



SPARK AND CANNON

Telephone:

**TRANSCRIPT
OF PROCEEDINGS**

| | |
|-----------|----------------|
| Adelaide | (08) 8110 8999 |
| Hobart | (03) 6220 3000 |
| Melbourne | (03) 9248 5678 |
| Perth | (08) 6210 9999 |
| Sydney | (02) 9217 0999 |

PRODUCTIVITY COMMISSION

**INQUIRY INTO RURAL RESEARCH AND DEVELOPMENT
CORPORATIONS**

**MR P. WEICKHARDT, Commissioner
DR C. SAMSON, Associate Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT TAMWORTH ON MONDAY, 15 NOVEMBER 2010, AT 1.34 PM

Continued from 12/11/10 in Melbourne

INDEX

| | <u>Page</u> |
|--|-------------|
| AUSTRALIAN AGRICULTURAL CROP TECHNOLOGIES: DARYL YOUNG | 340-349 |
| NEW SOUTH WALES FARMERS ASSOCIATION: ANGELA MARTIN | 350-356 |
| COTTON RESEARCH AND DEVELOPMENT CORPORATION: MIKE LOGAN BRUCE FINNEY BRUCE PYKE | 357-379 |
| ROBERT GORDON | 380-387 |

MR WEICKHARDT: Good afternoon, and welcome to the public hearings for the Productivity Commission's inquiry into rural research and development corporations. My name is Philip Weickhardt. I'm the presiding commissioner on this inquiry. With me is Dr Cliff Samson, associate commissioner. The purpose of this round of hearings is to facilitate public scrutiny of the commission's work and to get comment and feedback on the draft report which is released in September. Following these hearings in Tamworth, hearings will also be held in Brisbane, Hobart, Adelaide, Perth and Mildura. We have already had hearings in Sydney, Melbourne and Canberra.

We will then be working towards completing a final report to government in February 2011 having considered all the evidence presented at the hearings and in submissions, as well as other informal discussions. Participants in the inquiry will automatically receive a copy of the finally report once released by government which may be, under the Productivity Commission Act, up to 25 parliamentary sitting days after completion, which can be a lengthy period of time.

We like to conduct all hearings in a reasonably informal manner, but I remind participants that a full transcript is being taken. For this reason, comments from the floor cannot be taken, but at the end of the proceedings for the day, I will provide an opportunity for any persons wishing to do so, to make a brief presentation. Participants are not required to take an oath but should be truthful in their remarks. Participants are welcome to comment on the issues raised in other submissions. The transcript will be made available to participants and will be available on the commission's web site following the hearings. Submissions are also available on the web site.

So that we keep safe in this meeting, I would just like to advise you that the exit is fairly obvious and I'm told that if there were some emergency the obelisk out here is an evacuation point. I suspect that even further away might be better if there were an emergency. If you require any other assistance, please speak to Aaron Morey, who is our staff member here today. Finally, can I ask the audience to please check their mobile phones are either turned off or switched to silent mode.

I would now like to welcome our first participant, Mr Daryl Young, from the Australian Agricultural Crop Technologies organisation. If you could just for the transcript please give your name and the capacity in which you're appearing here today.

MR YOUNG (AACT): Thank you. My name is Daryl Young. I'm a projects manager for a company called Australian Agricultural Crop Technologies. Australian Agricultural Crop Technologies is a seed commercialisation company. Our role is to take potential seed cultivars that have been developed by breeding institutions, assess them at various locations and environments and evaluate them for

commercialisation. In that we are required to present a commercialisation plan to the institution that holds the intellectual property in the cultivar itself and if we're successful with that particular commercialisation plan, then we're asked to run the particular cultivar into a commercial sphere and manage the commercialisation of the project.

The reason we were asked to do a presentation or a submission to the commission today was to bring up some points that we feel are valid, particularly in the area of research and development. Those three points that I'll be talking about today are to do with the process itself of the development through commercialisation means of research and development subsidising its own process of accumulating funds throughout report and some of the recommendations within the report show that there are going to be some changes or there are some recommended changes to happen and some of those changes are for industry to support itself and I guess from my experience within the seeds industry over the last 20-odd years, what we've seen is that there was an act introduced being the Plant Breeders Rights Act in 1999 I'm sure it was introduced and it was instituted by the government within the seeds industry that potentially via the act the seeds industry had the means to develop its own research and development projects and government withdrew substantially from the investment in development of seed cultivars.

With the experience of our particular company where we partnershiped with several breeding institutions to commercialise plant cultivars, we have been through the process of both, in the initial stages of the seeds industry developing what they called a plant royalty stream and they did that on planting seed and over time that shifted now to an end-point royalty arrangement where they collect an end-point royalty stream from the production of those particular seed cultivars. In respect of the process the legislation has been put in place within the act but the ability to be able to collect those royalty or end-point royalty streams is a very complicated process and it's embroiled in a legislative process that becomes frustrating, it has never been tested effective and in most cases we see now on end-point royalty streams there is a huge cost to the commercial companies, such as ourselves, to collect those royalty streams and in a lot of cases there is not any, what I would class as a respectable volume of royalties collected. I say that with the support of industry findings where there has been, in some cases, less than 60 per cent of the royalty stream collected from the process.

I think the process that we're talking about is not anything that is the fault of growers or the research departments if there is fault to be laid. It is an issue where government have instituted legislation and they have not followed through in respect of letting the process develop and support the process enough for it to develop properly. In my written submission I've painted the case as an illustration where we have in place legislation that doesn't allow people to speed on our roads today and we have a collection process by either speed cameras or highway patrol et cetera.

Within the seeds industry we have legislation that allows us to collect royalties but we don't really have a process where we can rightfully go out and claim that except through a legal process of taking people to court. So it's very complicated, so it doesn't allow us to collect it.

As I said, in a lot of cases, and in our case in particular, being a small seeds company, we find it very, very difficult and costly to collect and in the case of the industry itself, as I said, there has been a number of investigations; one completed by RIRDC or supported by RIRDC itself where there was distinct numbers there that showed less than 60 per cent of the collection process being collected.

I guess from a seeds company point of view we would like to see that that legislation was tightened up and there was a proper process put in place. The seeds industry over the last 10 years has gone through a process from swapping from a seed royalty on their initial product to an end-point royalty and trying to maintain some commercial process to that and in both cases I believe that we've been let down through legislation from an enforcement process and the industry will not be able to collect or subsidise or meet the values that are required for their research and development unless something is instituted better than we see in today's marketplace. That is point 1.

Point 2 was in respect of private investment in research and development. With research and development as it sits today there is some incentives offered by the government in respect of being able to invest in research and development. It is by means a reasonably simple process to enter that. You can either enter through what they call a registered research arrangement or you can claim through 125 per cent tax deductibility on items that are registered as research and development.

Now, if we're to see government falling away from a situation of rural research and development, I think there needs to be incentives introduced that private research and development can incentivise or have a better avenue to the financial markets to get investment in research and development. We see the government of the day particular incentives for foreign investment to come into the country and invest in businesses and be able to only claim 7 per cent tax on any dividends paid. Schemes like this, we see for investment into business but in respect of the critical areas of research and development, I believe there is a lot more that needs to be done.

The last point that I'd like to comment on is in respect of the auditing processes which is marketed or reported in the Productivity Commission's report and one of the recommendations there is a higher level of auditing. As I have stated, we have been involved with research and development as a company. We also have several research projects involved with two universities, one of those being Sydney University, the other being Wagga. We see a lot of times the valuable resource being

the key researchers spending a lot of time in respect of either applying for funding and it's usually on a three-year funding process or reporting to that funding and that time by those key researchers I would guesstimate to be, from what we've seen and what we've been involved with in the reporting, up to 15 or 20 per cent of their time. To me, key personnel or key researchers spending that much time on administration is unproductive.

The point remains of the frustration in some of that, that that reporting is happening, the reports are going out but who sees and utilises those reports is questionable and the ability for the auditors or the people that are going to audit those accounts, unless they have a very broad scope of experience, it's going to be very, very difficult for them to make an assessment on whether the report is concise and leads to any great results at the end of the day. I would see that setting the parameters at the start of any research and development process of what you want to achieve as being more practical to get a result rather than reporting through the process, bearing in mind that the researchers and the key people are dependent on the funding coming through and it's only three years of funding.

The report itself is obviously going to be attuned to giving them as much practical means of getting to the next set of values or dollars that need to get to the report, so it is going to be swayed to one side, it's not going to be, by any means, a fair and reasonable report because they're driven by dollars all the time, then their security is threatened at all given points of time in being able to - if they report something bad, then the ability to get dollars for their funding is markedly reduced. They are the three points I wanted to bring to the commission's attention today and I thank you for the opportunity to do that.

MR WEICKHARDT: Thank you very much indeed.

DR SAMSON: Thanks very much for that, Daryl. Can you just help me get my head round - in terms of the R and D that your company utilises, how much of that is R and D that you commission yourselves versus piggy-backing on the outcomes of breeding programs, say, the GRDC in its various joint ventures produce?

MR YOUNG (AACT): As far as the seed commercialisation side is concerned, Cliff, it's really the piggy-back arrangement. We're the commercial partner in those arrangements and we have to do some evaluation work but there is no pure research, as I would class it. From the other side, from our business and the work we're doing in development of several cultivars, we've been able to obtain ARC or Australian Research Council grants, no GRDC money, the other one is RIRDC, Rural Industries Research and Development Corporation funding. The reason we had to go to those funding opportunities is because in the commercial financial market it's considered too high a risk to try to look for any sort of capital input, so you're really pushed back to these funding opportunities to be able to set any sort of research program into

place.

DR SAMSON: Thanks for that. So go back to the end point royalty issue. You're saying you think ballpark there's a sort of 40 per cent bleed out of the system as to what should be collected. If that was collected, I mean, where would it go? I mean, what would be the impact of 100 per cent collection versus 60 per cent collection on the R and D effort in this sort of space?

MR YOUNG (AACT): Essentially, as a commercial partner, I'm collecting an end point royalty, which is set up before you commercialise the variety. We pay 50 per cent of that royalty back to the R and D company itself. So as a commercial partner it's a fifty-fifty arrangement, so essentially if there's 40 per cent bleed off, there's 20 per cent more going to go into research and development and also give us the ability to fund more research and development ourselves.

DR SAMSON: So what is the problem? I mean, the end point royalty concept came about, I know - as you say, the seed industry struggled for many years to find out what's the best point of collection, and that's always the issue with any levy system, you've got to find the simplest and most effective point of collection. At least on paper you would think that end point wasn't a bad place to end up. Lots of things are collected at that point. Why such a high percentage of bleed, do you think?

MR YOUNG (AACT): Purely because the process wasn't put into place and there's variable processes put in place. Industry was left to its own devices. I'm not commenting on it any more than that. There was several different types of processes put in place, some where they collected direct off growers, some where they collected off the producers themselves, some where it was a mix of both. So it was very unclear and very frustrating from a grower's point of view in respect of on one particular cultivar, let's say it's wheat, he would be asked to make the end point royalty himself. On the next cultivar, let's say it was a chickpea, in his cultivation or rotation program, he would deliver the product to a destination and they would pay on his behalf. So it's all these different processes which are confusing and then, you know, essentially, in most cases, because it was classified as a varietal issue, there was different levels on them too.

So for one variety you might have paid \$2 a tonne and on the next variety you might have paid \$3 a tonne. When you're delivering a product to a bulk receival point, in most cases your representative is a truck driver and in a lot of cases he doesn't know what the variety is and if he has been instructed, again, there's the emotive issues of, "Well, do I pull into this particular line where I can get through and get another load or do I pull into this line where it's going to take me four hours in the line to get through because of varietal segregation?" So there's a number of issues there.

DR SAMSON: Again, working on the back of a very broad envelope, we've talked about 60 and 40 and of that 40, half of it, if it was collected, should go back into the R and D pool. We won't hold you to it, but can you put a dollar figure on it, ballpark?

