

# COMMODITY LEVIES

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Quite a few farmers visit Wellington from time to time - and not only the farmer politicians who have to be there. I heard about one the other day who, when he'd been walking up Featherston Street with his wife, was approached by a pretty scruffy individual who begged 20 cents for a cup of coffee. The farmer thought about it then forked out the money. His wife was furious - telling him in no uncertain terms that he'd been conned. "Maybe you're right," the farmer said, "but the point is I'm going to follow him - maybe he really does know where in Wellington you can still get a cup of coffee for 20 cents."

That story, it seems to me, gives you a pretty good picture of how farmers are likely to react to commodity levies.

There are a number of relevant points. Firstly, the farmer had some money. Not only did he have some money but he was prepared, under certain circumstances to be parted from it. Secondly, he wanted value for his money. Thirdly, he wanted results. He wanted to see for himself that there was a good deal to be had, and, more importantly, that he wasn't being conned.

Maybe the story didn't end there though. It's to be hoped that if he found the coffee he did at least spread the word to other farmers.

There are a number of parallels with commodity levies. From discussions underway in the arable industry now for some years, it's obvious that farmers are prepared to make money available for research as the Government's contribution reduces, but first, need to be convinced that the research is appropriate, will benefit the farming industry, and is cost effective.

Farmers must also be closely involved in the decision making process: setting of priorities, allocation of funds, analysis of results and, not to be forgotten, the distribution of the resulting information. Words such as accountability, transparency, targeting may well be current jargon, but they must be part and parcel of the system before farmer funding will proceed.

In the arable industry debate on the need for funding has continued ever since the Lange Labour Government decided to create a new environment for science funding. On this issue, as it has on a number of other issues, the arable industry has been ahead of other sectors of the economy. The possibility of introducing an Arable Crops Levy Bill was taken up with Government five years ago. But calls from other agriculture based organisations for a similar levy led MAF to promote a Commodities Levy Bill instead. The idea of this Bill was to provide not only an umbrella structure for levies on individual arable crops, but a method by which any primary industry commodities could be levied, if a majority of the producers so wished. This idea was so successful that other industries wanted to cash in, cement makers for instance. Great for those industries as a means of safeguarding their funding, but a cause, in the meantime, of major delays to our legislation, and major problems for some arable crops.

I'll come back to the Bill itself later. First let's look more closely at arable commodity levies. They have been in place on a number of crops for some time. Wheat, maize and herbage seeds had or still have levies in place.

Some of the levies have worked well, some not so well, and it's useful to look back briefly and see what can be learned for the future.

Compulsory levies exist on wheat and a voluntary levy on maize.

Herbage seeds are included because a levy existed until 1989 which growers have already agreed to reinstate once legislation is available later in 1990. A degree of cross subsidisation exists in the form of a small grant to maintain the Pulse Committee.

From my own perspective, with an administrative involvement in the three industries, it seems to me that the more effective and influential levies in the past have been the voluntary levies collected by the Herbage Seed

Growers. Prudent use of the money raised by the levy quickly increased the influence of growers in the industry.

The levy provided funds for the New Zealand Seeds Promotion Council. As a result growers have equal representation with the Seed Trade and DSIR Grasslands in an organisation responsible for promoting New Zealand seeds on targeted markets at home and overseas. It provided funds to administer the growers own organisation, the Herbage Seeds Growers Sub-section of Federated Farmers, enabling growers to speak with one voice on industry matters.

Finally it provided for investments in plant breeding, in return for which growers were given a greater say in the management and direction of the plant breeding carried out by DSIR Grasslands. With Government moving to significantly reduce its funding of DSIR, a move to fund plant breeding was seen by growers as essential to guarantee the continued existence of Grasslands, whose pool of expertise, and world class facilities were a major advantage to New Zealand seedgrowers.

