

Friday 25th June 2010

Rural Research & Development Corporations Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Commissioners,

Re: Rural Research & Development Corporations Inquiry

The current consideration of Rural Research and Development Corporations invites some discussion of the system of compulsory agricultural levy arrangements.

In particular it is noted that the terms of reference specifically invite consideration of whether the levy arrangements address 'free rider concerns' and "whether all industry participants are receiving appropriate benefits from their levy".

Given the long lead times associated with agricultural research, development and the eventual extension to farms, the compulsory levy system punishes those farmers who are looking to exit the industry in the short term, either through retirement or lack of profitability. These farmers are still obligated to contribute to the levy pool up until such time as they cease agricultural production, without any potential to benefit from their later financial contributions to the industry R&D effort.

As a result, maintenance of the compulsory levy system is yet another cost without benefit to farmers seeking to retire or exit the industry, reducing the available resources those individuals have at their disposal to finance the transition to the next stage in their life.

It is reasonable to question the spread of benefits to farmers from the compulsory R&D levy system. The ABARE Australian farm survey results 2007-08 to 2009-10 reports the average Australian broadacre farm in 2007-08 reported a loss of \$11,310 with losses also projected in the 2008-09 and 2009-10 years.

Over this three year period, and for each of the three years, the percentage of Australian farm businesses expected to record losses is between 68-70 per cent, or 2 out of every 3 farms.

This sustained high level of negative farm business profitability recorded over many years by ABARE for a very large percentage of all Australian farms, raises concerns with regard to the evaluation of effectiveness of agriculture's R&D investment in supporting individual farm

Simon Price

businesses across the nation. While agricultural R&D has undoubtedly made a significant and positive contribution to this nation's agricultural productivity, clearly there are questions as to the extent to which those people who pay the levy – farmers – are able to capture the benefits through increased profitability.

From this perspective, it is important to consider farmers' own views of the value of compulsory R&D levies. The only quantifiable means of measuring farmers' support for these levies is to evaluate the 2007 Dairy Poll and 2009 WoolPoll results.

Of the publicly released results from the 2007 Dairy Poll, more than one third of votes cast (33.99%) were to abolish the existing compulsory Dairy levy by reducing the levy to zero per cent.

It should be noted that there was controversy within the industry at the time of the dairy poll because of the decision to offer only three poll options:

- A increase levy by 15%
- B hold levy at current rate
- C zero levy

Many in the industry expressed frustration that an option to reduce the levy without going all the way to zero was not available in the dairy poll. A number of farmers speculated the reason for this was a fear amongst those responsible that a lesser levy amount may have been more popular than the status quo amongst farmers who were not prepared to abolish the levy completely.

Sadly this possibility was never tested. The experience does however raise serious questions with regard to the process for establishing Dairy Poll options.

A very similar result was recorded for the 2009 WoolPoll, where 28.6 per cent of woolgrowers participating in the WoolPoll voted to either halve the rate of wool levy (14.64%) or abolish it altogether (13.96%).

To emphasise, 1 in every 8 woolgrowers participating in the WoolPoll wanted a zero rate of levy.

As the WoolPoll voting deadline approached there was much panic and consternation in the industry at the very low voter response. Rural media ran stories on behalf of Australian Wool Innovation urging woolgrowers to turn out and vote in the WoolPoll. In the end, two thirds (67.3%) of eligible wool producers chose not to legitimise the WoolPoll process by refusing to participate in the ballot.

The Dairy Poll and WoolPoll experiences are telling. One third of dairy poll votes cast across the nation requested the dairy industry R&D levy to be abolished, hardly a ringing endorsement of the outcomes delivered to farmers by the investment.

When Australia's wool producers were asked by their industry leaders to vote in favour of either retaining or increasing the current 2 per cent wool levy, less than one in four wool producers were prepared to do so. Of those who responded, almost 1 in every 3 voted to reduce the rate of R&D levy.

When one picks up the *Weekly Times* to read about the ongoing shenanigans on the Australian Wool Innovation board, it is easy to see why wool producers would become disillusioned with how their wool levies are being expended.