MR YOUNG (AACT): Look, no, I can't. What I can do, I can supply to the commission the GRDC commission report. A guy called Dennis McGrath did the reporting and reported that back through the industry with all the numbers that you're asking me on, Cliff, and I'm quite happy and Dennis would be quite happy to give that report to the commission.

DR SAMSON: That would be very helpful. Thanks, Daryl.

MR YOUNG (AACT): That's fine.

MR WEICKHARDT: Just on that score - and this is a completely statistically insignificant observation - but I was coincidentally party to a conversation between a grower and a plant variety or seed provider where the grower said, "You actually had never sent me an invoice for all the seeds. I keep expecting one, but you've never sent me an invoice." So that might be one of the reasons why some of the 40 per cent hasn't been paid. In other words, systems haven't been properly developed, perhaps because of the complexity you alluded to and perhaps because of the fact that it is new.

But I think the other thing I would say is that you said, you know, where people don't pay, the only mechanism is through the courts. That is true of most people that don't pay invoices. If you don't pay your panel beater when you collect the car or you don't pay the rent on your house, the government don't step in and collect the money on behalf of the aggrieved person that should have received the money. They provide a mechanism for the courts to enforce the act of law. It may be that it's painful for the pioneers in this area, but at some stage probably one of the seed providers is going to have to sue a farmer who hasn't paid and demonstrate that the law actually works. Until that happens, it may be possible for people just to say, "I'm not paying until you make me."

MR YOUNG (AACT): It leads into another area and I'm happy to comment and answer the question. This is precisely the area that we've been down and why I'm here today. As a company, I've taken the process, I've been to court. It's cost me in excess of \$300,000 on one particular incident and we lost. There was a lot of instances within the system where it failed itself. One of those is in respect of the local legal system not understanding the ramifications. When we talk about "new", we've got to remember this act was instituted in 1999. I'm pretty sure I'm right in saying that.

MR WEICKHARDT: You are.

MR YOUNG (AACT): We're 10 years down the track and essentially the legal system itself there, there's not enough expertise in there and, you know, in front of the three judges that sat in on this particular case, their experience levels in respect of the act were very, very low and they didn't understand it. So, you know, yes, it's great that we have a legal system, but again there's failures within the legal system to support the act.

MR WEICKHARDT: So what is happening now? Have you, having spent \$300,000 and felt unrewarded, are you taking it any further?

MR YOUNG (AACT): I can't, no. It really comes down to, at the end of the day, from our perspective, we've put a lot of money and a great expense to uphold - and essentially, at the end of the day, it was really the inability of the system to understand what the legal side wanted and vice versa that let us down. I say that because we had a contract with one of our partners that was written up by the legal parties and within that contract there was a failure because only the holder of the IP rights - and I've brought this up with the seed industry and there's an investigation in respect of changes within the legislation - but it all comes to a cost and essentially the contractual arrangements were in conflict with the law. The contractual arrangement said that the commercial partner had to sue, but the law says only the IP owner can sue any participant. So essentially we weren't in the rightful position to take it to court. Then when we went back to GRDC and New South Wales Agriculture, who were the IP owners, they weren't comfortable to take it through to court.

MR WEICKHARDT: Thank you for that background. It's a complex and tricky - - -

MR YOUNG (AACT): Like I say, we're getting a very short version of the story today, but I can fill in on some of those positions.

MR WEICKHARDT: Is the feedback loop working? In other words, are those people that first put the end point royalty scheme in place aware of this issue and looking at the legislation or looking at future legal tests of the system?

MR YOUNG (AACT): APRA is a group that have done an investigation in respect of the process. There has been recommendations put in front of government. They've been there since January. Those recommendations were - January 2010 the recommendations went through, but it hasn't come - as you say, getting in front of government is a slow process.

But even within those recommendations again, from my experience, they don't

go far enough to give the industry the ability and the confidence to be able to take it to court. You don't really want to go there anywhere. I think if the legislation is strong enough and the enforcement process is quick and swift enough, then we can solve a lot of those issues. I'm not by any means saying that farmers are in the wrong. I believe it's confusing, I believe it's complicated and it's not clear and concise. Therein lies the problem, that no-one knows when or how to do it.

MR WEICKHARDT: Well, as you say, it is relevant to this issue about incentives for private people to invest in R and D, so to that extent although it sounds initially a bit peripheral to the terms of reference it's relevant to our field of interest. The other issues you raise, I guess, of the tax concession for general R and D - I mean clearly that's an issue that has been looked at significantly, and we probably shouldn't traverse that ground, but it doesn't work in the ag sector for everyone because in some cases you're not talking about corporations doing research. In some cases you've got free rider effects, in some cases you've got lack of scale, which is why the levy is in place.

But the other issues you raised in your notes are the low tax rate on dividends, I think if I sort of read between the lines, you're talking about the lowered withholding tax rate on dividends paid to foreigners. Of course foreigners would allege they also are having to pay tax on that income in their home country and the withholding tax is only a mechanism by which the Australian government claws back some money before the dividend leaves it shore and the capital gains tax on dividends I don't think - I don't suggest I'm a tax expert but I don't think that that's really a relevant issue.

MR YOUNG (AACT): My understanding of the law is that it's in respect of dividends paid, that the only tax paid within Australia is the 7 per cent.

MR WEICKHARDT: Which is a withholding tax.

MR YOUNG (AACT): Right, okay.

MR WEICKHARDT: Yes. No, that's - I think that would be correct. Again, the rate will depend on whether it's a franked income or a non-franked income. But I guess then the issue that perhaps we might go through, and Cliff, you might have some questions about it, is the issue on monitoring performance and evaluation, which is a pretty important one.

DR SAMSON: Daryl, you wouldn't get much argument from us on a lot of what you've said and put down on here in terms of reassessing why we do these things and streamlining them. We do get a sense that some of the best researchers spend more time putting in funding applications than actually doing any research. So one of the things that we hope by trying to take this model a bit back to first principles and so,

you know - why are producers and government co-investing in all this? What are we trying to achieve? We hope that a bit of clarity, a bit of re-articulation on that will help therefore what are the performance indicators and what is an appropriate level of monitoring; and perhaps apply a bit of risk management to it that people with a good, solid track record with achievement and delivery don't have to jump through as many hoops as some new person on the block.

So we do sense at the moment there's a bit of - a lot of activity and a lot of box ticking. We do see that evaluation is a very important aspect to all this, it's a lot of money at stake here, but it's getting that balance right. So say - I don't think you'd get too much disagreement on some of this stuff.

MR YOUNG (AACT): I guess one comment in respect of the evaluation process is that with research we need to appreciate there's a level of risk. If we're going to tie it to economic evaluations of getting an economic outcome that's not always the case. In respect of high-risk research in some cases there might be nil result.

DR SAMSON: Yes.

MR YOUNG (AACT): A nil result in itself is a result, yes.

DR SAMSON: You will see we are advocating in the draft report that we think it very healthy for an R and D organisation to have a balanced portfolio going from direct on-farm productivity-type work to middle range stuff to an element of high-risk blue sky. We think that is a very healthy thing. What comes with that is an acceptance that some of that won't work.

MR WEICKHARDT: But there is - you made the point that audits or reporting processes are more often than not unproductive. I guess I'd push back a little bit about that. Clearly they have costs, but doing the wrong continually and continually making the same mistake is also costly, so there is a need to learn. The recommendations we've made, we would hope, are not going to add huge amounts of costs but might add some more insights. But as some people have pointed out, and I think quite correctly, a lot of the evaluation that has gone on and indeed, our report perhaps emphasises more than it should have, are all sort of after the event evaluations, ex-post evaluations. The critical thing looking forward is people doing before the event analysis to decide what it is might yield the best results and picking between particular research topics to decide what has got the potential to have a good payback, what is the adoption process that would be put in place and how much money you're going to commit for how long before you say, "This is not going to yield what we want."

So the whole area of evaluation is one that not many people who go through it embrace warmly. You don't say, "Oh goody, it's now time to write my three-year

report," but it is a point of introspection that's pretty important if you're going to get value for money out of money you're investing. So finding the right balance here between not being bureaucratic and just wasting time and yet producing some learnings that help you evaluate better what you're going to do in the future is what we're striving for.

MR YOUNG (AACT): I think there needs to be another balance in there in respect of the pressure applied to the researcher in respect to gaining funds. It becomes a real critical issue on how he writes his report. Look, don't ask me how to do it but in respect of being put in a position where they're not under pressure and you get a true indication in the report, be it good or bad, is going to give you a lot better earlier indication of where to go. But currently what I see is that the reports are written to an extent that obviously they're looking for the next input of funds into their project.

MR WEICKHARDT: Okay. Well look, thank you very much indeed for your submission and for those points; very interesting.

MR WEICKHARDT: We will now move to the next participant, the New South Wales Farmers Association. Okay, for the transcript please could you give your name and the capacity in which you're appearing today?

MS MARTIN (NSWFA): Angela Martin, Executive Councillor with New South Wales Farmers Association.

MR WEICKHARDT: We had some of your colleagues come along to the Sydney hearings, so we've already heard some of their story, but tell us what you'd like to particularly emphasise, please.

MS MARTIN (NSWFA): I guess I'd like to emphasise three points: some of the systemic failures that Daryl has just alluded to in terms of telecommunications, really; and I'd also like to emphasise that I think the R and D effort in telecommunications in agriculture enterprises needs to expand and not contract; and really just along the lines of maintaining international competitiveness that we rely on R and D - we rely on industry-specific R and D as well as though broader goals that the Rural Industries Research and Development Corporation have in I think addressing more of the triple bottom line ideals as well.

So I suppose I'd just like to thank you both for attending and visiting the region, for a start, and also point your attention to the written submission already made by New South Wales Farmers Association. Agriculture and the minerals industry are often quoted as being at loggerheads or in contrast with each other, but there's a lot of similarities between the minerals industry and agriculture.

I just wanted to briefly touch on a report that was completed in May of 2009. It was by Acil Tasman. It highlighted basically the capacity constraints that currently exist in the minerals industry and a lot of it is similar in agriculture. I think R and D is a critical one. The Minerals Council of Australia commissioned this report from Acil Tasman as part of their Vision 2020 project. It tries to articulate some of the scenarios for growth, particularly following the global financial crisis. In agriculture New South Wales Farmers were very cognisant of the fact that global food demand is growing and that global population is edging towards nine billion people on the planet by 2050. I think primary to this report is just the assertion that robust economic conditions are hopefully going to return, and that may be within the next couple of years, and the demand for food and minerals in Asian markets in particular with their large aspirational populations is only going to increase.

So R and D is central to some of the capacity constraints agriculture faces. Other ones, of course, are ports, railways, roads, energy, telecommunications and water. Agriculture also faces capacity constraints in areas of housing, labour and other social areas. What am I getting to? I guess the three main stakeholders that I've had dealings with - and New South Wales Farmers Association wanted me to try

and focus in on my own business. It's a grain production business in the Mullaley area. We rely on up-to-date technologies in the areas of global positioning systems, seed breeding and a whole lot of technologies that are always being developed in the areas of chemical applications.

But the three stakeholders I guess I've had dealings with are the Grains Research Development Corporation, the Cotton Cooperative Research Centre and the Rural Industries Research and Development Corporation. These three particular stakeholders are pivotal in this debate and I mention them because I think at different times when they hold - whether it be industry-specific functions or extension type of work that they are really - they tend to be the vehicles that eventually deliver the outcomes for our farmers on the ground.

I would particularly like to mention the Rural Industries Research and Development Corporation. I mentioned some of the RIRDC-funded studies at our recent meeting of New South Wales Farmers Association's executive council. They've funded a whole lot of studies but the study I was interested in was conducted by the University of New England. It looked at the resilience of rural communities. It was particularly important in the debate that we've been having around the Murray-Darling Basin Authority's draft guide to the proposed basin plan. What it said - you know, it went on to talk about the fact that regions and rural communities can be undermined by significant threats. I guess I was trying to use this study to highlight the current water debate. It was a good example of a triple bottom line funded by the RIRDC study that wasn't just economically driven. It was quite a good, balanced study.

