

Avcare submission to the Productivity Commission Inquiry into the costs recovered by Commonwealth Government agencies

13 November 2000



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Preface

Avcare is the peak industry association representing 50 of Australia's major agricultural and veterinary chemical manufacturers and distributors, biotechnology providers and their associated service suppliers.

Avcare is pleased to have the opportunity to respond to the Productivity Commission's Inquiry and *Issues Paper* into *Cost Recovery by Commonwealth Agencies.*

From an economic perspective, the key issue would appear to be whether there is *market failure* (or potential *market failure* for emerging technologies) – whether the level of investment and activity is affected by the inability to capture sufficient benefits. The levels of fees and levies payable to regulatory and other Commonwealth authorities is one part of the equation and will be considered for agvet chemicals and agricultural gene technology in this submission.

Avcare also welcomes the Commission's consideration of appropriate guidelines for various aspects of cost recovery.

Avcare will be pleased to maintain dialogue with the Commission during the course of their considerations towards achieving desired outcomes for the industry and Australian agriculture.

land alas

Claude Gauchat Executive Director



Executive Summary

1. Background

- Avcare is the peak industry association representing 50 of Australia's major agricultural and veterinary chemical manufacturers and distributors, biotechnology providers and their associated service suppliers;
- Avcare member companies represent approximately 90% of the combined sales (factory gate level) of crop production and animal health products in Australia;
- The gross value of Australian agricultural production is \$28.8 billion with a total value of exports approximating \$7.7 billion (1998-99);
- In 1998 there were 6862 agvet chemical products registered by the National Registration Authority with total value of disposals of \$2 billion. For agricultural chemical products, more than 73% had recorded annual sales of less than \$300,000. For veterinary chemical products, more than 78% had recorded annual sales of less than \$150,000;
- The gene technology industry is in its infancy. Most companies dealing in gene technology will not have products in commercial production for, at least, the next few years. As a consequence, it is unlikely that many companies will have a sustainable income stream to support any significant level of fees. This issue will be an important factor in the sustainability and development of the gene technology industry.

2. Existing cost recovery arrangements

- The evaluation and approval/registration of agvet chemicals and products is administered by the NRA. The current budget of the NRA approximates \$17 million per annum. The NRA operates on a 100% cost recovery basis from Industry except for about \$100,000 from AFFA as a contribution to the minor use program;
- There is cross-subsidisation from certain products to others and from some registrants to others. In some cases this manifests itself through products used as inputs to agricultural and livestock production on farms cross-subsidising domestic consumer products, pet-care products and industrial products;
- The costs for operating the Gene Technology Regulatory/OTGR are estimated by KPMG to be approximately \$7.8 million in the first year. Funding mechanisms and cost recovery are currently under active consideration, and a report giving options for models has been prepared by KPMG.

3. Impacts on Industry

• Where regulatory fees and levies for agvet chemical products, used as inputs to agricultural and livestock production, cross-subsidise non-farm



products, there is a potential attendant increased agvet chemical input costs to agriculture and hence impact on competiveness of agricultrual production;

- Potential support for less commercially efficient registrants, and increased costs to more efficient registrants;
- Potential lost opportunities through inefficient resource allocation.
- The Australian gene technology industry which comprises a substantial public sector R&D, as well as Australian and multi-national corporate investment — is in its infancy;
- Any move to impose full or substantial cost recovery in the near future will adversely impact on confidence and will be seen as contrary to the Government's own commitment to development of this industry, as outlined in the National Biotechnology Strategy;
- In the private sector, the capital resources and R&D skills behind gene technology are particularly mobile internationally and can easily be withdrawn from Australia if local costs are considered too high;
- A setback for the agricultural gene technology industry will impact directly on the rural sector and the regional communities that support, and benefit from, competitive profitable rural industries;
- The OGTR is a new agency. It will take time to develop the most efficient procedures with full cost attribution between the various processes. There is simply no experience with this type of legislation, making it most difficult to predict future costs. This is in contrast to other regulatory agencies where cost recovery was introduced to a mature industry;
- In an uncertain or adverse gene technology regulatory environment, development opportunities will be lost, especially for smaller industries and those sectors with diverse production (such as horticulture);
- In the next few years, there is a major risk that industry development opportunities are not simply deferred but lost altogether;
- Historically, new government charges have been phased in over a period of time;
- Avcare welcomes the OGTR legislation but it does so recognising that the OGTR will instigate additional processes specifically intended to bolster consumer and environmental confidence in biotechnology. There are public benefits for which the community as a whole should meet the associated costs. This beneficiary pays approach is well accepted by governments and supported by the community as an efficient and equitable basis of cost recovery. Any assessment of cost recovery should look to attribute the OGTR costs between public and private beneficiaries.

