframe including average production by state. (The Northern GRDC region is allocated at 50% of New South Wales and all of Queensland, the Southern GRDC region is allocated 50% of New South Wales, all of Victoria, all of Tasmania and all of South Australia; the Western GRDC Region consists of Western Australia.)

The analysis shows that based on tonnage that the Northern region should have 2 directors, the Southern Region should have 4 directors and the Western Region should have 3 directors.

Table 3 demonstrate the analysis of Gross Value of Agricultural Commodity (GVAC) of grain production by state for 2009. The year 2009 was representative in terms of the 10 year production average to use for this comparative analysis. (As in table 2, the Northern GRDC region is allocated at 50% of New South Wales and all of Queensland, the Southern GRDC region is allocated 50% of New South Wales, all of Victoria, all of Tasmania and all of South Australia; the Western GRDC Region consists of Western Australia.)

The analysis shows that based on GVAC that the Northern region should have 2 directors, the Southern Region should have 4 directors and the Western Region should have 3 directors, which is entirely congruent with the production tonnage analysis.

Table 2 - Grain Production ('000,000 tonnes) by Year by State Analysis for 10 years from 2004/2005 to 2013/2014 including analysis of proposed proportional GRDC Region board member representation analysis.

<table>
<thead>
<tr>
<th>Year</th>
<th>WA</th>
<th>SA</th>
<th>Vic (Inc Tas)</th>
<th>NSW</th>
<th>QLD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004/05</td>
<td>12.2</td>
<td>5.9</td>
<td>4</td>
<td>12.6</td>
<td>3</td>
<td>37.7</td>
</tr>
<tr>
<td>2005/06</td>
<td>13.9</td>
<td>7.3</td>
<td>6</td>
<td>14.4</td>
<td>2.9</td>
<td>44.5</td>
</tr>
<tr>
<td>2006/07</td>
<td>8.1</td>
<td>2.9</td>
<td>1.8</td>
<td>4.9</td>
<td>2.95</td>
<td>20.65</td>
</tr>
<tr>
<td>2007/08</td>
<td>9.6</td>
<td>4.8</td>
<td>3.8</td>
<td>4.3</td>
<td>3.1</td>
<td>25.9</td>
</tr>
<tr>
<td>2008/09</td>
<td>12.8</td>
<td>4.9</td>
<td>3.9</td>
<td>10.9</td>
<td>4.7</td>
<td>38.2</td>
</tr>
<tr>
<td>2009/10</td>
<td>12.9</td>
<td>7</td>
<td>5.9</td>
<td>9.2</td>
<td>3</td>
<td>38</td>
</tr>
<tr>
<td>2010/11</td>
<td>8.0</td>
<td>9.3</td>
<td>7.6</td>
<td>17.3</td>
<td>3.7</td>
<td>40.9</td>
</tr>
<tr>
<td>2011/12</td>
<td>16.6</td>
<td>7.4</td>
<td>7.3</td>
<td>15.0</td>
<td>4.7</td>
<td>51</td>
</tr>
<tr>
<td>2012/13</td>
<td>11.0</td>
<td>6.6</td>
<td>5.6</td>
<td>13.9</td>
<td>4.3</td>
<td>41.9</td>
</tr>
<tr>
<td>2013/14</td>
<td>17.1</td>
<td>8.1</td>
<td>7.2</td>
<td>11.7</td>
<td>3.2</td>
<td>47.3</td>
</tr>
<tr>
<td>Total 10 Years</td>
<td>123.6</td>
<td>64.3</td>
<td>53.1</td>
<td>114.2</td>
<td>35.6</td>
<td>937.4</td>
</tr>
<tr>
<td>Average 10 Years</td>
<td>12.4</td>
<td>6.4</td>
<td>5.3</td>
<td>11.4</td>
<td>3.6</td>
<td>39.1</td>
</tr>
</tbody>
</table>

GRDC Bord Members (Based on Members/tonnes produced by GRDC Regions)

- Northern: 2.1
- Southern: 4.3
- Western: 2.8

Gross Value of Agricultural Commodity (Grains) by State 2009/10

Table 3

<table>
<thead>
<tr>
<th>Year</th>
<th>WA</th>
<th>SA</th>
<th>Vic (Inc Tas)</th>
<th>NSW</th>
<th>QLD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>2983.1</td>
<td>1413.8</td>
<td>1318.4</td>
<td>2050</td>
<td>631.7</td>
<td>8437</td>
</tr>
</tbody>
</table>