So I think I've mentioned to you before that I think that we are competing constantly with the minerals industry for access to infrastructure, for labour, for skills and, I believe, for telecommunication upgrades. We are also competing for hard and soft infrastructure upgrades, be they industrial, infrastructure or community infrastructure. I guess one of the main points is where R and D doesn't properly address some of the constraints that come in from these other areas like ports and roads and rail, we are put in a negligible position, it reduces our capacity to meet demand, feed the world. Soon enough another country will step in and fill the gap, that is, we lose market share, we lose international competitiveness and we lose dollars from our balance of trade.

I guess for our own farm business the GRDC model has really been the primary vehicle that we've used, and we obviously pay levies. But I guess more to the point about how we actually deliver on the ground benefits to farmers I think, and I believe this is true, that many of our extension services now are not delivered by the Department of Primary Industries, because we don't have one, it's within the Department of Industry and Investment, which is a large super-department which creates problems, for a start. But many of those on the ground extension services

that happen for farmers in the form of field days, day trips or excursions - they're run by private sector organisations. Many of our farmers feel that these private sector organisations have a vested interest in a particular product or service and they, that is the farmers, soon lose interest because they're always being pitched at in a way to make a direct sale. This includes for things like chemical application systems, water use efficiency systems and seed breeding and so on.

I notice that the Productivity Commission recommends halving its industry-specific R and D funding over the coming decade. At the moment within New South Wales Farmers Association there's this debate that's raging about disbanding MLA. I feel that it's wrong and that we can only deliver good R and D with a combined public sector industry model like the one that exists with MLA currently.

I note that Rural Research Australia would be created to carry out much broader rural research not provided by industry-specific RDCs, but I just question whether or not \$50 million a year is enough. As I said, I would prefer if there was an expansion in rural R and D that would take into account farmers' expanding use of telecommunications in their business. Daryl alluded to how much time I think is being invested in online activities now and in the home office the simple task of getting their delivery dockets off the online system from GrainCorp into their home office is - it takes a long time and it's slow, but more than that, software programs are always being updated to take into account changes. Most farmers are spending more time in these online activities than ever before. I think these online activities have a great role to play in improving productivity. I just would like to see more investment made either in R and D or in training to make sure that the systems are working as well as they could be with our farmers.

I think I've touched on our business already and I've talked about some of the areas. Our farm produces canola, chickpeas, sorghum, durum wheat, so obviously we rely on quality seed breeding and trials conducted in our area. But our business also relies on technologies like GPS and on up to the minute telecommunications, so I would like to see those particular areas improved in their R and D effort.

MR WEICKHARDT: Okay, thank you.

DR SAMSON: Thank you. Thanks very much Angela. Look, we would certainly agree with you that R and D is sort of one weapon in the armoury of a whole range of things that face agriculture in trying to increase its productivity. But in terms of the R and D you're perhaps in a unique position that you're a producer but you're also engaged with the New South Wales Farmers. So I'd be interested in your view as to how visible on the ground to the average producer, if such a thing exists - we are interested, because when we talk about possibly a reduction in government funding of R and D, of on-farm sort of productivity R and D, and the possibility that the

private sector might contribute more than it currently does to commodity-based R and D, one of the discussions we've had with a number of people is just how visible to the average producer are the benefits that accrue from the current system. I suppose if we summarise what we've heard to date, we would have a sense that for the majority of producers it sort of just happens. They see their neighbour do something so they try it. They don't, in an intellectual sense, map it back to the RDCs.

MS MARTIN (NSWFA): But occasionally a statistic will come out. I think we got a statistic - we had LiveCorp come to our recent executive council in Sydney and they said for every - I thought it was every dollar invested it was something like a \$3 or \$4 flow-on effect. So occasionally you'll get a statistic like this, but I agree with you, most farmers - and I mean there has been great big forums held in Armidale about that very thing and the Australian Beef Association has come in and said, "We're losing market share, we're some of the most underpaid beef producers in the world." So there is this whole group, if you like, who are opposed to the current R and D effort in that sphere and who don't see value in it. It's the classic adage, "Show us the money. Where are our levies going?"

MR WEICKHARDT: So on your farm do you - I mean apart from being given a statistic of somebody else in a - you know, sort of an office has done a calculation to say this has got a benefit-cost ratio of three to one or seven to one or 14 to one or whatever you like, could you point to things that are actually helping you on your farm that you can directly attribute to the efforts of the RDCs using your levy?

MS MARTIN (NSWFA): Well, I guess with the Grains Research and Development Corporation it's a long-term thing, R and D. You don't - I guess individual - if you go around case by case, business enterprise by business enterprise, you would tend to find that a lot of people would - they may not notice from year to year how their profits are improving but the reality is our practices have changed. So in broadacre agriculture we have tended to go towards more water use efficiency; ours is dry land but you know what I mean, the skip-row cropping now. Where people can see the yields on those crops continue to be maintained at roughly the same level - I mean pricing is out of that equation. That's demand and supply. But over the longer term we're still in business. I mean I've only been married to my husband for 12 years this next year. But I think it's about business sustainability. That's a bit of a buzzword at the moment but - - -

DR SAMSON: So if somebody came to your property proposing that the levy on grains were to be increased, what sort of process would you go through in your mind to come to a personal view whether that was a good thing or a bad thing?

MS MARTIN (NSWFA): Well, it would have to be weighed up, I guess, against other expenses in the business. Where farmers see a lot of expenses rising their input

costs in fertilisers, fuels, all of those other things, labour - where they see those continually increasing well obviously I think they would rightly dispute an increase in the levy. That's the sort of process most farmers would go through. But I think it's important for people, whether that be the RDCs or yourselves, in some form to - I guess to continue to show value over the longer term. I think it's easy when you do have statistics more longer term, and for our whole nation, if you like, rather than just a case by case enterprise level, you see those benefits of R and D. It's just - yes, perhaps that's where some of the movement comes from, that we should sort of disband and we need to rationalise.

MR WEICKHARDT: Do you think that farmers inherently try to attribute - whether or not the R and D that's being invested in by an RDC, do they sort of reconcile or attach that value to the level of profitability they're experiencing in that particular area? I mean you mentioned the ABA, who have made several submissions to us, and also came to the Melbourne hearings. They have a number of grievances about the activities of MLA, which MLA dispute. But is there lack of happiness with MLA perhaps associated with the fact that they just see the profitability of beef and that industry going through a tough time and therefore they say, "Well, it has got to be somebody else's fault. It must be MLA."

MS MARTIN (NSWFA): No, I don't think that's fair. I think that could be part of it but that's not entirely fair. What they see is - they see systemic failures in MLA, just like people see systemic failures within New South Wales Farmers Association. They see waste of their levies and they see bureaucratic processes like this one that costs our government money that are incredibly important. So I think there can be distrust in the process of how those bodies represent them, how those bodies not just represent them, how they translate levies into what I call workable sort of on the ground improvements in profitability. That's where the hard part comes in. It doesn't matter if you're talking about the MLA, I guess, or the government. It's the same thing. It's just the taxes and delivery dynamic.

MR WEICKHARDT: Okay.

DR SAMSON: Angela, you mentioned the RRA and that in our draft report we've speculated on \$50 million being a number - you don't think that's going to be enough. But in respect of the RRA, if we can just go back to first principles on that, the reason that we're currently recommending the creation of that new body was a view that we formed that what the existing 15 RDCs are very good at is the commodity-based on-farm productivity costs saving research and their real strength is the connection with the producer base and that sort of bottom-up approach that tends to help set the research agenda and make sure that the research that's done is very relevant to the people who pay the levies.

What we also believe though is that over time, the other stakeholder, the

government, has become somewhat more vocal in what it wants, which is roughly characterised by crops commodity national interest issues: climate change, water, efficiency, those sorts of things. We don't think that is a particular strength of the model as it currently exists, hence we are currently recommending the creation of this new body that would singularly focus on that. Do you have a view about that sort of split that we see between commodity-based, on-farm productivity, broader cross-cutting, higher level of public-good type work?

MS MARTIN (NSWFA): There is really a divergence. With the whole water-use efficiency, climate change debate that this government seems to be hell bent on continuing, is that individual enterprises can be, really, thrown by the wayside in that debate, if they are not brought along with the government, if you like, if there is not some form of structural adjustment. Within New South Wales Farmers Association's Business, Economics and Trade Committee we are currently looking at some taxation incentives; for instance, where you buy the top quality seed that requires less water, you should be given a taxation incentive for doing that.

So there are a whole range of ways where, if it is not industry specific, the government is really running roughshod over people's enterprises, because they are constantly bringing out new regulations as part of that climate change space, that they call it, in the form of vehicle emissions or, in the form of water, reduced entitlements and reduced allocations. There are a whole range of areas where the government is pushing down on agriculture and where there should be a range of incentives put in place, like taxation incentives, to at least bring those enterprises along with them.

If we are going to continue to deal in a climate change space - and acknowledging that, even though we seem to be in a La Nina cycle at the moment - the government has a responsibility to at least bring enterprises in these regions along with them and make the necessary structural adjustments to policy while they do that. At the moment, they don't seem to be.

MR WEICKHARDT: I'll ask one from me, Angela. On the issue of extension, and private sector interests and extension, you mention that you had a concern that some of the private agents who work in this area have a vested interest to sell something. I can fully understand, if somebody comes from a chemical company or a tractor company, that they might offer advice but they are inherently trying to sell something. But I would have thought, if you were employing a private agronomist and paying a fee to them, you would have every expectation that they would be uninfluenced by what product you bought or sold, otherwise they have a direct conflict of interest.

MS MARTIN (NSWFA): But it is a little bit like pharmacy or something else. We have an agronomist, as you say, but then I believe that they will occasionally come

forward with a product - like, for us, Opti-Crop - where they will go around and do all your soil sampling. So occasionally even they would have a vested interest, I believe, in - your agronomist is fairly impartial and you would expect them to be fairly impartial, but occasionally even they will promote something, if they think it is going to improve your yields or your productivity in the long run.

MR WEICKHARDT: If you sense they weren't impartial, do you have a choice of hiring somebody else who you impress upon them: "If you at any stage give me the impression that you are trying to flog something, because you have got a vested interest in that, you won't work for me any more"?

MS MARTIN (NSWFA): You are, but you are always limited by a pool of talent within Gunnedah and Tamworth, and then you have got travel to consider. So, yes, you are limited by the businesses that are already well established, and some of those businesses can be quite competitive and change hands. I guess it is important that farmers believe that they can occasionally get impartial advice.

I think it is fair to say that a lot of them feel that they are continually being sold something. That is fine; most of them will justify those improvements, those expenditures they make. But it comes back a little bit to our argument earlier: if we are going to operate in this climate change space, have more regulations put on us, and try to update, farmers shouldn't have to bear that cost burden single-handedly. The government should also bear some of that cost burden and come in, and not withdraw all of their on-the-ground type of delivery in our regional areas at the same time. It does seem to be an unbalanced equation.

MR WEICKHARDT: All right. Thank you very much indeed for your input.

MS MARTIN (NSWFA): I apologise for the table, the water.

MR WEICKHARDT: That's all right.

DR SAMSON: I think you need to apologise to the cotton guys, they are going to inherit it.

MR WEICKHARDT: They can check whether or not the cotton shrank. Thank you very much indeed.

MR WEICKHARDT: Our next participant is the Cotton RDC. Okay, if you could please individually give your names and the capacity in which you are appearing today.

MR LOGAN (CRDC): Mike Logan, chairman of the Cotton Research and Development Corporation.

MR FINNEY (CRDC): Bruce Finney, executive director.

MR PYKE (CRDC): Bruce Pyke, general manager for research investment of the Cotton R and D Corporation.

MR WEICKHARDT: Thank you very much indeed for coming, and let me say thank you for your submission before we publish the draft report and for your contribution to educating us a little into your experiences in the cotton area and R and D. It has been extremely useful. We had Cotton Australia appear at the Sydney hearings. They have made a number of comments which are interesting and we might test some of them with you. But if you could give us an outline of the area that you want to cover today and we can then move into a dialogue.