Avcare believes that there is strong justification for Government funding the full cost of the OGTR until a cost recovery review is conducted in 2005, as part of the legislation review.



4. Principles for cost recovery arrangements

• Principles for cost recovery have been elaborated by various parties. Avcare seeks to reinforce specific considerations in this submission.

Recommendations

Avcare puts forward the following recommendations to the Productivity Commission Inquiry on *Cost Recovery by Commonwealth Agencies*:

Recommendation 1:

That the Productivity Commission in its considerations

- (a) Provide recommendations for appropriate guidelines for cost recovery, recognising, amongst other things, that:
 - (i) Commonwealth agencies should clearly distinguish between private and public benefits;
 - (ii) the Government should contribute to the funding of public benefits;
 - (iii) one industry sector should not cross-subsidise another;
 - (iv) fees should be set by regulation for prescribed periods to provide certainty for industry budgeting;
 - (v) levies should not be set on an 'ability to pay' basis;
 - (vi) application of competitive neutrality principles to agencies' contestable functions be actively pursued to optimise cost efficiency and performance; and
 - (vii) agency costs that are recovered must be transparent

Recommendation 2:

That the Productivity Commission in its considerations

- (a) acknowledge the early stage of development of the Australian gene technology industry;
- (b) recognise that the OGTR is a new agency that will provide both private and public benefits; and
- (c) find and recommend that the Government should meet the full cost of the OGTR until a cost recovery review is conducted in 2005, as part of the legislation review.

Recommendation 3:

That the Productivity Commission in its considerations

(a) acknowledge the current cost recovery arrangements applicable to agricultural and veterinary chemicals; and



(b) recommend that the cost recovery regime be reviewed to conform with the recommended cost recovery guidelines.



1. Background

1.1 Avcare – 'voice of the Australian agvet chemical and agricultural biotechnology industry'

Avcare Limited, The National Association for Crop Production and Animal Health, is the peak industry association representing 50 of Australia's major agricultural and veterinary chemical manufacturers and distributors, biotechnology providers and their associated service suppliers. Avcare member companies are:

A&C Chemicals Pty Ltd Abbott Australasia Pty Ltd AgriSearch Services Pty Ltd Alpharma Animal Health Pty Ltd Autopak-Vetlab Group Pty Ltd Aventis CropScience Pty Ltd BASF Australia Limited Bayer Australia Ltd Boehringer Ingelheim Pty Ltd Caltex Australia Petroleum Pty Ltd Cheminova Australia Pty Ltd Crop Care Australasia Pty Ltd CRT Town & Country Cyanamid Agriculture Pty Ltd Dow AgroSciences Australia Limited Drum Services Australia Pty Ltd DuPont (Australia) Ltd Elanco Animal Health Exxon Chemical Australia Limited Elders Ltd Farmoz Pty Ltd FMC International AG Fort Dodge Australia Pty Ltd Hoechst Roussel Vet Pty Ltd IAMA Ltd ISK Oceania Pty Ltd