GRDC Bord Members (Based on Members/$M produced by GRDC Regions)

- Northern: 1.9
- Southern: 4.1
- Western: 3.9

Cereals for Grain + Legumes for Grain + Oilseeds

Source: Australian Bureau of Statistics 1301 - Year Book Australia 2012
4.2.2.3 Why Proportional Representation is Needed

Throughout the consultation phase of this review there has been strong advocacy against proportional representation with the discussion centring around "the federal government won't allow it", "the board should be skills based only and where you come from should have no bearing on your ability to do the role".

Table 4 shows the analysis of eight Rural Development Corporations where six of them are IOC's and two are Statutory Corporations. The 8 boards have 71 board members. We then looked at the online biographical information on each board member to ascertain if the member was likely to live in WA or in the Northern or Southern GRDC regions.

A significant 89% of board members were from States other than Western Australia. WAGG acknowledges that this very high level analysis does not take into account the proportionate distribution of the various commodities and what would be reasonable representation for any one commodity. However there appears to be a strong eastern state (inc. SA) bias appears on rural industry boards.

<table>
<thead>
<tr>
<th>Rural Development Corporations &amp; Industry Owned Companies</th>
<th>Northern and Southern GRDC Region</th>
<th>Western Australia GRDC Region</th>
<th>Head Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Egg Corporation Limited</td>
<td>4</td>
<td>1</td>
<td>Sydney</td>
</tr>
<tr>
<td>Australian Pork Limited</td>
<td>11</td>
<td>1</td>
<td>Sydney</td>
</tr>
<tr>
<td>Australian Wool Innovation</td>
<td>6</td>
<td>1</td>
<td>Sydney</td>
</tr>
<tr>
<td>Dairy Australia</td>
<td>9</td>
<td>1</td>
<td>Melbourne</td>
</tr>
<tr>
<td>Grains Research Development Corporation</td>
<td>8</td>
<td>1</td>
<td>Canberra</td>
</tr>
<tr>
<td>Horticulture Australia Limited</td>
<td>8</td>
<td>1</td>
<td>Sydney</td>
</tr>
<tr>
<td>Meat and Livestock Australia</td>
<td>9</td>
<td>1</td>
<td>Sydney</td>
</tr>
<tr>
<td>Rural Industries Research Development Corporation</td>
<td>8</td>
<td>1</td>
<td>Canberra</td>
</tr>
<tr>
<td></td>
<td>63</td>
<td>8</td>
<td>71</td>
</tr>
</tbody>
</table>

Based on the analysis of GRDC regional production and GVAC as depicted in Tables 2 and 3 the Western Region proportionally should have 3 board members to represent levy payers interests where currently only Mr Kim Halberd the Deputy Chair of the GRDC is from WA.

**GRDC Board**

Mr Richard Clark - (NSW - Chairman)
Mr Richard Brimblecombe (QLD - non-executive)
Dr Jeremy Burdon (ACT non-executive)
Ms Jenny Goddard (ACT, non-executive)
Mr Kim Halbert (WA, non-executive)
Professor Robert Lewis (SA, non-executive)
Ms Sharon Starick (SA, non-executive)
Mr John Woods (NSW, non-executive)

Currently there are 8 Directors plus the Managing Director which is an appointed position to give a board of 9. If we were to apply a representational analysis by GRDC production region to the current board then there are 3 Northern Region, 5 Southern Region (including the managing director) and 1 Western Region. WAGG are suggesting a 9 member board plus a nonvoting Managing Director.

Only 4 current board members are levy payers.
Move the IOC office away from Canberra
A further analysis has showed that the head offices of IOC’s are in either Sydney or Melbourne versus the two Statutory Corporations in the analysis that were based in Canberra.

Again this is significant from a WA perspective, particularly when it comes to travel.

