



Productivity Commission review into the Research and
Development Corporations

By

Victorian Farmers Federation Livestock Group

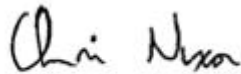
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Foreword

The Victorian Farmers Federation Livestock Group represents the largest group of livestock producers in Victoria and is the only recognised, consistent voice on issues affecting rural Victorian Livestock producers.

The VFF Livestock Group consists of an elected Council, farmers elected by their peers to direct the group and to set policy.

Each VFF Livestock member is represented locally by one of the 230 VFF branches across the state and through their elected representatives at local, district, state and national levels. The VFF also represents farmers' views on hundreds of industry and government forums.

A handwritten signature in black ink that reads "Chris Nixon". The signature is written in a cursive, slightly slanted style.

Chris Nixon

President VFF Livestock Group



Productivity Commission review into the Research and Development Corporations

Executive Summary

The VFF Livestock group is a strong supporter of the two RDC's that cover the livestock sector due to the excellent service and return on investment that they provide to levy payers. We do, however, acknowledge that there is room for improvement in any such organisation.

In looking at the Productivity Commission's review into the RDC's VFF Livestock group sees there are a number of areas that are most important. These include;

- That there is a need for increased government spending on rural R&D.
- There is a strong need to ensure that there are prescribed processes for RDC's to consult with industry.
- That the expenditure of all funds to RDC's, both the government and industry contributions should be directed by industry, in a process that is not contestable by government.
- And that the board selection process should be carried out in a manner that focuses on finding directors that give a balance of skills on the board and avoid any politicisation of the process.

Introduction

The VFF Livestock Group represents the largest group of livestock producers in Victoria. Our membership farm sheep, cattle and goats, and produce both red meat and fibre. Doing this requires not only the day to day activities of running the farm but also taking into account the changing world that goes on around their businesses, all while remaining sustainable and profitable. This includes factors such as the wants and needs of the community, integrating new technologies, managing climate variability or change. To effectively do this the livestock sector relies on Australian Wool Innovation (AWI) and Meat and Livestock Australia (MLA).

Why we support the RDC's?

1. Critical Mass

The majority of farm businesses in Victoria are relatively small. This limits the money each business has available for investment off farm in areas such as research and development.

There are many areas where investment in Research and Development can greatly benefit not only the individual farm businesses but also the communities that rely on them. The pooling together of resources has become the solution to this problem and resulted in the Research and Development Corporations (RDC).

There are other examples where farmers use this pooling of resources to achieve joint goals. Being a member of groups such as the VFF is a clear example of this where the focus is lobbying. The outcomes achieved here as a group are much greater than could be achieved by thousands of individuals working on their own. Similarly the investment made by farmers in the RDC's is a clear example of farmers pooling resources together and getting results in the area of R&D for both on and off farm benefit.



The VFF Livestock Group predominantly deals with two RDC's; Meat and Livestock Australia (MLA) and Australian Wool Innovation (AWI). While these two organisations operate very differently both have delivered considerably to the livestock industries over their life spans, and the various organisations that preceded them.

2. Supported by levy payers

The collection of levies for both MLA and AWI has a process whereby levy payers are asked at regular intervals to vote on what levy they will pay. Farmer support in both these organisations has been consistent over the past decade. The most recent example of this support can be seen in strong votes (greater than 70%) in favour of continuing funding to their respective RDC's by both MLA and AWI members/shareholders in 2009.

3. Filling the void as other service providers leave

The work carried out by these organisations is becoming more important as the state jurisdictions are withdrawing from the R&D scene in line with the national research, development and extension framework. This means the industry RDC's are being relied upon more heavily by farmers to conduct work previously done by state DPI's, further stretching their resources and reinforcing the need for the funding contributions from the Federal government.

4. Need for continued government investment in RDC's

Before addressing the questions put by the productivity commission the VFF Livestock Group would like to state that while the RDC's may not be perfect they are essential to the continuation of a healthy livestock sector.