Janssen-Cilag Pty Ltd Joyce Corporation Koor Inter Trade (Asia) Pty Ltd Mastra Corporation Pty Ltd Merial Australia Pty Ltd Miles/Brakke Consulting Monsanto Australia Limited Novartis Crop Protection Australasia Pty Ltd Nufarm Limited Pfizer Animal Health Pty Ltd Pharmacia & Upjohn Pty Ltd Roche Vitamins Australia Pty Ltd Rohm & Haas Australia Pty Ltd Rotam Australasia Pty Ltd Schering-Plough Animal Health Limited Sipcam Pacific Australia Pty Ltd Southcorp Packaging Pty Ltd Sumitomo Australia Limited Sumitomo Chemical Australia Pty Ltd Uniroval Chemical Pty Ltd United Phosphorus Ltd Van Leer Australia Pty Limited Vetsearch International Pty Ltd Virbac Australia Pty Limited Wesfarmers Dalgety Pty Ltd

Avcare member companies represent approximately 90% of the combined sales (factory gate level) of crop production and animal health products in Australia.

Avcare manages international, national and state policy issues that affect the viability of its members; and promotes the safe and responsible use of products and technologies on behalf of the industry.

Avcare operates a full-time, professional secretariat. The secretariat represents the interests of members and implements directives from the Avcare Board, which sets policy. The Avcare Board of Directors comprises 13 CEOs of member



companies, including a President and three Vice-Presidents (Crop Protection and Animal Health and Distribution).



1.2 Australian agriculture

For the purposes of this submission, some brief statistics on Australian agriculture are provided on a contextual basis to the agvet chemical and agricultural gene technology industries.

Table 1: Australian agriculture – summary statistics 1998-1999

Gross value of agricultural production	\$28.8 billion
Number of establishments with estimated value of agricultural operations (EVAO) of greater than \$5000	145,000 ¹
Number of farm businesses with an estimated turnover of \$500,000 or more	11,600
Estimated average turnover per farm business	\$269,000
Estimated area of land used for agricultural activity	454 million hectares
Total value of exports of agricultural products	\$7.7 billion ²

Source: ABS Catalogue 7113.0 Agriculture Australia, November 2000

In the domestic market, the agricultural production sector supplies approximately 95% of all domestic needs.

Although the average farm size has been increasing, ABS statistics indicate that the total area of land used for agriculture in Australia has been in a slow decline since the mid 1970's. There is a limit to the land resource available for agriculture in Australia. Under existing technology and cost constraints this limit has been reached

Farmers are now relying on optimising output per hectare farmed in a competitive and efficient manner using sustainable production systems. The farming inputs used must improve efficiency of the farming systems, as well as ensuring that agricultural production in Australia is sustainable over the long-term.

A vast number of agricultural and livestock enterprises are undertaken in Australia. This diversity creates challenges for those in industries that support agriculture, industries such as the farm machinery and equipment, fertilizers, agvet chemicals, and agricultural biotechnology industries.

It is beyond the scope of this submission to discuss the diversity of Australian agriculture in detail. In many other countries of comparable population, these opportunities do not exist due to greater agricultural uniformity. It is sufficient to say that farmers have recognised opportunities to grow a wide variety of crops in Australia made possible by the climatic and geographic variation found within the country.

¹ In the 10 years from 1989, the number of establishments having an EVAO of \$5000 or more fell by 14% (22,700 establishments).

² Following a decline in the late 1980's, the contribution to total exports has remained relatively stable, with them accounting for 9% of the total goods exported in 1998-99.



1.3 The Australian agvet chemical industry

In 1998, there were 6862 products registered by the National Registration Authority with total value of disposals approximating \$2 billion³.

The NRA has previously published⁴ a table of products in various sales categories. Information has been obtained from the NRA for the 1997 calendar year and an adaptation of that information (including cumulative totals) is presented below:

