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Submission to Productivity Commission on Rural R & D Corporations

Productivity Commission
Level 28
35 Collins Street East
Melbourne, Victoria 8003

Dear Productivity Commission Officers,

Thank you for providing the opportunity to make a submission to the Productivity Commissions enquiry into Rural Research and Development Corporations. This submission is made on behalf of Auscott Limited.

Our interest in rural R & D stems from our key businesses of agricultural production, marketing and processing. Auscott is a vertically integrated cotton business which grows, processes (ginning), markets and ships cotton from its own production and a large number of growers who gin and market their cotton through Auscott. We operate in the Gwydir, Namoi and Macquarie valleys and have a head quarters (chiefly finance & marketing) and a classing and shipping office in Sydney. Along with cotton we grow grains, chiefly wheat, and some legume crops. Cotton is by far the most important income earner although in recent times the severe drought conditions have significantly curtailed production.

Having met Commissioner Weickhardt and Associate Commissioner Samson at our Narrabri operations where we discussed a wide range of issues relating to R & D in cotton I wanted to reinforce and expand on several key points.

1. The R & D Corporation model has worked well in our industry. We would trust that problems perceived or real in some other industries are addressed in other ways rather than dismantling what has been and is a very valuable and efficient instrument for improving the productivity and sustainability of agriculture and rural communities in Australia.
2. Cotton has shown one of the greatest growths in productivity and sustainability of any industry in Australia. This growth has been based around many key factors including varietal improvement, soil management, water efficiency and integrated pest management (including transgenic cropping systems). All these have been driven by research in a partnership between government, government agencies and the industry. In the early years of the industry the growers with the support of three key processors and Cotton Seed Distributors set up their own self funded process for getting research work done. However, over time it was clear the issues and challenges being encountered required significantly more funding and the very successful R & D

Corporations model was finally introduced which placed a sound platform under the research efforts. Using financial multipliers and accelerators to describe benefits is always difficult but in our view when we compare the Australian cotton industry's performance against other cotton industries around the world we believe the Australian government and the Australian tax payer have gained a very good return for the funds invested. Australia is clearly a leader and well respected internationally.

3. The cotton industry has a process whereby research needs and future goals are communicated to the directors and management of the Cotton R & D Corporation through robust consultation, analysis and feedback. Originally this was through the Australian Cotton Growers Research Association and today that organisation is incorporated into Cotton Australia which still serves the same function. This process involves growers, processors (ginners), cotton planting seed companies, marketers and shippers with a focus that extends from the field through to end user customers. Hence, our research programs have always been focused on the needs of the industry and also on regional community needs especially in the environmental and catchment areas. The industry's best management practices program or BMP was borne from the research and development efforts.
4. The cotton industry has always been concerned with outcomes and so has supported research that leads to transformational outcomes and has invested in extension and adoption infrastructure to ensure the results of research manifest into outcomes for growers and their communities.
5. As a larger operation in the cotton industry, Auscott clearly sees the benefits of research. We undertake significant trial work ourselves although in recent years with crippling prolonged drought that trial investment has been mostly shelved. However, the amount of research we could do is minor compared with what is required to meet the myriad research issues. Furthermore when you consider that most operators in our industry are family farmers there is no way these people could fund research work alone or even organise small groups of farmers to fund work in major areas. There would be immediate market failure on most key issues. As a result researchers, already difficult to attract to agriculture, would leave the industry due to lack of certainty and lack of support. State governments in particular have been reducing their investment and support for agricultural research and depend highly on funding arrangements with the industry through the R & D Corporations to maintain their existing researchers. The R & D corporation model provides an efficient way for all growers to contribute, thereby eliminating the free-riders situation, and the volume of their funds coupled with government provides the scale that supports a robust research effort.
6. Some research can be privatised and that has been done in our industry. Cotton Breeding Australia is a great example. By and large the industry has looked after its marketing through very competitive marketing organisations and through excellent communication along the value chain. However, when we look at the range of key research issues the opportunity for private commercial investment to take over research or be encouraged to take the risk to enter these areas is either very limited or non-existent such as in:
 - a. Disease research and integrated disease management
 - b. Weed management including integrated weed management
 - c. Insect resistance management for transgenic cotton and pesticides
 - d. Soil management
 - e. Farming systems
 - f. Meeting lower carbon emission targets
 - g. Efficiency of nutrition management

In these cases we depend on the R & D corporation model to provide the funding to meet these very important needs.

7. Farmers are increasingly being asked to supply competitively priced, reliable supplies of food and fibre to society while at the same time balancing pressures on environmental management, climate volatility, reductions in green house gas emissions, pressures from mining and intrusions by urban expansion into productive agricultural land. Added to these pressures agriculture is a price taker not a price setter and so the only ways to balance the “equation” is through productivity increases and cost reductions the latter being very difficult given rising input costs. So it is highly important we see continuing investment by all stakeholders including the federal government into R & D that enhances productivity. Much of society takes agriculture for granted. People generally have no understanding of the challenges of future food and fibre security. The majority of people are disconnected from how their food and fibre is produced. However, governments have a duty to understand the longer term problems they will create if agricultural productivity is not adequately supported through research and development. In our industry the R & D Corporation meets that need.
8. It has been said that some efficiencies could be obtained by combining various R & D Corporations and sharing resources. For what I perceive to be very small cost savings our industry would be a significant loser. R & D works best when it is well focused on the short and long term needs of an industry and its community. Having focused industry groups with “skin in the game” that help direct the research effort and to whom the R & D Corporation is responsible is the best way forward.
9. For sometime R & D Corporations have not had a government member on their Boards. To be effective an R & D Corporation needs to be able to act quickly and decisively. Having a government member enhances the ability of the Corporation to address issues quickly and avoid second guessing what Canberra may or may not think. I strongly support having capable government members back on Boards who are empowered to help decision making.
10. Finally Australian agriculture is the least subsidised of all significant agricultural producing nations. We don’t have price support or income support schemes but we do have to compete on a world stage that is heavily subsidised and often protected. It would be a significant problem if the R & D process through levies and matching government funds administered by R & D Corporations was significantly changed. We have a good model that should be supported and made to work in those industries currently encountering problems.

Yours faithfully

David Anthony
CEO
Auscott Limited.