MR LOGAN (CRDC): Thank you again and we really welcome this review, it has been really interesting for us. It has been quite challenging and the draft report has made us think quite deeply about this. Hopefully our discussion today will help guide us and our response, a more formal written response, at the end of this which we can provide to you shortly. But I think the intent of the review is to discuss collaboration of national strategic R D and E, and for us to think about has been quite challenging. We have been able to compare efficiency and effectiveness and we are rather pleased to report today that we have solved the efficiency problem: our overhead costs are going to drop from 17 per cent to 11 per cent, because the crop has gone from one million bales to four million bales.

MR WEICKHARDT: This always helps.

MR LOGAN (CRDC): So we accept full responsibility for our good management.

MR WEICKHARDT: Two ways of affecting a ratio.

MR LOGAN (CRDC): Increase the top line. Nonetheless, it has been interesting to think about how we do that as a rural-based R and D corporation. We often cite that we are the largest R and D corporation outside of a capital city and that we are the only one. We take some pride in being based out here; it is quite important to us and it is quite important to our growers. But we can also see that the Commonwealth feels some disengagement from what we do.

I think that is the main point of our discussion today is that we can demonstrate quite clearly that we are doing quite good productivity R and D. But we haven't been able to desegregate very clearly in our minds, nor in yours, the public-good aspect of that. I think, as we look across the spectrum and who would be thinking about that, we really struggle to find any leadership or guidance there. I think it is an interesting point that we need to consider, because to desegregate public-good R and D, for us, has been a dilemma. We've sat in ministers' offices and we've been to PISC R and D framework meetings and we've asked DAFF and we've even asked you: what is, in your mind, successful public-good R and D from the Cotton Research and Development Corporation. We really want you to talk about that, because we're just not very good at explaining it. We think we're quite good at doing it but we're not very good at explaining what it is or pulling it apart so that you can see it clearly. I see that's where you get the RRA idea from. You can then discretely put that in a box and demonstrate what we haven't been able to demonstrate. I think that's quite a useful solution to think of it that way. There might be other ways to do that but I get the idea and we can argue about the details later, but the idea is good.

So I think leadership for rural R and D is a real gap for all of us. What in the mind of the minister and what in the mind of the farmers is a vision for rural R and D? What do we want out of this? How would we define success and how would the minister define success? I think it's a discussion that perhaps we could have under this new structure going forward. I think it would be really useful to think positively about that rather than just put aside a bucket of money and create an organisation and hope that it meets the challenge of what is public-good R and D.

So today I'm just going to ask Bruce Pyke and Bruce Finney to talk quite briefly. Bruce Pyke first will talk anybody the interrelationship between productivity, environmental and social outcomes from R and D. These are things we've worked very hard at. I think the point you will see here is that we haven't been able to pull them apart so that you can see them in three neat piles. They're connected, and this is the dilemma we continue to face. So introduce Bruce Pyke.

MR PYKE (CRDC): Thanks very much. In trying to look at this I've looked at an example, I think, that obviously the cotton industry likes to use, and that's our best management practice system. I think we need to tell the story because it shows the interrelationships that exist and what kind of drives some investments in what I would consider a public good. They're not just about productivity gain. BMP started from research that was really related to dealing with a significant environmental problem that appeared from monitoring our northern rivers. If I'm going over ground you already understand let me know but - - -

MR WEICKHARDT: Bruce, I don't want to sort of completely interrupt the flow but maybe it would help if I just responded a bit to a couple of comments Mike made because you might be able to slant your input here. We are in heated agreement with

you that it's very rare that you have things that R and D produces outputs in this sector where there is a clear dividing line between a private good and a public good. Indeed, it's very fortunate that in most cases there is a mixture of both that come out of R and D projects because that means some things that definitely have public good characteristics also have incentives for growers to implement, because they are private benefits.

The issue that we tried to introduce in the draft report was that because governments only have a limited amount of money and it's not their money, it's our money and it costs them money to raise money from us, government have to be particularly conscious of where they're going to invest that limited pool of money to get the best bang for the buck. The point that we tried to introduce in the draft report was a concept of additionality. That is, that governments really should only invest where in the counterfactual example it's probable that private enterprise would not invest. Now, of course this isn't a judgmental issue. Can anyone prove absolutely what the behaviour of a private enterprise would be in the absence of government money? No. But as Paul Keating once said, in a horse race always put your money on self-interest because you always know it's trying.

The facts are that there are a lot of examples of research programs, and I think this would be true in your sector particularly, where undoubted public good has come from some work that has been carried out in your sector but where there have been very handsome payoffs to the industry itself, productivity enhancements. Now, of course it's easy to look back in retrospect at these things and sort of be wise and say, "Well, gosh, because of that huge payoff to the industry concerned they had every incentive to do that." The view in the rear-view mirror is sometimes quite different from the view that existed in advance of these things. But the point we were trying to make was when industry is working on projects and anticipating projects where there is a significant payoff for them, that industry ought to step up to the mark and fund those itself, even if there are public benefits that flow from it.

Now, that's hard-nosed. It's perhaps unwelcome news to the industry because, for heaven's sake, who wouldn't prefer the government invest some money if they don't have to invest it themselves. But that's the contention, not that we see neat piles between private good and public good, we don't. It's trying to work out where must government invest because in the absence of government nobody would invest. We see that occurring in cases of cross-cutting research where the benefits to anyone in the industry might be very diffuse, wouldn't be sufficient to get the industry to invest and of its own merit. But there are other cases where we see research that's been carried out in RDCs that's been enormously beneficial to the industry where it would appear the industry had very high incentives to invest in that and if the government weren't there the industry probably would have done it itself. So the debate between private good and public good is probably a bit of a - you know, sort of a dead-end road because we agree with you.

MR FINNEY (CRDC): If I could just make a couple of points in response and then hand back to Bruce, if I may? I think it's quite apparent to us that the industry can see significant benefits in the R and D and that's why they feel quite committed to R and D. In its history it always has. Equally you can see a transition where things that - where the industry had market failure and government funds or RDC fund were going to and are no longer occurring, such as plant breeding. I mean there's no longer market failure, so that's a commercial entity.

You can see today some transition around extension where industry saw market failure - perhaps there isn't so much market failure now - with the private consultancy and commercial businesses and agribusiness and we're trying to make better use of that circumstance. So I wouldn't like you to think that it's static. I'd like you to understand that there is transition that occurs as we too try to work out amongst an over-subscription of good ideas to invest in what's actually best to do. One little anecdote about public or social, additional research would be the RDC's attempt to invest in the environmental water management policy area. It had to, in its planning process, plan for an exit from that research because there was no pathway to adoption through state government or federal government policy adoption.

So often we can see things that need to be done in a public policy perspective but we can't see a pathway to getting it adopted, so it doesn't make sense to even contemplate doing that. A vehicle like RRA could be an opportunity to share that risk of the investment and the adoption more equitably though.

DR SAMSON: That, you know, as we go through - as you say you're genuinely keen to sort of understand our thinking, but we will be the first to say our thinking evolves and it evolves to listening to people like you. So it's quite a positive, healthy sort of process we're going through, I think.

MR FINNEY (CRDC): Yes.

DR SAMSON: To pick up your point, Bruce, exactly how we see in part an RRA or some entity working is - there's also as well as - as Phil said, some areas where your starting proposition would be this is a private sector space on the back of an envelope more than a public or whatever. There's also the scale issue. Take water as an example - and you raised it, I mean, that would be a good one where we would see an RRA entity taking a role there and they would look at some of the really big stuff. You know, if we didn't already have it, they might do the national water inventory, they might look at some fundamental catchment science, the sort of enabling research which is quite large scale and no single RDC would be able to afford to do it of their own volition, but within that sort of circle of RRA water research interest, there would be overlaps. Some things would be very cotton specific and that would be absolutely the space where you guys, building on the RRA

work, would invest in commissioning cotton-specific research and, being part of that, you're actually leveraging your money against the other RDCs as well to get that big picture enabling - - -

MR LOGAN (CRDC): But to a degree we've been doing that with the NPSI, the National Program for Sustainable Irrigation.

DR SAMSON: There are examples - - -

MR LOGAN (CRDC): But the confusing message and the conflicting message in that is that while we're trying to think at landscape scales and catchment scales and trying to think more cross-sectionally about things like root zones and salinity and rising tables, the Commonwealth, who were an investor in that, have withdrawn their funding from that program. So you think, well, there's a space that I think is quite for the national good, stuff that we were thinking very cross-sectionally. But I like the fact that it was pretty well discretely the RDCs that were engaged in this because we actually got to sit around a table and talk to each other about something that was common.

To get a dairy farmer to think that he's an irrigator that grows milk or a cotton grower to think that he's an irrigator that grows cotton, it's a leap for these people to think beyond their farm gate, but it happened and it was happening quite well, but then the government send this signal, "Yeah, that's all yours and we're out of that," so it's really difficult to find what they want from us, and this is my question about leadership: can we clearly have it thought through? I think it's a conversation between the minister, between DAFF and between industry.

I mean Grahame told me in the car on the way down that DAFF have two people that work vaguely on cotton. The web site for cotton was updated in 2001 as of this morning. It might have been updated today, but we don't think so. You know, there's not much coming out of government to sort of really guide us and I think if there's a body like RRA that can just do that; not even spend money, just give us some guidance on how we should spend the money, then I think that would be a lot more useful.

DR SAMSON: We see that guidance as an important role, but they should not be doing it in isolation. They should be doing it as part of a conversation with you and the other 14.

MR LOGAN (CRDC): That's what we've been trying to do, but it's hard to bring it together. Perhaps RRA will make that easier, I hope.

MR WEICKHARDT: It may do, but I'm particularly interested in at some stage hearing a bit more about your environmental water management experience, because

the thing that we are conscious of: there are three big risks about RRA. The first one is that government think it's a great idea and put money into it and then pull it out, as per your experience with that particular project or as per Land and Water Australia. The second is that it does work that sounds socially wonderful but doesn't produce any useful results at all. But the third real risk is that it does produce useful results, but there's no pathway to adoption. That would be a terrible problem and if the work they did had some private benefits, but very large social benefits, then you can still see a pathway to adoption. But if there are no private benefits at all, but large social benefits, then really the only way government can get that adopted is through regulation of saying, "You have to do something."

MR LOGAN (CRDC): That becomes a policy debate.

MR WEICKHARDT: It does, but we're very conscious of that as a risk, so some live examples of where you've stepped up to that mark and pulled away because you can't see a pathway to adoption, we'd like to hear more about that.

MR FINNEY (CRDC): I think it would be useful if we could hear from Bruce.

MR WEICKHARDT: I completely derailed your presentation. I apologise.

MR PYKE (CRDC): No. I think all that was good because I can summarise what I was going to say a little bit more. I think the cotton industry has a really good example of some research that the industry may not have invested in if there hadn't been some incentive there, and I'm talking through back then what was the Land and Water R and D Corporation. They've changed some leadership. The industry had been prepared to accept some responsibility and also the Murray Darling Basin Commission weighing in some funding as well to say, "This is a problem that we need to address, an environmental problem."

We had no idea at the instigation of that research where it was necessarily going to lead. We certainly didn't know that it would lead to the industry developing a best management practice system. So we're talking about 1992 and 93 there where that research started to kick off. Now in 2010 we still have the BMP system, but we have attempted to link it more closely to a whole stack of research. So this is where I'm trying to paint the picture of how do we link productivity, environmental and social research together. It's not a simple black and white story, as you've said, but we've now got a system that, at least in Queensland, is accepted as a proxy to regulation. In terms of farmers that need to develop land and water management plans in that state, they can use the cotton industry's BMP system instead of the prescribed methods that the government is after.

So research that we never envisaged would lead to those sort of outcomes have potentially done so and also provided the industry with an environmental and a

regulation risk management tool. They've also provided the opportunity, when we go out into the marketplace, to say, "Look, we have this system that can provide some assurance of our product and their environmental integrity that does have some resonance out in the marketplace." Quality is number 1 when we go and talk to our customers, but increasingly environmental responsibility is important to them.