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The levy poll results show there is a clear need to reform agricultural research and development and marketing levies. When a third of farmers vote to reduce or abolish R&D levies it is a sure sign a great number of producers have lost confidence that their investment is delivering benefits on the farm.

The issue paper raises questions as to whether Government should apply community benefit criteria to the use of matching funding. Such measures are likely to further erode grass-roots farmers' support for the R&D levy system as they watch ever increasing amounts of their levy funds redirected away from initiatives aimed at securing direct on-farm benefits towards Government preferred projects which may lack an on-farm profitability focus but have the benefit of attracting generous public support.

Retaining support for producer R&D levies in future will require an increasing focus on ensuring levy funds are expended on those projects which match farmers' own on-farm priorities. In this regard, efforts by governments to direct funding will be self-defeating.

In the long term, our agricultural industries should look towards administrative structures putting farmers directly in control of setting research and development priorities in the expenditure of producer levies.

It would be my recommendation that producer levies be made voluntary (opt-out model) and the industry-owned levy funded corporations be rolled into the National Farmers Federation and state farmer organisation structure. For convenience and at cost, the government could continue to collect the voluntary producer levies, forwarding the funds to the NFF/state farmer organisations to administer, as well as maintaining the matching public R&D funding arrangements.

Under such a model levy funded research priorities would clearly be set by the elected producer representatives, committees and councils established by farmer organisations. Those farmers who choose voluntarily to pay the levy and be participating members of their farmer organisation would have the opportunity to direct research and development priorities.

Such an outcome would also ensure the state farmer organisations and National Farmers' Federation are adequately resourced into the future to not only direct research priorities on behalf of Australia's farmers, but also to provide public policy research, representation and lobbying.

Unfortunately, under the existing levy arrangements, farmer organisations (such as NFF and Victorian Farmers Federation) who provide a valuable representative role for farmers are in a de facto sense competing for producer support against cashed up levy corporations, such as Meat & Livestock Australia, Australian Wool Innovation and Dairy Australia.

The state farmer organisations (SFOs) are seeking to demonstrate value for voluntary memberships through their (often behind closed doors) lobbying and representative activities and are operating on shoestring budgets. While at the same time levy corporations are providing their compulsory levy paying members with glossy booklets and expensive forums regarding on-farm production matters.

As a result, when farmers are asked to pay their SFO membership dues the representative organisation is at a disadvantage compared with the levy corporation which is funded automatically by the tax on wool, dairy or stock sales.

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It is no secret that state farmer organisations and the NFF are currently under financial and membership strain. This problem will continue for so long as compulsory levy funded companies remain in virtual competition for the support of farmers.

It is my contention that the future of a vibrant and profitable agriculture sector in Australia relies on a strong, well resourced network of state farmer organisations and National Farmers Federation, working together to pursue sound public policy by governments. Without such representation the agriculture sector will be at a severe disadvantage compared with other industries that are able to fund effective, well resourced state and national industry associations who can achieve outcomes with governments.

Weaker and more poorly resourced SFOs will inevitably result in reduced farmer scrutiny of IOC and Statutory Corporation research priorities and administrative efficiency, and result in greater disconnect between the grass roots growers who are paying compulsory levies and those who are directing expenditure.

The 'free rider' argument against a voluntary R&D levy structure controlled by SFOs and/or the NFF needs to be considered against the current situation where

- a) ABARE surveys indicate a substantial number of Australian farms consistently report financial losses, raising questions about the practical value those individual farm businesses receive from the levy funds they pay;
- b) soon-to-be retiring or exiting farmers receive nil benefit from the levies they pay today with potential dividends – if any – off years into the future; and
- c) the very high proportion of farmers as evidenced by the 2007 Dairy Poll and 2009 WoolPoll who through voting for zero or reduced levies have expressed a judgement on the perceived value of the compulsory R&D levies to their particular circumstances.

My six years of professional experience in the agricultural industry indicates farm organisations will not immediately embrace the recommendations I have put forward. Faith in compulsory R&D levies remains high amongst those who regularly interact with the levy funded corporations, especially those who have a seat at the table of priority setting forums. This confidence is not shared by many farmers operating at the grass-roots level.

Yours sincerely,

Simon Price

Simon Price is a former policy director of the Victorian Farmers Federation.