In all of this the existence of the Official Seed Testing Station at Palmerston North proved a significant benefit in facilitating the participation of all growers. As a central processing point for all seed lines all growers were involved and administration costs were kept to a minimum.

Although it was initially successful in meeting the objectives of growers, the levy finally failed because it was voluntary. The Sub-section had no legal power to deduct the money and was entirely dependent on the goodwill of growers to continue their support. Obvious and appropriate you would say, but in times of economic hardship, despite a low rate, the levy was too easily the subject of pressure from other sectors of the industry who saw increasing grower influence as a threat. Ironic really, that it should fail when Government and the Opposition have continually advocated voluntary, as opposed to compulsory levies, as the preferred system though I've yet to notice a move to voluntary taxation. Faced with legal requirements which would have resulted in substantial benefits to free loaders, the sub-section has abandoned the levy until such time as legislation for compulsory levies is in place.

The lessons from this? A need to balance the disadvantages of compulsion: the danger of reduced accountability and reduced relevance, with the vulnerability grower organisations face under a

voluntary system, especially where the possibility of free riders exist and can be exploited. The benefits of a central collection point were also obvious.

It's interesting now to compare the wheat industry as it was until relatively recently. Totally regulated for 50 years, not only were prices for wheat, flour and bread controlled, the Government also provided for a range of grower levies for administration of the grower organisation, economic analysis, research and insurance. Research levies were compulsory on all sectors of the industry, and not only were they compulsory, they were paid automatically to Government research establishments. Flour millers and bakers levies funded the work of the Wheat Research Institute, growers funds assisted in meeting the expenses of the wheat breeding work at Crop Research Division. I think it's fair to say that, although levy collection was easy and efficient, in neither case was the resulting research work entirely satisfactory to the individual participants, nor did it totally succeed in meeting the needs of the industry as a whole.

The funds were politically initiated, politically guaranteed, and politically perpetuated, and sectors, although nominally in control of their own money, in fact were in danger of appearing largely irrelevant when it came to decisions on expenditure.

All three industry sectors were represented on the Wheat Research Committee, but so were Government advisers, merchants and other Government appointees all of whose views had to be taken into account when setting policy. The result was a great deal of frustration. Growers, in return for their funds, had good informal contact with Crop Research Division, through the Wheat Breeders Liaison Committee, but limited formal representation via the Arable Section on a Cultivar Advisory Committee, again shared with merchants and Government appointees. Wheat growers were sure there was room for improvement.

The problem of vulnerability and the free riders had been overcome, but in the process the principles of true accountability to the providers of the funds had been largely lost.

With deregulation, followed by the introduction of new legislation earlier this year, there have been major changes. However, the transition was pretty traumatic and served as a real reminder of the problems that occur with voluntary levies.

For one year, 1987, there was no legal backing for the grower levies. Again there was a certain degree of non-co-operation from the grain trade and the result was

a collection rate in the region of 40 %. Free riders were the main beneficiaries. Happily the legislation was quickly reinstated and, as I said, major changes are now apparent.

Already the difference is remarkable. An industry liaison committee has replaced the Wheat Research Committee. Representation is limited to Flourmillers, Bakers and Growers and although it is early days, already the focus is different and the potential for sensible industry investments greatly increased.

Grower funds, although still compulsory, can now be allocated as the growers choose, as can those of the bakers and millers.

Growers have decided to contract directly with CRD for specific plant breeding work and are now in the process of finalising contract terms which will guarantee accountability and their close involvement. Bakers continue to work with the Wheat Research Institute, but millers, with access to more than adequate milling research overseas, have chosen instead to provide additional support to plant breeding. From the growers perspective this is a welcome demonstration of the commitment of both millers and bakers to the New Zealand industry.

Maize levies too are voluntary, and collected from a relatively large proportion of the crop, but at five cents per tonne provide insufficient funds for any research, the activities of the Sub-section are limited to co-ordinating work to reduce the cost of production and promote the need for a domestic maize industry.