So the other key aspect I think that's developed is that we have now started to think about how we link our R and D directly into our BMP system, how we get our delivery and development team very closely linked to that so that we can have a more efficient extension system, if you like, and a clearer pathway from research through to information on the ground to provide the growers or their advisers. So I think it's a very good example of something that started from somewhere where the industry on its own which would only have its own funds to invest may not have been able to do it and I guess, coming back to where RRA might fit in, it would seem to me it could incentivise those sort of areas that the RDCs on their own might find difficult to invest in.

MR WEICKHARDT: Can we talk a little bit about the motivational issues of the government co-contribution into the RDCs. A basic premise behind the recommendation we made in the draft report was that in some cases, if the government lowered its matching dollars, that growers would have incentives to invest more and, by removing some of the obstacles to increase the size of the levy, that growers would invest more; perhaps not happily, perhaps not cheering from the sidelines, but ultimately self-interest would motivate them to do that.

Now, we haven't been surprised that many people have disputed that judgment call and have said no, that wouldn't be the case. If the people removed or reduced its dollars then industry would also reduce its dollars. What we're interested in is that some of the RDCs already invest significantly above the government matching contribution, GRDC would be an example; some invest almost exactly at the parity, dollar for dollar, and I think cotton would be an example of that; and some under-invest. So in the case of those that under-invest you scratch your head and say, "Well, why does that work? How does that work if the government dollar is supposed to be an incentive why don't they at least invest enough R and D to get the government co-contribution?"

A cynic has said to us at one stage that there's sort of a bit of an indication that some of the RDCs or some of the industries see the RDCs as an interesting mechanism whilst the government is kicking in dollar for dollar. As soon as they get to that cap the industry chooses to invest extra dollars elsewhere. In the case of cotton I think your original submission said you, as an industry, spent about 60 million a year and of that maybe 10 or so was coming through the RDC. Of course it depends on which year you're talking about but I think these were figures going back a few years.

MR LOGAN (CRDC): We've had a few tough ones, yes.

MR WEICKHARDT: Correct. But obviously there's quite a lot of money coming from other sources. We asked Cotton Australia if they could split up in total how much of that 60 million was coming from public funding and how much was coming from private funding but my guess is that some private funding is going into this sector that's over and above the amount that's collected from levy payers. But I'm interested in your general reaction to the issue of what motivates growers and the industry to invest, what might motivate it to invest more. Is there any truth to that allegation that the cotton industry will invest when the government is matching the dollar but as soon as it gets to that cap it will choose to put its dollar, its extra marginal dollar, somewhere else where perhaps the industry feels it's more under control or it can capture the benefits directly.

MR FINNEY (CRDC): I don't know that the industry would find somewhere else it could get a better return on investment than with us, so that's a pretty interesting allegation.

MR WEICKHARDT: It wasn't a better return than the investment in the industry. But you're saying the industry itself couldn't invest directly - - -

MR FINNEY (CRDC): In research.

MR WEICKHARDT: - - - other than through the RDC?

MR FINNEY (CRDC): In research.

MR WEICKHARDT: Okay.

MR FINNEY (CRDC): Yes.

MR WEICKHARDT: But they are investing through other mechanisms, because clearly only a fifth or so of the dollars, the R and D dollars for cotton, go through the RDC.

MR FINNEY (CRDC): I think you've got a few dots on the horizon. I'll try and join them. Firstly, we're interested to understand why industries invest more than the matching contribution. So you're interested why they don't invest more.

MR WEICKHARDT: Well, we're interested in why they do and why they don't.

MR FINNEY (CRDC): Why do grain growers invest more? We don't understand how that came to be. Maybe if - found that was just a act of - I don't know, just happened by fate or whether that was by design.

DR SAMSON: Sugar do it.

MR FINNEY (CRDC): Yes. No, I think - well, I'm not conscious of why - I'm not sure that there's a explicit reason why some industries are investing more than the Commonwealth matching contribution and others aren't. I guess I'll come to a point I was planning to speak to, which is what determines the adequacy of funding for sector or research and perhaps try and work backward to some of your points, because I think through this discussion and others commonly people get focused on inputs and structures rather than outcomes.

For us the adequacy of funding comes around the outcomes. So, you know, are we actually delivering the strategic goals that were set for us and approved by our minister in our plan? So is productivity improving? Is environmental performance improving? Are social benefits accruing? Is the government stakeholder satisfied with those outcomes through our annual reports? Is industry satisfied, are our R and D partners satisfied? So if we can tick all those then, on one lens, we think the funding must be adequate because we're delivering what was required. There's a bit of a, I guess, question mark now whether the government is satisfied. So does that mean that there's inadequate funding? Perhaps that's as much an issue as what the direction of the investment is. But we're going through a process now through the primary industry standing committee through the RD and E framework and that's interesting too because that adds another question of what's adequate, and that's looking at how do we sustain the capacity of our research community and the infrastructure, has it got critical mass and is it being well maintained? After this 10 years of drought it's quite apparent that it isn't adequate either. There's only probably 60 scientists out of a team of about 160, so there's more technicians - understandably, but I think their proportions and total numbers decreased to a point where there's a veneer of capacity rather than a depth of capacity in the R and D capabilities we need for the future.

So I think it's those two questions around are the outcomes being delivered - and one of those outcomes must be about is capability and infrastructure being sustained and maintained - that comes to the question of whether it's adequate. Then how it's provided - you know, whether it's matched fifty-fifty or two to one or whatever - is a separate question which obviously the Productivity Commission is questioning. I think that's probably better for Cotton Australia to answer about what the growers think is an adequate amount of investment from - in their share of the results.

But I know that \$60-million number. It comes from a presentation I made to the Hillston Cotton Growers Association in 2004 and it was my best estimate after at least five minutes to contemplate what the total number of investments could be. It was simply CRDC invests or expands \$12 million. The government, through the

CRC invest another four, so that was 16. The multiplier for public research partners at that time was about two. So that was 32 million plus the 16, so I got to 48.

MR WEICKHARDT: Sorry, I'm confused now. You've quoted the 16 twice, haven't you?

MR FINNEY (CRDC): You do that in agricultural rural R and D. No, there was 12 million from CRDC plus four from CRC, so that's 16.

MR WEICKHARDT: CRC - - -

MR FINNEY (CRDC): Yes, and then when you go to the research partners and they co-invest they bring equivalent to twice that through their multipliers, typically. So that was another 32 million, so it got us to 48. Now, I think I looked at the CSD investment in plant breeding around that time, or expenditure around six million. I got to 54 and I said, "Oh, I wonder what the difference would be for private investment? I think it'll be about six," so that's 60 million. So there's not a fair - not a depth of rigour in that. I guess we could certainly revisit that number. But I'm not sure of the utility of that other than your trying to work out, I guess, an equity share, which is important.

MR LOGAN (CRDC): But I think you've got to work out the motivation - - -

MR WEICKHARDT: Well, we're interested in motivation issues.

MR FINNEY (CRDC): Yes.

MR LOGAN (CRDC): I think the motivation is the thing we need to think through a lot more. I mean the leadership here in what are we looking for from rural R and D is still a big vacuum. I can ask a grower what are they looking for, a cotton grower, and it's quite clear to me because they don't leave you with any doubt what they want, you know, it's improved productivity. But if we look at this more holistically, more broadly, with the engagement of government I think we come up with a lot better answer. I think this is the space that is blank for me. I would really like to understand that more deeply, and I have sat and asked the minister, face to face, this exact question.

MR WEICKHARDT: With the greatest respect to the minister, I would be really nervous as a tax payer, if the minister was absolutely certain what you needed too, because, quite frankly, governments aren't particularly good at being right in this sort of space. The government having some approximate ideas of broad areas that they think are important and are going to be important in the next 20 and 30 years, I think, is probably about right.

But what needs to happen then is, somebody who understands the industry, the broader spectrum of that and the government's general desire, needs to work on thinking through, "What does that really mean? What do we need to invest in over the next little while?" That needs to be ground truth with farmers saying, "Well, in 20 years' time, if we have a solution to salinity, would that be useful? If we didn't have weed problems or pest problems, would that be useful?" Okay, maybe that means we have got to be putting some more money into that, because nobody else is.

MR LOGAN (CRDC): I think that would create a real motivator: it would motivate government, it would motivate growers, and it would engage communities. One of the things I worry about with the RRA is a loss of engagement with the RDCs in this public-good space.

DR SAMSON: And industry.

MR LOGAN (CRDC): And with industry. I just think it is a really big risk that needs - you are thinking about it, I know it. We have talked about it face to face and it's in mind for you.

DR SAMSON: It's a failure. The way we have articulated it at an early stage has not made that connection clear.

MR LOGAN (CRDC): No, I know it is on your mind.

DR SAMSON: This is a great opportunity. You have referenced the work that has been done on the rural R D and E framework, which for the first time starts to put a national strategic plan over a lot of industries and that's great. As Philip said, in the past there were all sorts of reasons the government has not articulated what it wants with the precision that the RDCs have looked for.

Quite frankly, you could characterise the RDCs behaviour in this sort of space as, at best, passively waiting to be told what to do and then, even if you have been told what to do, there is a spectrum of enthusiasm in which some of the RDCs would have embraced that. But in the absence of a very specific, detailed plan from the government about, "This is what we want you to do," quite understandably, you have all struggled. We hope that an RRA-type model that thoroughly engages the other 15 RDCs, and industry, and government, becomes the vehicle where collectively you can articulate what is required in the space, because at the moment it's a vacuum.

MR LOGAN (CRDC): It is.

DR SAMSON: All you ever know is when you do something and you are told, "That's not what we wanted."

MR FINNEY (CRDC): We thought we were working for the EPAs, so the motivation stuff is really quite interesting. If you look to Landcare and other models where incentives have been provided and have worked well, and we look at some of the government programs for Caring for Country, whatever, and we think, "Wow, wouldn't that have been interesting if the government had talked to us about how we could partner with that and really deliver outcomes." For the cotton industry that has prime ecological real estate along the Darling River, wouldn't we be a good group to work with for outcomes. So we wonder why more of those approaches couldn't be taken.

MR PYKE (CRDC): Just going to the question, Philip, you raised about motivation in the industry and why the cotton industry has got up to about the matching level and not gone beyond it, I think if you look back at when we had better times, going back 10 years we were regularly three million bale crops, the industry felt it was in a reasonably stable state, and I can recall, certainly, our board often looked at the balance of R and D and the quality, and we were putting money away into our reserves. So we were saying we have got enough.

MR FINNEY (CRDC): In 2003 there was 16 million in investment.

MR PYKE (CRDC): The industry literally hit the wall in about 2003, 4 and on. I think the judgment was, it wasn't a good question to be going out to the industry to ask them to invest more; also at a time when growers did see, and will obviously complain about, the fees they pay for GM technology, but they do know a chunk of that goes back into R and D now. So in effect they are paying for a fair bit of research that is outside the RDC now.

But the perspective that the PC is putting on the whole thing, I think, is good, in that it can develop some discussion around: can we look at this differently; what can we can go back to our industry, or what can Cotton Australia go back to the industry and say, "What do you think about this?" But we have got to be able to tell the story, I think, and that is the tricky part.

DR SAMSON: How dependant is the scientific capability for your industry on the money that comes from the CRDC? Hypothetically, if your funding were cut by 25 per cent, do your one or two specialist cotton researches fall off the twig?

MR FINNEY (CRDC): A cut of half of our Commonwealth-matching contribution would be anything from one and a half to four million dollars of revenue, depending on the size of the crop. So that would be substantive, particularly in starting, I think, from behind the eightball already in terms of capacity. The plant breeding transferred across to commercial enterprise, so that has been a positive in terms of managing through this drought. But if the average project was \$350,000 a year, you can work out the number of projects and, probably, number of principal scientists

that will be lost in that process if there is not an other source of revenue.

DR SAMSON: Lost in the sense that literally they would pack their bags and go, or lost that they would stop working on cotton-related issues and work on something else?

MR FINNEY (CRDC): Our experience at the moment is that unless that research provider can find alternative funding sources, they will go, because we are funding more and more of the salary as well as the operating of the scientists. So it is not like they are typically on mainstream research-provider funding and just getting the project funds from us, they are now increasingly being funded totally by us.