	Agricultural Chemicals			Veterinary Chemicals		
\$	Number of Products	Cumulative Total (excluding \$0 sales)	Cumulative %	Number of Products	Cumulative Total (excluding \$0 sales)	Cumulative %
\$0	948	excluded	excluded	642	excluded	excluded
>\$0 - 10,000	514	514	19.7%	655	655	27.5%
10 - 25,000	333	847	32.6%	428	1083	45.5%
25 - 50,000	269	1116	43.0%	297	1380	58.0%
50 - 100,000	354	1470	56.6%	323	1703	71.6%
100 - 150,000	169	1639	63.0%	167	1870	78.6%
150 - 200,000	112	1751	67.4%	92	1962	82.4%
200 - 300,000	153	1904	73.3%	115	2077	87.3%
300 -400,000	106	2010	77.3%	70	2147	90.2%
400 - 500,000	80	2090	80.4%	37	2184	91.8%
0.5 – 1 million	216	2306	88.7%	95	2279	95.8%
1 – 1.5 million	87	2392	92.0%	48	2327	97.8%
1.5 – 2 million	51	2444	94.0%	19	2346	98.6%
2 – 2.5 million	32	2476	95.2%	13	2359	99.1%
2.5 – 3 million	24	2500	96.2%	7	2366	99.4%
> 3 million	99	2599	100%	14	2380	100%
Total products:	3547			3022		

Table 2: Number of agricultural and veterinary chemical products by value category

For agricultural chemical products, more than 73% had recorded annual sales of less than \$300,000, and 87.7% less than \$1 million. For veterinary chemical products, more than 78% had recorded annual sales of less than \$150,000, and 90.2% less than \$400,000.

1.4 The Australian agricultural gene technology industry

³ **3686** registered agricultural chemical products containing with a total value of disposals of A\$1584*m*; and **3176** registered veterinary chemical products with a total value of disposals of A\$431*m*. Note – includes domestic, industrial and other non-farm products.

⁴ NRA Plan: NRA Corporate Plan 1996-97 to 1998-99 and Operational Plan 1996-97



Developments of gene technology have application in a wide range of fields including health care, drug development, agriculture and livestock production, environmental management (including bioremediation), diagnostics, industrial and food industry uses to name but a few.

There is a growing understanding of some of the broad economic benefits that could arise from the development of the technology. For example, as noted by the former Minister for Industry:

"The major advances occurring in biotechnology will make it a key source of economic growth and employment in the next century, with an impact equivalent to that of the information and communication industries. The breakthroughs in biotechnology offer exciting prospects such as high-yielding crops, ... reduced use of agricultural chemicals to preserve our environment, and improved foods."

Hon. John Moore, Biotechnology for Australia's Future, p.1.

Of critical importance to Australia will be the application of gene technology to agriculture and livestock. The commercialisation of the technology in Australia is at an early stage but has the potential to bring significant improvements in efficiency, productivity, quality and new product types to agriculture and livestock production.

Whilst Australian researchers and joint ventures are world recognised as being at the cutting edge of gene technology, a diverse range of factors (i.e., government policy, the regulatory environment, consumer acceptance, trade considerations, etc) will have a major bearing on the introduction and rate of development of the technology in Australia.

KPMG Consulting notes⁵ "a recent survey has shown that there are some 84 organisations undertaking biotechnology research and development activities of the type covered by the IOGTR [ISR 1999-2000]. Of these:

- * 69 (82.1%) have revenues of less than \$10 million;
- * 11 (13.1%) have revenues between \$10 million and \$100 million; and
- * 4 (4.8%) are companies with revenues in excess of \$100 million.

"..... most clients of the GTR processes (around 94% of all applications for gene technology dealings) are publicly funded organisations undertaking research – with little or no budgetary capacity to address cost imposts without detracting from the funds available for gene technology research. Consequently, an inappropriate cost recovery regime could lead to much proposed gene tecnology R&D work not being undertaken in Australia, or being moved off-shore. Under either scenario, Australia would be a major loser – both economically and in its attempts to remain in the global mainstream of gene technology developments.