Australia is not unique in having government investment in Agricultural R&D; however we are unique in the success achieved from this investment. Australia's agricultural sector has achieved productivity growth of 2.8 per cent per annum over recent years on the back of the RDC investment model. When looking at other countries such as Canada and America where they have similar agricultural systems and agricultural technologies we see lower levels of productivity gain. Agricultural productivity in Canada grew by 0.6 per cent per annum from 1961 to 2005.¹ In the period 1977 to 2000 US agricultural productivity grew by a better, but not Australian level, of 1.9 per cent. Both the US and Canada have agricultural structures not unlike those typical of Australia. The majority of farms being family owned and operated with relatively sophisticated production and supply chain systems. Both the US and Canada also have well developed agricultural R&D systems that are supported by public funding. Unlike Australia however, there are not the strong institutional linkages between producer and public R&D funding contributions.

To ensure the continuation of both the RDC's and productivity growth farmers are committed to continued investment in the betterment of their own industry, the environment and communities that rely upon them, nevertheless they cannot do it on their own. The continuation of the Federal Government funding for RDC's is essential. In looking to the future we are faced with a new concern, the growing list of wants from the community and government on how farmers are expected to manage their land, their businesses, and the environmental outcomes they are expected to deliver for

¹ Veeman, TS. & Gray, R. (2009) Agricultural Production and Productivity in Canada: Choices 4th Quarter 24 (4)



free. To ensure that industry is able to deliver on this list of wants the government contribution to the RDC's needs to increase.



VFF Livestock Group response to the questions from the Productivity Commission

The following points address the VFF Livestock Group position in relation to the questions outlined by the productivity commission.

Rationale for Australian Government to invest in Rural R&D

- There is a strong need to maintain the 2% productivity growth. This level should be the minimum targeted productivity growth for all rural industries, both developing and mature. We also believe that there needs to be recognition of the need for higher levels of spending for mature industries, such as the sheep and beef industries, where the easy gains (i.e. low hanging fruit) may have already been realised.
- The ability of individual farm to contribute to R&D is often limited by seasons and market conditions. The need to invest in R&D does not decrease in poor years, if anything it goes up in tough times. This further strengthens the need for government to invest more in R&D through the RDC's, especially in tough times.
- Investment in rural R&D is investment in food security, biosecurity and environmental stewardship. These three areas are relatively new considerations in the scope of rural R&D but are areas of growing significance to the greater community. Being new ideas they are adding to the workload of the RDC's.
- Government spending on R&D through the RDC's delivers public good and supports rural communities. This occurs as a result of investment in Rural R&D ensuring rural businesses, namely farms, are more profitable and sustainable. It needs to be remembered that healthy rural businesses support healthy rural communities.
- Agriculture is a large contributor to the Australian economy, with beef being one of the largest export industries, and wool and Sheepmeat being significant contributors. The positive influence on the industries by the RDC's is crucial to maintaining this contribution to the economy, and unlike industries like mining the product is renewable and sustainable.
- The contribution by the Federal government to Rural R&D is more important than ever as we see state governments increasingly moving away from delivering rural R&D. As a general trend the state jurisdictions are referring R&D as being an "industry role". The best placed groups for this are the RDC's.

The appropriateness of the current funding levels and arrangements

- Levies paid by industry are generally endorsed by industry so would be seen to be appropriate. It is important to ensure that industry has a hand in setting the level levy collected.
- In general the Government contribution to the RDC's is below what is needed. There is an increasing need for government to lift their spending on research and development in the rural sector. With increasing demands on the rural sector in areas including food production and land stewardship, government needs to increase investment in R&D to ensure that the greater community's needs are met.
- A minimum government investment in rural R&D should be set at the level of \$1 for \$1
- The government funding contribution to the RDC's should not be contestable. Government funding should not be open to the whim of the political leaders at any one time. The rationale for this rests on two key factors, firstly the long term nature of rural R&D can often mean it



sees governments come and go. Secondly industry is best placed to see how to maximise the returns from the government's investment in their specific sector.