MR LOGAN (CRDC): We have worked very hard over the last six or eight years in the drought to maintain our research capacity and that is why our reserves are now so low. One of our main commitments has been in research capacity and we have been determined to keep it. It's a big value add for us.

DR SAMSON: Hopefully this season will help with the reserves a little bit.

MR LOGAN (CRDC): Don't worry, we're not spending that money. We have got some catching up to do.

MR FINNEY (CRDC): I would have said, in terms of adequacy of funding, somewhere between that 12 million dollars back in 2003 and the 16 million in 2003 is what would, if you put it in today's dollars, be what we need to sustain the capacity to meet these strategic outcomes for the future.

MR WEICKHARDT: I wonder if you can at some stage unpack for us, and not necessarily today, but if you can give us a written version of your reconciliation of how you got to the 60 million.

MR LOGAN (CRDC): Yes, sure.

MR WEICKHARDT: Or where your best guess is of where it is now.

MR LOGAN (CRDC): I think it needs an update.

MR WEICKHARDT: Particularly, who are the funders of that and how much is coming out of the state government, the federal government, and private parties. A question that was asked of us in Sydney was - I guess it was an implicit criticism by Cotton Australia, that we hadn't taken account of the royalty flows that exist here. I would be interested in, again, any light you can shed on this as to the degree to which these royalty flows are directly and automatically reinvested in research or whether they are indirectly invested in research. In other words, when CSIRO receive some

royalties, do they commit to, dollar for dollar, putting that back into cotton or does it go into CSIRO's overall pot of revenue and they spend it as they wish.

MR LOGAN (CRDC): We don't know.

MR WEICKHARDT: Likewise, when cotton growers receive it, do they swear to you that they will reinvest every dollar they receive or, again, does it go to their back pocket and they decide how they will spend it later on?

MR FINNEY (CRDC): I can make some observations, but you would have to confirm the detail with CSIRO. We spoke about royalties and levies, just as a bit of an indication, so if levies are \$2.25 a bale and the industry's average yield is 10 bales to the hectare, there's \$23 a hectare, equivalent, in R and D levies from a grower. The share of licence fees that a grower would be paying that goes back into R and D would be in the order of, I think, \$60 a hectare. I have to confirm that. Then in terms of where that money goes, it's distributed equally between cotton seed distributors and the CSIRO and then we share, under the contractual arrangements, 20 per cent of the CSIRO royalty flow. That share winds out by 2017 as part of this transition to a more commercial-like model.

MR WEICKHARDT: Some revenue also comes, as I understand, from the overseas use of your varieties?

MR FINNEY (CRDC): Yes, our share of that is about 100,000 to 200,000 dollars.

MR WEICKHARDT: When you say "your share"?

MR FINNEY (CRDC): Our 10 per cent or 20 per cent of CSIRO, so you can multiply that - - -

MR WEICKHARDT: Is that the RDC share?

MR FINNEY (CRDC): Yes.

MR WEICKHARDT: So you get direct cash from those royalties, do you?

MR FINNEY (CRDC): Yes, and I can assure you that all gets reinvested in cotton industry R and D, or R and D through the cotton industry. The CSIRO, though, its investment in cotton R and D, I think, under the PISC R and D framework document, we are looking at about 16 million dollars, according to their total investment at this time. I would be happy to share that with you in our next submission.

MR WEICKHARDT: Okay. Again, understanding that would be useful, we are

still wrestling with getting a feel for some of this or other, and not that at the end of it all, as some people have suggested, if we had the perfect data we would be all wise, because we wouldn't; we might be better informed, we might be able to better make judgments of what has happened over time and what is happening as you track it in the future. But ultimately deciding what are the correct roles of various players in this game will be a matter of judgment. It won't be an algorithmic formula that gives you absolute certainty that this is the right answer.

MR FINNEY (CRDC): If we could attend to some of our questions with you, as it's possible?

MR WEICKHARDT: Sure.

DR SAMSON: Go for it.

MR FINNEY (CRDC): We wondered if you had any feedback on our submission of June 2010, and any comments or questions, or if there was additional information that would be useful for the commission?

MR WEICKHARDT: I had multiple ones, which could take up a lot of time, and perhaps some of those we should do now. But, Cliff, do you have other issues or do you have some specific questions?

DR SAMSON: No, they are probably dangerously Dorothy Dix-ish. I will test the proposition anyway. Not insignificantly, as a result of talking to CRDC when we started this exercise, we formed a view about the historic usefulness of government directors and are recommending in the draft report that by mutual consent that could be a vehicle that is reinstated. I assume you have no problems with that as a concept?

MR LOGAN (CRDC): Not at all. The government director was quite useful. It is just a matter of an interface between government and the corporation; it was a good one. But, overarchingly, what is it that government wants and how can we better communicate and discuss that. So if a government director is a good way to do that, we are happy to go forward with it.

DR SAMSON: The only other thing from my perspective, we also talk in the draft report about the variations on the model, where we have some corporations that just do R and D, some of the industry-owned corporations do R and D and marketing, and one or two actually do R and D, marketing, and are the industry representative body. We are recommending we leave that third model as it is for the moment and think about it further down the track, but we are saying where the majority of levy payers want marketing to become part of the activity of an R and D. As long as there is a rigorous separation of the money, we see no wrong with that. Do you guys

have a view in your experience?

MR FINNEY (CRDC): We would be quite positive to the flexibility in the act being enabled, but then we would defer to Cotton Australia and government, whether it thought a proposal from us to do that was appropriate. We certainly have a large investment in value-chain research, which is connecting closely to brand owners. It would be useful for us to have the freedom to operate, because it can get quite cloudy as to where the line is between research into marketing and actual marketing.

MR LOGAN (CRDC): Our vision is that we have the world's best cotton. We really want to grow the best fibre in the world, and we can't do that without understanding the needs of the marketplace. So we are pushing up and down the value chain, trying to learn what it is they want. You end up right at the point of marketing, where you are talking about branding and things, which is right on the edge for us; we have never done that before, but we are pushing there because that's where our industry vision wants us to go.

DR SAMSON: I guess we would get nervous if all of a sudden all of your money was spent on some generic "Wear Cotton" campaign.

MR FINNEY (CRDC): You wouldn't be alone and the farmers would kill us. We would last about a minute.

MR WEICKHARDT: In your original submission you note the board and the chair of the RDC are appointed by the minister, in accordance with the legislative PIERD Act provisions. I did ask Cotton Australia to translate one of the comments they made about the composition or election of the board. Various other people, however, have said, whilst they accept the process under the PIERD Act for the selection of the board, they felt that it was unreasonable for the minister to appoint the chair and they felt the board ought to have the ability to appoint the chair of the RDC. Do you have any comment on that matter? For the transcript, the answer was no.

MR LOGAN (CRDC): We don't have any problems with the current system. We find the selection committee process very good. We have got a very good board, in my view as chairman. We have got a very functioning board, and I thought the minister did a great job appointing the chairman. You can't ask me that question.

MR FINNEY (CRDC): It would be more appropriate if we deferred to the government and industry to work out whether they had a problem and resolve it.

MR LOGAN (CRDC): We think it's quite good.

MR WEICKHARDT: There is another section of your submission that said

adoption is key, and we would wholeheartedly endorse that, but you say at the end of that section:

The CRDC recognises that governments are also end users of R and D and seek to better support adoption by the government sector.

Can you give us some examples of what was - - -

MR FINNEY (CRDC): I was hoping you would, because we are looking for better pathways. As I gave that example of investment, back in 2004, in water-sharing models, I guess we looked, in that instance, to actually do the research with a state government agency, because we thought that might enhance the opportunity for adoption, as much as we would work with industry or farmers for on-farm research. So I guess if there was a way for us to work with government programs such as Caring for Country or the like or National Water Commission or the like then perhaps that's a better pathway for us to get the R and D adopted. But it's quite fraught at this point to get adoption.

MR WEICKHARDT: I mean Caring for Country you say - I think you said there are some incentives that apply in those sort of programs. I'm not familiar with those. Can you - - -

MR FINNEY (CRDC): Well, they're grant funding programs but they've also got some strategic outcomes in mind. We'd be happy to look to where we can partner but doing it through a grant-based process isn't necessarily very administratively efficient and it can be a bit of a beauty contest. They can be quite resource-demanding of a small agency like ours. So perhaps it would be better if there was a bit more of a meeting of the minds in terms of the process up front. That's just an example of a number of government programs where we think we're a good pathway for doing the research to engage with the end user being a farmer, but equally, going back the other way, it might be a good way to engage with government about the results of R and D that they could adopt in a policy framework.

MR LOGAN (CRDC): So moving from the LandCare model to Caring for Country sort of disengaged a lot of people in rural Australia that were deeply engaged. So if Caring for Country is in place then we need to think more about that engagement and how that works more effectively so we can re-engage those people that actually make a difference in a public good R and D, particularly environmental and natural resource management R and D.

DR SAMSON: That's certainly in a broader sense one of the issues we see. If you just take the Australian government's own sort of backyard, we're not overwhelmed by coordination between agencies and programs. Again, whilst not trying to sell

RRA as a magic bullet, it would have the potential of being a vehicle to draw some of those threads together in a more coordinated way.

MR LOGAN (CRDC): I get the idea.

MR WEICKHARDT: An issue that you raise in your original submission that has attracted a degree of discussion elsewhere - you refer to the five-year plan that you go through. Some people have picked up concern - indeed, it was mentioned by the first participant here this afternoon - about the evaluation process that we were recommending and question is this just added bureaucracy and could it add value. Some people have suggested, "Well, we have a five-year annual plan and it would be good to have an evaluation process aligned to that." Now, I was not quite sure when this was first raised about (a) how the five-year annual planning cycle really sits now. The PIERD Act when that was first introduced is some 20 years ago. The world is quite a fast-moving place. Is five years an appropriate time to do a plan, particularly when the investments for the RDCs, we're told, are typically probably only a three-year period. Secondly, I guess my mind would have said if you were going to have an evaluation process and a planning process you'd probably want to do the evaluation process one year and then say the strategic plan the next year to sort of feed off what did you learn in the evaluation. But do you have any comments about that whole process?

MR FINNEY (CRDC): I think we'd probably all have some comments. Certainly in a planning framework we've looked at - even when we did our last strategic plan we were thinking 20 years when we were planning five years. Subsequently we worked with the industry to develop a vision out to 2029 which will inform not only reviews of our strategic plan annually but our next five-year strategic plan starting in 2013. So I think the time frames are appropriate but they're not static things, so you're constantly reviewing has your operating environment changed, the industry's operating environment changed? So it isn't out of - it is possible to change your strategic plan if something substantive has happened, so I don't think that's an issue.

We do spend a lot of time evaluating our investments before we make them. We do spend a lot of time evaluating our investments while they're ongoing, including what the exit point might be if it's not going well. We certainly spend a lot of time at the end working out whether it was a good thing we did. We've done it on an annual rolling basis and we've done it - a review of our last portfolio under the last strategic five-year plan. So we've done it on all those lenses. We don't probably communicate actively about the work we do pre-investment, but that could be something we could do better, actually undertake. But I'd probably ask Bruce Pyke if he'd make some comments because he's the one that has to make all this happen within our organisation. So he has got the most real world experience with it.

MR PYKE (CRDC): I think in terms of evaluation we seem to get more out of

trying to do the portfolio analysis than we do out of the individual programs or projects. That's not to say we shouldn't do - go down to sort of subprogram project level but I guess we've got to a point with the RDC evaluation framework we've been working within where we don't feel like we're getting too much value out of continuing just to do some randomly selected projects. So we would have a preference to try and do more portfolio level evaluation, I guess.

The other tricky bit I think in looking at do we do this in five years or after four years and then use that as part of our planning, you know, that's all good. The other issue we've got in there is our boards are elected for three-year terms. So inevitably boards will want to know how we're tracking on our investment. So it's sort of - I think you've got to - there's no one - I don't know if there's any one hard and fast rule when you're dealing with evaluation. You've got to - - -

MR WEICKHARDT: So in terms of our recommendations, would you wish for us to change those or were you happy with our recommendations?