For these crops, farmers have shown a willingness to provide funds when the need arose. But what of the future, the other crops on which levies have never been collected. Pulse crops for example, can pulse growers be persuaded that their contribution is essential if research work is to be done? And is it essential? To what extent will Government remain involved in science funding? Let's take the last point first.

A large number of people here have their salaries largely met from the Government science budget. You will all be only too well ware of the changes that have taken place and continue to impact on research establishments. The formation of a Ministry of Science and Technology; the establishment of a Science Foundation; the reduction of Government funding by at least 30 % over the last three years; determination that 50 % of Government funds will continue to be guaranteed for basic research while the remaining 50 % becomes contestable among all sectors; and of most importance in this case, the expectation that industry

will increase its involvement, particularly by way of funding.

The Government has made it clear that it is most likely to help those who are prepared to help themselves, if farmers are prepared to invest in research projects relevant to their industry, then Government, too, is likely to continue with some support. But what we must remember is that when it comes to contestable funding it won't just be arable crop against arable crop but the agriculture industry in competition with high tech electronics, manufacturing, and energy industries, to name but a few. The answer to a successful approach to the Science Foundation will obviously be preparation, organisation and co-operation to ensure that the best case possible is presented.

So, apart from its efforts to get the umbrella legislation in place, what else are arable farmers doing? The umbrella legislation is really only the start, it simply gives the ability to act on a mandate from growers of the crop concerned. Each arable commodity group will need to canvass its growers, identify the areas where research is needed and convince them of the need for funds. It's not likely to be a particularly easy task.

Perhaps the first point to bear in mind is the cynicism developed by many farmers. They remain unconvinced that the financial hardship experienced by the rural sector has been matched in other sectors, and particularly the scientific sector. When commenting on the farmer and the cup of coffee I was tempted to suggest that the lack of immediate trust that the beggar was telling the truth also had parallels when it came to farmer funding of research. For a while it did seem that scientists assumed that whatever money was withdrawn by Government would automatically be replaced by the industry. That their life would continue as normal. That would certainly only be the case, now, in the overwhelming evidence of justifiable expenditure and a worthwhile return on investment. In return for funds farmers will demand information, involvement and a return on their money. The more likely scenario is one where research efforts continue to be refined and more closely targeted as industry needs are more clearly identified. Increasingly close liaison will be required as cases are developed to take to farmers as grounds for a levy.

The second point has to do with compulsion. What is the difference between a compulsory levy and a tax? Many farmers see it as simply another form of tax and need reassurance that levies really are worthwhile. From a purely selfish point of view a compulsory levy

across all crops would undoubtedly be the easiest system. It would keep the administration very simple. But it would most definitely not meet the requirements of the farmers, and would not always be in the best interests of the industry. What farmers want, and what they should be able to get under the proposed Commodities Levy Bill, is the ability to apply levies only to those crops where research is needed. The result is likely to be a variety of levies applied in a variety of different ways, administered by a small number of farmer groups under an umbrella research committee established by the Arable Section of Federated Farmers. All of this will take time to get under way. Which brings me to my third and final point.

The industry has been talking commodity levies for more than five years. Government finally accepted the concept of compulsory levies at least 18 months ago. What progress have we made since then? The answer

is, very little. Delays in the legislative process now mean it is unlikely that the Bill will become law until next year. Any delay next year will bring it up against the election and a possible change of Government. Any new government will have higher priorities than commodities levies and lobbying for inclusion in the legislative programme will have to start all over again. Even when the legislation exists it will take time to gain the necessary grower approvals and put the required structures in place. We could still be well over a year away from the guarantee of funds, and, when you take the harvest into account, maybe 18 months from any available money.

But farmers do recognise the need for research and research funding. They can undoubtedly see the need for that cheap cup of coffee, but despite all the good intentions it may well be quite a while before even the 20 cents is guaranteed.