Example. You are a WA board member who lives 350km from Perth. You have a 4 hour drive, and to allow for roadwork’s, major accidents, pre boarding times you will need to allow 6 hours pre flight to get to Perth. You have a choice of one flight direct to Canberra (on a time reliable airline) leaving at around 4.30pm which gets you into Canberra in 3.45hrs and you will be at your motel at about 11pm eastern standard time or 12pm eastern daylight saving time. Alternatively you can board a flight around midday you will be in Sydney or Melbourne in 4.05 hours or 3.5 hours respectively. You will catch a connecting flight and be in Canberra at around 8pm and at your motel by about 9pm. Direct travel time is 12 hours, indirect via Sydney or Melbourne is 15 hours from door to door. To return you need to board the 6.40pm direct flight to Perth arriving in Perth at 9.25pm. If you miss this you will have the two flight connection scenario maybe with an overnight stay. If you get the 6.40pm flight you will need to overnight in Perth then drive the 4 hours back to the farm. In reality it takes 24 to 30 hours of transit time for each Canberra meeting. For government workers that is between 3 and 4 days (8 hour working days). And the board allowance would only cover direct expenses not the time lost to your business.

A Grains IOC would need to relocate away from Canberra to allow for Industry/Government separation. This would also improve growers ability to physically get to the Grains IOC Head office, with many more flight options which are direct. Adelaide followed by Melbourne and Sydney would be a geographical fit for the new IOC, however an analysis would need to be ascertained.

4.2.2.4 Politicisation
Politicisation can be negated through constitution structure and the regular review of the constitution at the AGM.

4.3 Membership Model
One of the most fundamental issues in the grains industry, as highlighted by this project, is that there is no documentation of who the levy payers are.

4.3.1 Step 1 - Find out who the Levy Payers are!

Below are three suggested alternative pathways to collecting the Levy in a way that identifies individual levy payers to assist in the democratic process of voting on the levy, democratic process of defining industry direction and a pathway to gain GRDC information and resources at a footprint level.

1/ Under the current system the easiest way to do this would be to have those currently submitting levy payments, to break down who is paying how much. The resultant list would be a list of levy payers updated quarterly for each financial year and an ability for a statement to be sent to the individual levy payer. This statement can then be reconciled against grower businesses to ensure that levies are being passed on. WAGG understands there are some privacy issues around this model, but given the Federal Department of Agriculture - Levies, has Levies online this would appear (on the outside) to be something that could be worked through to avoid duplication.

2/ Use an independent such as Computer Share to be the repository of the information in line with Meat and Livestock Australia (MLA). Such an organisation could also be the body though which industry votes can be performed. This model is based upon grower "buy in" that is that growers apply for votes by providing proof of GRDC levies paid.
3/ Levy payers to submit levy returns to capture the appropriate farm gate price. It would be beneficial to growers because individual levy payers would have a higher level of motivation to establish an accurate farm gate price. These could be quarterly submissions due at the same time Business Activity Statements (BAS) is due, and would be through the Levies Online portal of the Federal Department of Agriculture. This would make levy payers more aware of the levies they are paying, how the levy is calculated and they would be aware of the rate changing. In return for levy payers undertaking this compliance responsibility they should be compensated through a lower levy rate.

Section 27 of the Primary Industries Levies and Charges Collection Act 1991, provides that an authorised Department of Agriculture officer can release the names and addresses of levy payers to industry bodies and levy recipient organisations. What is yet to be tested is if the Primary Industries Levies and Charges Collection Act 1991 would allow the levy recipient organisation i.e. GRDC to find out how much each of those levy payers are paying. This would be to establish an appropriate dollar per vote system.

4.3.2 Step 2 - Establish a levy payer voting system.
From Step 1 the modelling could occur on the best way to apply a voting system. Meat and Livestock Australia have a sliding scale system based on dollars of production (Marsden Jacobs p 35 & 36) whilst Dairy Australia has a flat voting structure.

4.3.2 Step 3 - Industry intelligence
Use the data to biotype each farming entity and allow the GRDC to be able to know exactly who the industry is, including skills, knowledge, farm size, corporate structure, location etc.

The information can be used to better target research and extension i.e. as in the outbreak of beet western yellows virus in canola throughout the Wimmera and Mallee (ABC Rural: http://www.abc.net.au/news/2014-07-08/canola-beet-western-yellows-virus/5581898). In this instance a geographical footprint could be applied to the database and information on the disease emailed out. Phone text messaging or social media could also be used to alert growers to the problem. The advantage is that the target audience is geographically defined and growers get the information early.

