I am writing this submission as a member of a family farming operation in Western Victoria that has been growing fine merino wool for over a century. I am motivated to write this not only by my significant investment in wool production, but also by the suggestion that this inquiry may be the last opportunity to rectify the failures of the statutory structures that affect us.

I will restrict my comments on rural Research and Development Corporations (RDCs) to Australian Wool Innovation (AWI) as this is the entity with which I am most familiar, and also it is probably a pacesetter amongst rural statutory authorities in delivering poor returns to those who are forced to fund it. This critique will be general in nature and brief, but seeks to outline the problems that have beset a particular rural statutory corporation.

The status quo is not working

Over the past 3 decades hundreds of millions of dollars of wool grower tax levies have been directed to AWI, yet over this period we have witnessed a steady wool price decline, even in the face of rapidly falling production, and farm productivity gains that have been negligible even compared to other rural industries. ABARE figures for the last 30 years show annual productivity gains of just 0.3% for sheep enterprises against 1.4% for all broadacre enterprises.

Clearly that part of AWI's expenditure that is directed to marketing has failed. It is extremely doubtful whether wool growers can ever influence the price of their commodity through levy funded marketing initiatives. I understand that this inquiry is looking at rural R&D corporation activities, but in the case of AWI it is important to understand that the marketing expenditure is coming at the expense of a properly funded R&D program.

The wool industry is starved of capital and profitability. There is no scope to extract further money from growers to fund R&D. AWI views R&D as the poor relation of marketing, and continues to expend the majority of scarce grower funds on marketing programs that have never worked in the past and are unlikely to in the future.

A more fertile area of expenditure would be in on farm R&D, expenditure that could drive productivity gains and enable wool producers to remain viable even with lower wool prices. Productivity gains are the lifeblood of any industry, so ignoring on farm R&D, and the productivity gains that may flow from it can only cause further hardship to future wool growers.

How has this unsatisfactory situation come about?

The answer to this is twofold. Firstly the problem can be traced back to the legislation that enables AWI to compulsorily tax wool growers a percentage of their gross wool proceeds, currently 2 percent. This tax arrangement has effectively guaranteed AWI an income stream regardless of the success or failure of the projects it undertakes. AWI is not subject to the discipline of wool growers being permitted to opt out of the wool tax if they feel they are not getting value for money.

Secondly, the board of AWI is formed through popular election by woolgrowers. This election process means that the board of AWI becomes a political animal and the decisions it makes are swayed by good politics, more than by good commercial sense.

The current board of AWI in particular, had chosen to downgrade on farm R&D further and focus even more on ‘marketing’, a populist move designed to win support from growers, many of whom, wrongly, see ‘marketing’ as their salvation.

Another example of politics at work at AWI is the selection of on farm R&D projects. Many of these projects could better be described as extension work rather than the pure scientific research that is required. Extension may give the rank and file wool grower the impression that their R&D corporation is doing something for them, and maybe a free lunch at a field day, but it is a completely inappropriate use of wool tax funds.

Progressive wool producers who have sought new information at their own expense then see their tax levies being spent on spoon feeding extension to industry laggards with whom they are competing. Hardly an equitable outcome.

The way forward

How do we fund a productive wool R&D program without the twin evils of a compulsory wool tax, and the politicization of decision making that comes with popular board elections. I have two suggestions.

1. The wool tax levy be abolished and the government contribution to R&D that is currently directed to AWI, be instead directed straight to a ‘sheep and wool division’ of CSIRO. The charter of this division would be to conduct pure scientific research with the over -riding guideline that all research must be aimed at, and restricted to, improving on-farm productivity.
2. The wool tax levy be abolished, and replaced by voluntary contributions from wool growers. These funds would be directed into pure scientific research with on-farm productivity benefits as above. To encourage growers to contribute funds, the voluntary levy would attract a 200% tax deduction. If the cost to the government of this tax concession is less than its existing funding commitment to wool R&D, then top up government funding could be justified.

Under proposal 1, the board of the research organization could be a skills based one appointed by the government. For proposal 2 the board could be elected on a vote per $ of levy contributed.

A combination of these two principles may be possible, so that a large enough pool of research funds can be established to enable the scientists to deliver the worthwhile productivity gains that wool producers so urgently need.