In addition, most companies dealing in gene technology will not have much commercial production for, at least, the next few years. As a consequence, it is unlikely that many such companies will have a sustainable income stream to support any significant level of fees – which can be passed onto the end consumer of any product

⁵ KPMG Consulting (2000), 'Report – A model for cost recovery in the Office of the Gene Technology Regulator', Canberra (Part 1, page 3).



they market. This issue will be an important factor in the sustainability and development of the gene technology industry."⁶

The likelihood of a significant increase in commercialisation of existing work is assessed as not being very high over the next few years. However, there is excellent growth potential if the industry can remain cost-effective. At present, in Australia, there are some 120 companies involved in significant biotechnology activity (of which only 20 are publicly listed with a revenue from sales of around \$0.73 billion) and very few are making any profits - average profit margin for the industry is 0.15% with the top 20 making profits of around 4% and the remaining 100 companies making annual losses of around 13%. The overall annual revenue from product sales was approximately \$0.80 billion in 1998-99 with additional revenue from research grants and funding of around \$0.05 billion [ISR/EY 1999].

"These data exemplify the "start-up" nature of the biotechnology industry with a heavy involvement in research and development (R&D) and relatively little in the way of release/production of GMOs which would be covered by the OGTR - as opposed to the largely mature, production oriented, industries covered by the other regulatory agencies."⁶

2. Existing cost recovery arrangements

2.1 General

The KPMG Consulting report⁷ provides a useful overview of existing cost recovery arrangements for the Therapeutic Goods Administration (TGA), the Australia New Zealand Food Authority (ANZFA), the Australian Quarrantine Inspection Service (AQIS), the National Registration Authority (NRA), the National Industrial Chemicals Notification and Assessment Scheme (NICNAS), and the Australian Maritime Safety Authority (AMSA). Potential scenarios for the Office of the Gene Technology Regulator (OGTR) are also presented. It is not intended to repeat such information, in detail, in this submission.

2.2 Agvet chemicals

The evaluation and approval/registration of agvet chemicals and products is administered by the NRA. The current budget of the NRA approximates \$17 million per annum. The NRA operates on 100% cost recovery with income derived from:

Application fees:	15%
Levy and annual registration renewal fees:	78%
Other:	7%

⁶ KPMG Consulting (2000), 'Report – A model for cost recovery in the Office of the Gene Technology Regulator', Canberra (Part 1, page 3).

⁷ KPMG Consulting (2000), 'Report – A model for cost recovery in the Office of the Gene Technology Regulator', Canberra (Part 1).



The levy is currently applied at the rate of 0.65% for products with sales in excess of \$100,000, with a cap of \$25,000 per product. Registration renewal fees are \$1000 for products with sales of greater than \$25,000; \$600 for products with sales of \$10,000 to \$25,000; and \$200 for products with no sales during the reporting period.

As indicated in Table 2, under Item 1.3, for the 1997 calender year some 1470^8 agricultural chemical products (56.6%) and 1703^8 veterinary chemical products (71.6%) had reported annual sales of \$100,000 or less.

It is therefore clear that there is significant cross-subsidisation from certain products to others and from some registrants to others. In some cases this manifests through products that are used as inputs to agricultural and livestock production on farms cross-subsidising domestic consumer products, pet-care products and industrial products.

It is noted that the OECD has conducted a recent (October 2000) 'Survey of Best Practices in the Regulation of Pesticides in OECD Countries'. The survey includes questions and responses on regulatory fees and charges. A copy of the survey is provided to the Commission under separate cover.

The survey appears to lack sufficient detail but does demonstrate that certain fees and charges apply in other jurisdictions.

2.3 Gene technology

The costs for operating the Gene Technology Regulatory/OTGR are estimated to be approximately \$7.8 million in the first year. Funding mechanisms and cost recovery are currently under active consideration.

3. Impacts on industry

3.1 Agvet Chemicals

Within the time and resources available, Avcare has not been able to quantify the extent of market failure that arises under the current cost recovery regimes for agvet chemicals, suffice to indicate that:

- Where regulatory fees and levies for agvet chemical products used as inputs to agricultural and livestock production cross-subsidise non-farm products, there is a potential attendant increased input cost to agriculture and and hence impact on competiveness of production;
- Potential support for less commercially effcienct registrants and increased costs to more efficient registrants;
- Potential lost opportunities through inefficient resource allocation.