Similarly if a project needed potential levy payer collaborators in an area that there is a way of looking for assistance to ensure the best outcome for the project. Historically the state departments of agriculture were in best position to assist in this work, however with the demise of regional offices, this network and industry intelligence has been lost.

4.4 The Levy

4.4.1 What is the Levy used for?
The levy funds Grains Research and Development Corporation (GRDC), Plant Health Australia (PHA), emergency plant pest response (EPPR) programs. The levy from some commodities (identified with * below) also funds National Residue Survey (NRS) testing programs. http://www.daff.gov.au/agriculture-food/levies/categories/grains/coarse_grains/information_sheet

4.4.2 What is the levy rate on grains?
The levy rate is calculated as a percentage of ‘farm gate value’ (for example, sale value less storage, handling, freight and ‘free on board’ costs):

Wheat (Levy rates are current as at 1 November 2010)
• Wheat: 1.02% of the farm gate value of the grain.
Coarse Grains (Levy rates are current as at 1 October 2013.)
- barley*: 1.02% of the farm gate value of the grain
- triticale*: 1.02% of the farm gate value of the grain
- oats*: 1.02% of the farm gate value of the grain
- cereal rye: 1.005% of the farm gate value of the grain
- sorghum*: 1.02% of the farm gate value of the grain
- maize*: 0.72% of the farm gate value of the grain
- millet: 1.005% of the farm gate value of the grain
- canary seed: 1.005% of the farm gate value of the grain

Oilseeds (Levy rates are current as at 1 October 2013.)
- sunflower: 1.02% of farm gate value of the grain
- safflower: 1.02% of farm gate value of the grain
- linseed (including linola): 1.02% of farm gate value of the grain
- rape seed (including canola): 1.02% of farm gate value of the grain
- soy bean: 1.02% of farm gate value of the grain

Grain Legume (Levy rates are current as at 1 October 2013.)
- field peas*: 1.02% of the farm gate value of the grain
- lupins*: 1.02% of the farm gate value of the grain
- faba beans*: 1.02% of the farm gate value of the grain
- chick peas*: 1.02% of the farm gate value of the grain
- mung beans*: 1.02% of the farm gate value of the grain
- pigeon peas*: 1.02% of the farm gate value of the grain
- peanuts: 1.005% of the farm gate value of the grain
- navy beans*: 1.02% of the farm gate value of the grain
- vetch*: 1.02% of the farm gate value of the grain
- cow peas*: 1.02% of the farm gate value of the grain
- lentils*: 1.02% of the farm gate value of the grain

Australian Government levies exclude GST.

Reference.

4.4.3 Who pays the levy? Who submits returns?

The producer (the person who owns the grain immediately after harvest) is liable to pay the levy.

If the producer sells their produce through an intermediary, such as a purchaser, buying agent, selling agent, merchant or processor, the intermediary must pay levy and submit all return forms on behalf of the producer. The intermediary can recover from the producer the amount of levy paid, by offset or otherwise.

If the producer grows and uses their own grain commercially—for example, in feedlots and piggeries—they must pay levy and submit return forms to the Department of Agriculture - Levies.

If the producer processes and sells their own grain—for example, if they are a registered or certified seed grower—they must pay levy and submit return forms to the Department of Agriculture - Levies as the grain is used. See 'seed grain' under 'General information and definitions'. http://www.daff.gov.au/agriculture-food/levies/categories/grains/wheat/information_sheet
While DAFF has recognised that their consultation process and timing in notifying industry bodies of the change in fees and charges could have been more effective, ongoing communication with industry bodies is occurring and stakeholders acknowledge this. (KPMG - Department of Agriculture Forestry and Fisheries - DAFF levies cost recovery model review - February 2013 http://www.daff.gov.au/__data/assets/pdf_file/0003/2282043/levies-cost-recovery-model-review.pdf)

4.4.4 What legislation covers this levy?

A legislative framework of imposition, collection and disbursement legislation authorises and supports Australia’s primary industries levies system. These are the relevant Acts:

Primary Industries (Excise) Levies Act 1999

Primary Industries Levies and Charges Collection Act 1991

National Residue Survey (Excise) Levy Act 1998


4.4.5 Is the levy being calculated correctly?

In short no, the levy is not being calculated correctly. The issue centers around the "farm gate value" and its application to the gross receipt (tonnes * Price/tonne) exclusive of GST.