- Industry funds should be overseen by industry. As these levies are not taxes there is no role for government in directing industry on the use of these funds. A good model to ensure that this process has rigour can be seen in the procedure used by MLA, whereby budgets and annual strategic plans are produced in consultation with industry, represented by the Sheepmeat Council of Australia and the Cattle Council of Australia.

The effectiveness of the RDC model in enhancing the competitiveness and productivity of Australia's rural industries

- Have historically delivered excellent returns to levy payers and the Australian economy.
- The RDC model has ensured that industry has ownership of and maintains the relevance of research and development.
- Without the RDC model Australian agriculture would not be the world leader that it is today. Advancement in the prime lamb industry is clear example. This industry has in ten years gone from \$400 million to over \$2 billion annually. The benefits from this to both Sheepmeat producers and rural Australia cannot be questioned.
- From the hundreds of programs that have been delivered by MLA and AWI the following three examples give a clear picture of the benefits that the RDC model delivers;
 - NLIS Cattle, developing the systems that have allowed Australia to maintain a competitive edge in overseas markets by being able to demonstrate the biosecurity of our product.
 - Lifetime Wool delivered research that has allowed wool producers to gain better lifetime production from their sheep through simple management practices before lambs are born.
 - The growth of the Australian Lamb industry through using genetics in the Lamb Plan Program to deliver a product that better suits customer needs. This has led to large increases in the profitability to prime lamb producers across Australia.

The extent to which RDC funded projects deliver an appropriate balance between industry specific and wider community benefits

- Rural R&D means healthier farm businesses. Healthier farm businesses mean healthier rural communities.
- As they manage the majority of privately held land in Australia farmers are the stewards of the land, and are generally the best placed to ensure that management practices are in the best interest of its long term sustainability. It is therefore important that industry has the lead role in setting the direction of RDC funded projects. As industry is best placed to ensure that the RDC work delivers the greatest overall benefits the wider community benefits from their management.
- We believe that it is naive to state that the work done by RDC's can be simply split into work that benefits industry or community. The majority of work done by RDC's delivers positive outcomes to both groups. This can be termed as the "spill-over effect". Much of the work done by RDC's is termed as being "blue sky" work and often leads to developments that are outside their intended goal. Examples of this range from on farm benefits to the environment



delivered through pasture management skills, to work in the textiles industry delivering benefits to medical science.

- Work done by MLA on emissions and the “footprint” of livestock production clearly shows the community benefit aspects of the work being done. This has also demonstrated the improvements made by the livestock sector in this area.
- Investment in pest plant and animal control through the RDC’s has delivered benefits to the wider community. AWI and MLA have both been directly involved in controlling rabbits, wild dogs and wild pigs. These three species not only have impact on farms but also on native habitat. The work done by RDC’s here can clearly be seen to have benefits to the wider community.

The scope for improvements to the current model and any alternative models that could deliver better returns

- All RDC’s need to have a board that is made up of individuals with an appropriate and balanced set of skills.
- RDC boards should operate more along the lines of professional corporate structures rather than political parties. The role of the boards should be clearly defined to ensure that directors know their role and do not stray from it.
- The selection of individual board members should occur via a process that ensures that a board with an appropriate mix of skills is achieved and does not deter high quality applicants from applying.
- There is a strong need for all RDC’s to have a prescribed industry consultation process. This ensures that the consultation with industry is consistent, understood by industry and not at the whim of the board members at any one time. The process in place for MLA, where the prescribed consultation process includes national industry groups such as the Cattle Council of Australia and the Sheepmeat Council of Australia give clear direction to MLA as to how they will maintain their consultation with industry. AWI does not have such a defined process however would strongly benefit from such a process. Wool Producers Australia, the wool industry equivalent of SCA and CCA is the obvious choice to fill this role.