MR PYKE (CRDC): Well, I think as long as there's some flexibility there. I think if too much constraint is put over what we evaluate then, you know, maybe it doesn't necessarily serve our purposes all that well. So I think - - -

MR WEICKHARDT: Well, there are two components, I think, to our recommendation. One was we did say we thought that the work that has been coordinated by the chairs to evaluate programs should continue, particularly because we recognise that at the moment that work is still wrestling with issues like how do you quantify social and environmental benefits. That is complicated and difficult and some collaborative work and experience in that area seemed to us important.

MR PYKE (CRDC): Yes.

MR WEICKHARDT: But the second was that we tried to sort of, I guess, steal ideas shamelessly from both the CRC processes and also the IOC processes of saying that a review of the totality of the RDCs' performance, externally facilitated including a review of the scientific sort of merit and the balance of the program in terms of short-term, long-term - a holistic view of the totality of the RDC every three years, we suggested, would be a good thing. Now, is that particular component, the last one, the holistic look at the totality of the RDCs' performance, something that you would support or do you feel it wouldn't add value?

MR LOGAN (CRDC): I struggle with it a little. I'm a farmer and if you ask me - you know, "I'm going to give you some money to do some research. I want a result next year." So the short-termist thinking, ask any business, immediately they want a result, they want a bottom-line result next year. The beauty of where we are now - and we've encouraged the industry to think 30 years out, which is pretty brave

stuff, really, probably a bit challenging. So to have a five-year plan we're trying to introduce as a medium term way of thinking. This really breaks out that short term, "I need an answer next year," because most research doesn't give you an answer next year.

In fact, the research is proving that most of the research doesn't give you an answer for 10 years and some of the best research gives you an answer in 15. So thinking long term is really, really important. I just hope that what you're proposing doesn't constrain the long-term thinking that we've been trying to encourage our industry to adopt. Sure we need results next year and we need results every year but we also need to be looking over the horizon at the more difficult issues, and they're environmental, they're social and they're economic. It's not just all - - -

MR WEICKHARDT: I understand that. I guess I'm seeking to put yourselves for the moment outside your current roles and say from the point of view of levy payers and from the point of view of government and the public, how do you satisfy both those stakeholders that the RDC has done a good job and that it has taken account of issues like the scientific merit of the work that's done, the portfolio balance, because your RDC is quite possibly perfect but some RDCs, we've been told, aren't. So how do you get to a situation where there is some sort of external perspective shone upon an RDC that might not be travelling perfectly on all those aspects?

MR FINNEY (CRDC): So it would be pretty hard to argue against ensuring that you're reporting on your performance. We think we've been doing that already, so we can't - I think it would be inappropriate for us to say that have a problem with reporting on performance. If there are some additional things that need to be reported on, that's fine. If the government and the industry stakeholders want some independent overview, well, that's fine and we will try to make the best of the practices being evolved with the company models and avoid the pitfalls of that at the same time.

MR WEICKHARDT: Okay. Well, in your further submission if you've got thoughts on how that might best add value to your processes, that would be useful.

DR SAMSON: Of course your current statutory requirements, and correct me if I'm wrong, you have to produce a five-year strategic plan?

MR FINNEY (CRDC): Yes.

DR SAMSON: An annual operating plan and an annual report. Is that correct?

MR FINNEY (CRDC): That's correct.

DR SAMSON: That's right, yes.

MR LOGAN (CRDC): So we do a lot of reporting. I think what you're proposing is good in that we need to look from far higher, further up above, don't we, and you want us to look at a broader outcome statement as opposed to the sort of program by program.

DR SAMSON: Yes.

MR WEICKHARDT: We were specifically trying to remove some of the requirements for the minister, for example, to sign off on annual plans, because we were saying to ourselves if our package of recommendations get up and the RDCs are asked to do what they do best, they who understands what the RDC's sort of requirements are best? The levy payers and the board, not the government. So the minister signing off on the annual plan seemed to us a bit of an unnecessary part of the process.

MR FINNEY (CRDC): Well, we understood that perspective. We're equally a little concerned of anything that diminishes engagement with the minister and the department or diminishes their acceptance of responsibility for their role.

MR WEICKHARDT: Yes, okay. Now, another issue that was put to us in the Melbourne hearings related to the matter of the way some of the RDCs commission work - go to a specific research provider and say, "This is what we want you to do."

MR FINNEY (CRDC): Yes.

MR WEICKHARDT: As opposed to make an open call, get submissions from a number of competing research providers and maybe have some peer scientific review of the programs that have been suggested. Now, it wouldn't surprise you in the least that scientists think that peer review and contestable funding is a good idea.

MR FINNEY (CRDC): So long as they're successful.

MR WEICKHARDT: As long as they're successful, of course, but even the peer reviewing process probably is something that they feel is a good thing.

MR FINNEY (CRDC): Yes.

MR WEICKHARDT: Do you have any comment on whether or not you feel that CRDC has got this sort of balance right at the moment?

MR FINNEY (CRDC): I think we're still work in progress on some of our disciplines there but we certainly start off with an open-call process, then we look to identify gaps and will have a - I guess a range of procurement methods for those gaps

from another call to selecting - invitation to tender to us a group of identified providers with a suitable capacity down to where we know there's one provider and we know they've got a track record in performance and we'll commission something straight up. So there's a range of processes, but the majority of our investment goes through an open-call process, and that's like Perfect Match where we try to guess what the interests are of the research provider and line them up with ours. We do it over a two-step process with preliminary research proposals, so brief outline and then we can start to identify the more probable investment opportunities with them and work up a full research proposal over six months.

MR PYKE (CRDC): Well, we do also conduct peer reviews on strategic areas of R and D from time to time.

MR WEICKHARDT: In an ex-ante state, before you've commissioned the work, or ex-post?

MR PYKE (CRDC): It's a bit of a mixture, because at any one point in time you've got existing research going on, you've got research you're considering, so it's always a bit of a mixture. You can never time it perfectly, unless it's a question of research we're thinking about investing in and we need to get our head around it, and getting some peer review of existing work is helpful in that regard.

MR FINNEY (CRDC): It certainly plays out quite interesting in terms of the type of research you're wanting to undertake. So in traditional spaces like farming systems research you might have a number of providers and you would want to have an open-call process. When you get down to some of the value chain research we might only be able to identify one provider or we've got to actually create the provider. So yes, it just depends on the nature of the research as well.

MR LOGAN (CRDC): Yes, one size doesn't fit all.

MR WEICKHARDT: No.

DR SAMSON: I'm a happy man.

MR WEICKHARDT: You're a happy man. You, in your speaking notes, had a question, "Can the CRDC provide the Productivity Commission with any additional information that would be of assistance?" The answer is undoubtedly yes. That would be how do you think we could improve our draft recommendations and report for the benefit of the totality of the Australian population? So if you can sort of cast yourself in the role of the all wise benevolent dictator of Australia and say, "This is what should be done," your input would be gratefully received.

MR LOGAN (CRDC): Okay, thanks.

MR WEICKHARDT: But thank you very much indeed for your engagement.

MR LOGAN (CRDC): No, thanks very much.

MR WEICKHARDT: And for your thoughtful remarks, it's much appreciated.

MR LOGAN (CRDC): No problem, thank you.

MR FINNEY (CRDC): Thanks again for your time.

MR WEICKHARDT: Okay, thank you.

MR WEICKHARDT: Now, that concludes the sort of formal proceedings. But for the record is there anyone else who wants to appear today before the commission? There is? Okay, well, if you could please come and take a seat up here. Tell us who you are and what you'd like to say.

MR GORDON: Thank you, Mr Chairman, I did intend being - - -

MR WEICKHARDT: Sorry, if you give your name and the capacity in which you're appearing, please.

MR GORDON: Sure. Robert Gordon is my name. I'm appearing on my own behalf, but I come from a background of representing New South Wales primary producers for quite a few years. I own and operate a farm at Guyra, two hours north of here. I've owned and operated that for over 50 years and I've acted on behalf of other producers, particularly in the sheepmeat industry, for a number of years in the late 80s and early 90s, and was vice-president of the Sheepmeat Council at the national level; so consequently had quite a lot to do with the pre-existing organisation to the present MLA, the AMLC and the Meat Research Corporation and was involved on the Meat Industry Council in formulating the first national strategic plan for the red meat industry, and the chairman, Robin Bligh. Since that time I've continued to try and make a contribution but have no formal constituency at this point and haven't had for a few years. I am keenly interested in research and development and understand its importance. I have obtained a hard copy of the draft report and while I'm not as familiar with it yet as I would like to be I have scanned it enough to feel that I'd like to make some contribution here today.

There are three areas, Mr Chairman, that I'd like to address. The first is one that has already been referred to, and that's recommendation 7.1, to reduce the matching grants, government grants, and reduce the cap from .5 per cent to .25 per cent over the next 10 years. I couldn't discern in the draft report a case that really clearly justified that specific recommendation. To me it seemed that the public benefit had not been reduced over the years, when compared to now and in the foreseeable future it didn't seem to be a case of the public benefit being reduced. Quite frankly, my inference was that it was Treasury driven, wishing to reduce the government's expenditure on a lot of fronts, and R and D in this instance.

I think when you consider the grounds for public benefit the commission seems to take a rather narrow on public benefit when it comes to rural R and D. I, like a lot of producers and ordinary people I think, knew little of the Productivity Commission and was rather in awe of it and even considered it with some apprehension that the findings that were likely to come out would be strictly on an economic basis and productivity basis with no account being taken of social consequences or social considerations. But when I read the draft report I see that social aspects are mentioned several times so the commission apparently has some responsibility to

look at the social aspect of the inquiry which they are undertaking.

Now, state and federal governments subscribe positively to a regional development policy and yet in the draft report here I see there is a clear intention on the commission's part to wish to stand aside from regional development or not process and not impede or add to the structural adjustment. I think that's unfortunate. I think the rural R and D has a clear role in assisting with structural adjustment, not in the negative sense but in the public benefit sense to rural and regional communities. The spillover effect from R and D investment by levy payers is considerable, both to the local communities and to the question of whether Australia as a nation how they want their country Australia to be looked after, do they still want productive investment, do they still want population, do they want a reduction from the present rate of growth to the urban areas? Currently 89 per cent are living in urban areas in Australia. The rate has accelerated and I think it's pretty common knowledge the depopulation of country centres.

If the government and the nation wants regional development, then I think there is a clear role for the inquiry to assess the effects the changes and recommendations might make on country communities. Just in terms of the role of investment research in regional development, I'd like to table or direct the commission's attention to the latest Australian Farm Institute publication. I hope you're both aware of the Australian Farm Institute. It is a valuable asset, as we see it, particularly in the R and D side of things. They quote a recent RECD report within which four principles for regional development were included as being of high priority. The third one is, "Emphasise innovation and research and development," and without reading it all out, it's a strong commendation and recommendation that R and D investment be made in regional communities to ensure and increase their viability and sustainability.

They quote a spectacular example which probably most of us have forgotten about these days, but Silicon Valley in the States was a systematic attempt to develop the region and a spectacularly successful one because the right sort of investments were made and the commitment was there, sustained commitment from government, and the basis for a large part of it for its success was the research and development investment at all levels, the private level, public level and right through the full spectrum. So I think it's unfortunate if this recommendation is, as it appears to be, a specific recommendation for government to withdraw to the extent that they're considering to do or it's being recommended they do and I think there should be a rethink about making such a specific recommendation without further examination and review.

The second thing I would like to refer is the proposal for Rural Research Australia. I am one who was always taught that function precedes form and I haven't seen in this draft report a clear outline of the functions which this proposed new body

would undertake. Indeed, on the contrary I see that they're calling for some indications as to what it might do. To be that is putting it around the wrong way. We should have a very clear idea of what we want something to do before we start interfering and altering the structure. It may well be a good idea, but I think it's far too early to say, "Yes, let's go for it," because apart from anything else, the diversion of resources and expense in particular to set it up would be very considerable and if there isn't clear and comprehensive of idea of what it's being asked to do, I think it would be a mistake. My first reaction is have a hard look at RIRDC and see whether the objectives can be incorporated into the current structure with some modifications.