The WAGG analysis of a sample set of 7844 tonne of grain, using large and small tonnage contracts, over 8 companies, demonstrated that there is on average a 4.44% overcharge of the GRDC levy which equates to around 13 cents per tonne of grain. Refer Appendix 1.

If we use the figures of table 2 in this document of grain production by state over the last 10 years and assume that the levy has been misapplied by 13c per tonne over that time, this would equate to $50M of overcharge.

In the analysis we noted that there were some companies who were very close on the amount of levies they should have collected and others were charging 0.23% higher than the 1.02% currently being used in industry.

A telephone conversation with Mr Chris Tonkin the Managing Director of Ten Tigers Pty Ltd on the 16th July 2014 revealed that what WAGG were seeing in their analysis is indeed happening.

Ten Tigers is an independent grain marketer which does not receive any dividend from grain trading companies. Over several of the last years through their business they have identified the type of anomaly that WAGG is seeing.

In October of 2013 Ten Tigers successfully negotiated with two companies for them to adjust their "farm gate" calculations to more adequately reflect farm gate price. WAGG noted that this adjustment by those two companies was also flowing through to growers who are not clients of Ten Tigers.

Mr Tonkin stated that through his "industry good" function that he was satisfied of the serial nature of the incorrect application of farm gate price to the collection of levies, that the practice is systematic and nationwide.
It appears that whilst the audit process is being "ticked off" by grain buyers with regard to the levy collection, its application and submission to the Department of Agriculture - Levies, what is not happening is the auditing of a correct farm gate price calculation on which the levy is collected.

**4.4.6 Standardise the levy language.**

In undertaking the levy analysis cited in 4.4.5 of this submission, a clear basic problem arose in the language used by the 8 companies involved in the analysis. Table 5 demonstrates the variation in language used for the federal levy.

<table>
<thead>
<tr>
<th>Company</th>
<th>Label applied to the Federal Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>AWB</td>
<td>Research Levy</td>
</tr>
<tr>
<td>Bunge</td>
<td>DAFF</td>
</tr>
<tr>
<td>CBH Grain</td>
<td>Federal Research Levy</td>
</tr>
<tr>
<td>Emerald Grain</td>
<td>Federal Research</td>
</tr>
<tr>
<td>Glencore</td>
<td>AFFA</td>
</tr>
<tr>
<td>Graincorp</td>
<td>DAFF Levy</td>
</tr>
<tr>
<td>Matthews Transport</td>
<td>DPI &amp; E Levy</td>
</tr>
<tr>
<td>Toepfer</td>
<td>GRDC</td>
</tr>
</tbody>
</table>

WAGG would encourage the standardisation of the description of the various levies.

**5.0 Summary**

There is no such thing as a status quo for the GRDC as a Statutory Corporation due to legislative change.

The GRDC as a Statutory Corporation under the changing legislation is becoming more bureaucratic and in the process is becoming less connected to the levy payers, less responsive and less agile.

The evidence shows that the Commonwealth Government is a significant risk to the GRDC through legislative changes to the PIRD Act and the new PGPA Act, and proposed legislative changes under the National Commission of Audit recommendations.

The number of grain producing entities (grain growers) is declining at a rate that was never predicted and has not been accounted for. The "Towards a Single Vision Strategy" predicted the number of grain producers to be in the order of 30,000 by 2025. Modelling undertaken by WAGG suggests that this number will be closer to 13,000 by 2025 based on the last 37 years of decline. This has significant implications for the GRDC as the larger entities will be paying more levies per entity, and the current -0.09% total factor productivity will come under far more scrutiny than it is already.

This review has highlighted that there is no accurate identification of who levy payers are or who is paying how much levy.

WAGG is proposing 3 potential models that can be used for both levy payer identification, and as a potential industry voting.

The WA Grains Group (WAGG) does not support a hybrid model but does support the transition of the GRDC to an Unlisted public Company Limited by Guarantee (Industry Owned Company).