⁸ Excluding products with \$0 sales



3.2 Gene technology – special consideration required for new and developing technologies

The Australian gene technology industry - which comprises a substantial public sector R&D, as well as Australian and multi-national corporate investment — is in its infancy. Any move to impose full or substantial cost recovery in the near future will adversely impact on confidence and will be seen as contrary to the Government's own commitment to development of this industry.

While several genetically modified crops are proving themselves commercially (Bt Cotton, blue and long vase life carnations) or have been recently introduced (Roundup Ready® Cotton), or are in prospect (, Roundup Ready® and Liberty Link® Canola), it will be several years before there is a significant income return to investors. High fees would be counter-productive to encouraging further industry development. One company who has been involved in developing herbicide tolerant canola and cotton has estimated that to bring these two products to market under full cost recovery the OGTR costs alone would be in the order of \$10 million spread over about 5 years. This is on top of another approximately \$1 million of other regulatory costs such as those from ANZFA, AQIS, running Institutional Biosafety Committees and voluntary audits. All of these costs + development of data costs for a total market potential in Australia of about \$30 million.

From an economic perspective the key issue would appear to be whether there will be *market failure* for emerging technologies such as gene technology – whether the level of investment and activity is affected by the inability to capture sufficient benefits. The matter of timing of investments is also critical.

In the private sector, the capital resources and R&D skills behind gene technology are particularly mobile internationally and can easily be withdrawn from Australia if local costs are considered too high. Australia has to compete with countries where governments typically meet most of the regulatory administration costs. A high level of cost recovery would make it that much harder to compete against overseas gene technology and end using industries (farmers in the first instance). Australian farmers already face an uphill run on the international playing field. A setback for the agricultural gene technology industry will impact directly on the rural sector and the regional communities that support and benefit from competitive profitable rural industries.

The OGTR is a new agency and although many of its activities will reflect the old GMAC processes, many new activities will be added. Besides the inevitable set-up costs, it will take time to develop the most efficient procedures with full cost attribution between the various processes. There is simply no experience with this type of legislation, making it most difficult to predict future costs. Furthermore, there is a corresponding risk of higher costs and cross subsidisation. Neither of these is desirable and they should not have to be borne by OGTR clients (public or private).

From the outset, transparency of the cost basis for the OGTR is an imperative. A formal consultative process for addressing cost and fee rate structures will need to be established. Given that fee rates of the OGTR are essentially fixed costs from an industry perspective, it is vitally important that they be minimised



consistent with the needed services. Otherwise, gene technology development opportunities will be lost, especially for smaller industries and those sectors with diverse production (such as horticulture). In the next few years, there is a major risk that fees will be higher than justified and industry development opportunities not simply deferred but lost altogether. Historically, new government charges have been phased in over a period of time.

Avcare welcomes the OGTR legislation but it does so recognising that the OGTR will instigate additional processes specifically intended to bolster consumer and environmental confidence in biotechnology. There are public benefits for which the community as a whole should meet the associated costs. This beneficiary pays approach is well accepted by governments and supported by the community as an efficient and equitable basis of cost recovery. Any assessment of cost recovery should look to attribute the OGTR costs between public and private beneficiaries.

4. Principles for cost recovery arrangements

4.1 General

Principles for cost recovery have been elaborated by various parties. In this submission, Avcare wishes to reinforce the following:

- Agencies should clearly distinguish between private and public benefits that they provide and that the government should contribute to fund the public benefits. For example, for the NRA such public benefits may include the Existing Chemicals Review Program (ECRP), compliance, international activities, policy advice to AFFA and other government agencies, cost of consultative committees – Community Consultative Committee & Regulatory Liaison Committee, and activities such as public education;
- That of those using the agency, one industry sector should not subsidise another. If it is identified that there is a need to cross subsidise some aspects of the agency activities this should be seen as a subsidy to industry and be paid for out of the appropriate government agency budget. In the case of NRA if there is a need to support small business in agvet chemicals then AFFA and/or ISR should provide the funds depending on whether the support is for agriculture on non-agricultural businesses. It should be recognised that regulatory costs are part of doing agvet business and players in this market should not expect a subsidy from their competitors. If the government wishes to subsidise certain sectors then the impact of that on the competitiveness of the business sector should be covered in the required Regulatory Impact Statement.
- Fees should be set by regulation and not fluctuate each year according to the predicted workload of the agencies (ie number of applications) as happens with TGA. A fluctuating approach does not provide the necessary cost predictiveness and budget forecast certainty for industry.