I would like to come lastly to the RDOs, RDCs that I'm first-hand familiar with and that's the MLA and the AWI, Australian Wool Institute, and I would just make the initial comment that they suffer from the major disadvantage of having the most difficult set of levy payers because they are disparate, scattered throughout the nation, state parochialism comes into it and very diverse circumstances of production and the geographic one is still a huge problem to cope with with a set of levy payers spread around Australia. I think that is one reason why, in my view and my experience, I'm not satisfied, along with a lot of other levy payers, that we're getting - and I think the answer to your question, Mr Chairman, to Angela about how do farmers see the R and D and are they happy with the results. It's a very complex thing, but the overriding thing is if they see it as value for money, then they're comfortable.

But certainly in the beef industry because as she outlined also the trend has been downwards, so in spite of all the levies that have been paid, the bottom line for beef producers is unsatisfactory and suffers badly in comparison with other countries. That is another aspect, there is a strong relationship between the profitability of either the beef or sheep meat industry or wool industry and the level of comfort or disquiet with their representative organisations. But when it's an ongoing trend, I think there is cause for concern. In the light of my experience, both in the past - I mean, I've part of the system, I've been part of the representative structure that Angela is part of at the state level and also the peak industry body at the federal level and there are serious weaknesses in that system of representation.

Nearly all of us who represent our fellow farmers are, as my wife once described, "You're all well-meaning amateurs when you get off your farms," and in the final analysis we are. We devote time from our properties and the tyranny of distance, the difficulty of all the issues that have been thrown at us and New South Wales farmers, where Angela knows only too well, suffers the burden of a myriad of bushfires, metaphorical and real, flaring up that have to be dealt with. So the opportunity and ability to deal with strategic issues and the somewhat esoteric issue of R and D - and it is pretty esoteric to the majority of farmers because you have to be a certain type of person to take a deep and active interest in research and development. It's not easy and there is only a minority who take an active interest in

it.

I think with the MLA and the AWI, the recommendation contained in the draft report to reinstate, and I say "reinstate" - because back in my day there was one - a government representative on the board I think is a definite need. In my time there were two different ones. When the government changed, the appointee changed. One was a good representative and one, I thought, wasn't worth feeding. So there is inherent in this suggestion - and I welcome this suggestion - it's got to be the right person with the right skills to be the representative and the monitor on behalf of the tax payer, whether the tax payer and therefore the government is getting value for money. I agree with that suggestion, I think it's a good one.

There are difficulties, in my view, appalling difficulties with the AWI. In my view it was flouting the fundamentals of R and D corporation by having far too many projects. I think they went up to something like 500 or close to it. It's simply impossible to effectively manage that number and to deliver the best outcomes for the industry. The new board - and when I say "new board" the board over the last year or two - has reduced the number of projects but it's still very hard to get any definitive idea of whether we're getting value for money. I think they could put out more meaningful information for levy payers, both in the sense of the ante post and ex post assessment. That alone would indicate to the levy payers that the process is right, that they're looking at them and this is what the outcomes are showing.

There is a five-year industry plan. As I said, I was involved in developing the first one, the red meat industry has a five-year plan and it includes the R and D component. So they've got an overall plan to work with, an annual operating plan and then there's got to be this supervisory - I don't know anything about the cotton industry but it sounded to me as though they've got a pretty tight hold on ongoing monitoring of the projects. I'm not confident that AWI or MLA has it. If they can demonstrate to me they have and other levy payers fine, but so far it's a very difficult thing to get meaningful information out of them. They even go to the extent of commissioning reports which they don't reveal to the levy payers, they keep them within the organisation and they're not released. That doesn't inspire confidence amongst the levy payers, so they've got to be - and I think we're talking about the well-meaning amateurs - the peak councils come into that category as well. They have not got the skills, in my view, to professionally assess the performance of the R and D functions of the MLA and AWI.

They compound that lack of skill by not recognising they haven't got the lack of skills and saying, "Look, we'd better get a bit help here," and just put the ruler over our organisations on behalf of our members, the levy payers. It wouldn't be hard in my view. There are plenty of former R and D managers out of the corporate sector or somewhere else - but the corporate sector is not a bad one - who could be retained just for that job, no huge expense and they should be able to get the

authority through the peak councils to undertake these assessments periodically, whether they're only every three years or two years or something of that order to run the ruler over both the MLA and the AWA R and D.

To me the peak council will be able to say, "Look, we've done the assessment, we've done it professionally because we have hired a professional." Surely that would give them status to go to their constituents and we say, "We didn't do it ourselves because we're funded by those organisations and we haven't got the skills anyway, so we've had it done professionally and here are the results." But they won't hear a word of that and Angela might be more familiar but these days they're just representative bodies and just as resistant to that sort of suggestion as they ever were. But in my opinion that would be the professional way to go about.

Mr Chairman, I'd like to take both of you home for the night and spend half the night and tomorrow morning going through a whole heap of other stuff, but I'd certainly welcome any questions that you might like to put on what I've said or anything else because, like Angela, I'm an ordinary farmer but I'm not ordinary when it comes to taking an interest in R and D and seeing that we get value for our money.

MR WEICKHARDT: Thank you for your interest. Regrettably, we don't have the time to spend half the night with you but we would probably quite enjoy the process if we had. Cliff, do you have any questions?

DR SAMSON: People are always trying to take us home, Robert. It comes with the job apparently. Just to address the issue of the draft recommendation for a reduction over a period of time with the government matching, I can absolutely assure you this was not a Treasury-driven concept at all. I think Treasury found out about it at the same time as all government departments. This was something, the genesis of which was the Productivity Commission, not the Treasury. Just to put a bit of flesh on why we've got that draft recommendation, it's not that we believe less money should be spent on rural R and D, it's primarily when we looked at the balance of the public private sector investment to the balance of the public private sector benefit, we actually think there is an imbalance there and based on analysis that RDCs have done themselves. Where there are areas of research where there is clearly and demonstrably a high level of return on that return to producers, we believe that, all else being equal - which is a big if - the incentive is there for producers to actually put more money in the system, given the direct benefit they get on their returns, so that was really the genesis.

Now, we're not surprised that a lot of people have pushed back on that and more money is good, less money is bad, which is why some of the questions we have had with previous participants is to try and understand the motivation of how much that government matching is an incentive for producers to put money in. So that's just the flavour of how we got there and it really was how we got there, not how

Treasury wanted it to be.

MR GORDON: In a way I'm disappointed because I still would rather that it had come from Treasury than come from the commission because I don't think it takes full account of a number of factors actually. But certainly in terms of capacity to pay, farmers will not undertake expenditure that they don't - they have to attend to their expense demands on a priority basis and unfortunately research for a number of reasons doesn't rate highly. They want good results but it's not something which - as I said, if you look at the nature of farmers, it's only a minority who have the time or the interest to really appreciate what is needed before they get those research results. Again, I would add the further response that to me the two research organisations that I'm levy payer to with the diminution of the publicly-funded extension, a lot of levy farmers are going on extension and it's extension of old research.

The good farmers have been doing it for years and there's too much of the research funding, in my view, going to massaging the levy payers with extension of old research and it may be dressed up in quite a different name and bundled up with something else but to me the criterion should be that market failure tests should be applied not only to their marketing activities but to their R and D activities and if an investment is going to add value to the industry and is not going to be taken up privately in the assessor's view, then there's a case for public funding. There would be huge savings in my view if they adopted the policy of not embarking on extension of old results ad infinitum, set a sunset time for research results, and within that time it would be variable probably because they would have to assess what's the likely technology transfer time for the progressive farmers to take it up and after that - you probably wouldn't make much impact on the rest anyway, they'll just follow slowly or they won't but it's an area which I think should be looked at.

Every farmer is a good marketer. He knows what the MLA should be doing with their marketing, "Their advertising is no bloody good," and they could do it better but when it comes to research there's deathly silence and they just want good results and they want good value and it's got to be shown in the bottom line.

MR WEICKHARDT: Thank you for those comments here. The other comment you made was that you were disappointed we had stood aside from commenting on the impact of the RDCs and investment and research on regional development.

MR GORDON: More the assessment, Mr Chairman, of the commission. It's defining the public good and public interest, public benefit whatever you call it. It's like all these boundaries are very grey and that applies very much so the public benefit area and I think there needs to be a very much - certainly not a more stringent definition of the public interest than there has been.

MR WEICKHARDT: I understand your comment and I certainly don't deny that

R and D and the people who are associated with R and D have some spillover benefits to regions. The point, however, that we would come from is that you can't stand aside from adjustment; the King Canute of trying to prevent a regional adjustment occurring is pointless. If I can use an analogy in an industrial sense, many people said about BHP and Newcastle that Newcastle would die if the government didn't continue to support BHP and maintain their presence in Newcastle because they were such a large employer there. I think the government's wisdom in not doing that but providing transitional assistance for employers to come into Newcastle for employees to find new jobs has proved to be remarkably successful and there has been adjustment in Newcastle and Newcastle is a very prosperous area now.

Likewise in regions, if a particular industry has lost competitiveness or is not actually earning its keep, the government continuing to pour money into R and D to try and stop that adjustment is wasting tax payers' money. So our starting point was governments should put their money where, if you like, it's going to earn a return for the taxpayer and that has to be thought about carefully. There are endless demands for government money and the government doesn't have unlimited amounts of money. So the point that we were trying to raise in making that point was, of course, there will be regional development issues, some regions will grow rapidly, some will shrink and the government have to be sensitive to the adjustment pressures. But to try to stop adjustment from occurring by continuing to push money into R and D would first of all be a very indirect way of affecting that adjustment and secondly, ultimately, it would be unsuccessful.

MR GORDON: I think it all hinges on what I tried to say when I read this article, that it's how you invest it, what you invest it in and what your end objective is. If I could just go back to your mention of Newcastle, the people in Newcastle didn't have to move hundreds of miles to another centre to start - you know, the industry because of it's location. The country communities are totally different, if you're out of work, you have to pick up and leave. If you can't get a job, you've got to go hundreds of kilometres to an urban centre and that's exactly what's happened. That's why 89 per cent are living there now and the projection is that it will be about 95 per cent. Now, it's a national government question, how do they want country Australia to look and be in 10, 20, 50 years' time? There have got to be subsidies of some sort, ongoing ones, because agriculture is the only fully sustainable industry this country has.

MR WEICKHARDT: Maybe. Let me say - - -

MR GORDON: That's it, but people stop and think - that's a fact, it's the only sustainable one. If you disregard mining, agriculture has only got a natural competitive advantage of producing food and fibre. Everything else is a disadvantage. The tyranny of distance means that everything when it comes to living

and working in country Australia you're at a disadvantage to the city, even if you don't take into account the urban subsidies which are huge, so they've got to come to grips with putting money into the right sort of investments, including the right sort of R and D if they want country communities to not only be sustainable but to grow. Now, they're starting to think, "Well, maybe we don't want 95 per cent of people in our cities, perhaps we had better starting looking at it." But to take the view that you're taking, I find that a real worry.

MR WEICKHARDT: All right. I hear your point of view. I'm sure the whole issue of regional developments and regions is going to get a whole lot of attention over the next few years. That's outside our terms of reference, but we explained in the draft report and I've tried to explain now why it was we didn't give that particular issue focus but I'm sure it will get lots of focus elsewhere. Thank you very much indeed for your input. I appreciate hearing your story.

MR GORDON: Thank you for the time.

MR WEICKHARDT: Your experience of the RDCs that you've worked with was valuable to us, so thank you for that. Ladies and gentlemen, that now I think does conclude today's scheduled proceedings, unless anyone else wishes to appear before the inquiry? No. In that case, I adjourn the proceedings. The commission will resume the public hearings tomorrow in Brisbane. Thank you very much indeed for attending.

AT 4.23 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 16 NOVEMBER 2010