It is proposed that the skills based board also have proportional representation based on GRDC regions. WAGG also recommends that the selection criteria for the board be more specific in nature and relate directly to the grains industry.
The proportional representation is proposed to be based on Gross Value of Agriculture Commodity (Grains) and would consist of two Northern Region, four Southern Region and three Western Region board members. The proportional representation would be part of the application matrix assessed by an independent selection panel. Board members will be elected to the board by levy payers.

The new IOC should not be in Canberra, with a first preference given to Adelaide followed by Melbourne or Sydney. It is anticipated that any perceived politicisation would be dealt with through a very robust constitution that has drawn on other organisations that have transitioned to an IOC structure. The constitution should be a living document and be voted on by the members at each Annual General Meeting (AGM) (as appropriate) to ensure the organisation remains relevant.

WAGG is proposing that one of the key issues in moving forward, is knowing who are the levy payers are, establishing a levy payer voting system based on the amount of levies paid, and using the industry information for industry analysis and industry good.

This document also investigated if the levy was being applied correctly. Evidence suggests that the levy is being incorrectly applied at approximately $0.13/tonne. If this discrepancy is applied across the grains industry over the last 10 years growers have overpaid $50M in extra levy payments.
6.0 References


Australian Bureau of Statistics Yearbook Australia 1980 No 64 pp 306

Australian Bureau of Statistics Yearbook Australia 1990 No 73 pp 392

Australian Bureau of Statistics Yearbook Australia 2000 pp 410

Australian Dairy Industry in Focus 2012


Towards Responsible Government Appendix to the Report of the National Commission of Audit February 2014 – Volume 2 Section 10.2 - Consolidating Research Programmes
## Federal Grains Levy - An example analysis of Western Australian Farmers Levy Payments

### Appendix 1

<table>
<thead>
<tr>
<th>Company</th>
<th>Commodity</th>
<th>Variety/Seed</th>
<th>Region of GST</th>
<th>Year</th>
<th>Tons</th>
<th>$/Tonne</th>
<th>Value (Ex GST)</th>
<th>Transport to Port</th>
<th>Bin to Port</th>
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<tbody>
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<td>Wheat</td>
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<td>20/03/19</td>
<td>100</td>
<td>3296</td>
<td>25,500.00</td>
<td>1.50</td>
<td>77.40</td>
<td>24,991.00</td>
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<td>Wheat</td>
<td>9.26</td>
<td>20/03/19</td>
<td>105</td>
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<td>77.40</td>
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<tr>
<td>BWF</td>
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<td>20/03/19</td>
<td>120</td>
<td>3296</td>
<td>30,000.00</td>
<td>1.50</td>
<td>77.40</td>
<td>25,525.00</td>
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<tr>
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<td>Barley</td>
<td>10.56</td>
<td>20/03/19</td>
<td>120</td>
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<td>30,000.00</td>
<td>1.50</td>
<td>77.40</td>
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<td>26,500.00</td>
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<td>BWF</td>
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<td>26,500.00</td>
<td>1.50</td>
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### To Table

| Total | $1,105,848,000 | $1,599,719,000 | $2,580,559,000 | $3,031,940,000 |

### GRDC Levy Potential Impact over all Grains over 10 Years

<table>
<thead>
<tr>
<th>All Grains</th>
<th>Production (Mx)</th>
<th>GRDC Levy Potential Impact (Mx)</th>
<th>$/Tonne of production</th>
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</thead>
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<tr>
<td>Wheat</td>
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<td>3.00</td>
<td>3.00</td>
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<td>1.50</td>
</tr>
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<tr>
<td>Canola</td>
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</table>

### To Table

| Total | 8.00 | 8.00 | 8.00 |

### % Research Levy Charged of Farm Gate Value Calculated

<table>
<thead>
<tr>
<th>Company</th>
<th>Varieties</th>
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<tbody>
<tr>
<td>ABW</td>
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<tr>
<td>BWF</td>
<td>12.00</td>
</tr>
</tbody>
</table>

### To Table

| Total | 100.00 |

### Summary Transplant Trust

- Note: The Wheat/Barley basis has a 3.0% charge for wheat.
- Note: The Soybeans basis has a 2.0% charge for soybeans.
- Note: The Canola basis has a 2.0% charge for Canola.

The charges were comprised of a loan interest rate of 9% per annum and a 0.5% administration fee.