- Levies should not be set on an 'ability to pay' basis such as the approach adopted by NICNAS and proposed in the KPMG report as an option for gene technology. 'Ability to pay' distorts the market because such an approach does not recognise that those who pay less use just the same or more of the agency services. Such an approach penalises successful businesses and may encourage inefficiency in those who are being subsidised.
- Application of competitive neutrality principles to agencies' contestable functions be actively pursued to optimise cost efficiency and performance;
- Agency costs that are recovered must be transparent ie activity based, benchmarked against other comparable agencies, and regularly monitored. A single cost figure is unacceptable.

4.2 New and developing technologies

"Australia's future depends on investing wisely today in the foundations of economic competiveness. Increasingly that competiveness rests on the ability to develop and utilise new ideas and new technology.

To be successful we will need a world class research base, easy pathways for the commercialisation of new ideas and good access to the latest ideas and technology. Equally important we need a culture where innovation is actively pursued and encouraged in all bussinesses and in every research establishment."

'Innovation – Unlocking the future', Final report of the Innovation Summit Implementation Group, August 2000

The research, development and application of gene technology in Australia, and its potential attendant national benefits highlights the need for the Government to actively foster the development of the industry.

The leadtimes from discovery to commercialisation of successful developments is significant. For example, current plant gene technology timelines are of the order of the following:

"Bioprospecting":	Day 1
Discovery of bioactive lead:	1 to 5 years
Plant transformation:	0.5 to 1 year
Greenhouse tests:	1 year
Field tests:	2 to 4 years
Toxicology, residues and safety tests:	2 to 4 years
Backcrossing:	3 years

The 'start-up' nature of the gene technology industry, inherent risks of research leading to commercial products, long lead-times before first cashflows (let alone profitability) and other factors lead to financial vulnerability at this stage of the industry's evolution and development. Indiciative regulatory costs for introducing genetically modified crops are given in section 3.2.



Avcare welcomes the OGTR legislation, however, it finds that there is strong justification for Government funding the full cost of the OGTR until a cost recovery review is conducted in 2005, as part of the legislation review.

5. Recommendations

Avcare puts forward the following recommendations to the Productivity Commission Inquiry on *Cost Recovery by Commonwealth Agencies*:

Recommendation 1:

That the Productivity Commission in its considerations

- (b) Provide recommendations for appropriate guidelines for cost recovery, recognising, amongst other things, that:
 - (i) Commonwealth agencies should clearly distinguish between private and public benefits;
 - (ii) the government should contribute to the funding of public benefits;
 - (iii) one industry sector should not cross-subsidise another;
 - (iv) fees should be set by regulation for prescribed periods to provide certainty for industry budgeting;
 - (v) levies should not be set on an 'ability to pay' basis;
 - (vi) application of competitive neutrality principles to agencies' contestable functions be actively pursued to optimise cost efficiency and performance; and
 - (vii) agency costs that are recovered must be transparent

Recommendation 2:

That the Productivity Commission in its considerations

- (d) acknowledge the early stage of development of the Australian gene technology industry;
- (e) recognise that the OGTR is a new agency that will provide both private and public benefits; and
- (f) find and recommend that the Government should meet the full cost of the OGTR until a cost recovery review is conducted in 2005, as part of the legislation review.

Recommendation 3:

That the Productivity Commission in its considerations



- (c) acknowledge the current cost recovery arrangements applicable to agricultural and veterinary chemicals; and
- (d) recommend that the cost recovery regime be reviewed to conform with the recommended cost recovery guidelines.