



Victorian Farmers

F e d e r a t i o n

G r a i n s G r o u p

Productivity Commission review into Rural Research and
Development Corporations

Submission by

Victorian Farmers Federation Grains Group

25 June 2010

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RDC Inquiry
Productivity Commission
Locked Bag 2,
Collins Street,
East Melbourne VIC 8003

Dear Commissioners,

Inquiry - Rural Research & Development Corporations

The Victorian Farmer's Federation (VFF) Grains Group would like to thank the Productivity Commission (the Commission) for the opportunity to provide a submission and input into the Commission's review of Rural Research and Development Corporations (RRDCs).

As a representative organisation of grain growers who have a direct investment in RRDC activities through the Grains Research and Development Corporation (GRDC) levy, VFF Grains Group will largely restrict its commentary to issues impacting the GRDC.

In the attached submission VFF Grains group make a number of observations regarding RRDC's and the Commission's review. VFF Grains Group:

- (i) request that the Commission have particular regard for its own mandatory policy guidelines to consider the impact of its deliberations on rural & regional industry and development;
- (ii) support the RRDC co-funding model and the existing structure and funding arrangements of the GRDC;
- (iii) consider that government investment in Research Development & Extension (RD&E) in agriculture is well justified by the numerous studies into the resultant productivity gains relative to other sectors of the Australian economy;
- (iv) note that the theoretical debate to determine the level of public versus private benefit resulting from RD&E expenditure is largely off-set given the shared public and private funding arrangements with RRDCs;
- (v) further believe that as the rate of productivity growth declines with declining real investment in RD&E, the need to increase expenditure is evident as Australian and world food demand rapidly increases;

- (vi) are concerned that as productivity gains from RD&E are 'lagged', that any temptation by Government to reduce expenditure on RD&E will have far reaching negative impacts on the economy into the future, especially as food consumption & demand continues to increase;
- (vii) Support the existing Board, Governance, reporting, and consultation structure of the GRDC. VFF consider a skills based independent Board with reporting obligations to both government as well as to industry, provides the best balance of transparency, accountability, and efficient use of both public and private funds; and
- (viii) do not support a 'cross-industry' Board structure, believing that this would either add an additional layer of bureaucracy to the system and/or would simply be less effective and efficient given the quantum of issues faced by varying RRDCs.

In conclusion, VFF Grains consider that the existing arrangements for funding RRDC's in the grains industry through the GRDC are effective and efficient. It is clear that funding is required to further ensure productivity benefits to both rural and regional areas and the wider community alike. Further, that to reduce such funding would result in a negative impact upon not only the wider community, but on future generations due to the 'lagged' returns that inevitably result from RD&E 'investment' in a future sustainable food industry.

The existing arrangements provide an appropriate level of public and private sector investment, with appropriate corporate governance and consultation processes in place with both Government and industry to ensure efficiency, transparency, and accountability. While VFF Grains expect continual improvement of the existing system, there is still an old adage that appears appropriate – if it's not broke don't fix it!

Yours Sincerely,



Russell Amery

Grains Group President

Victorian Farmers Federation

Victorian Farmers Federation – Grains Group
Submission to the
Productivity Commission
Rural Research & Development Corporations

1 Introduction

The Victorian Farmer's Federation (VFF) Grains Group would like to thank the Productivity Commission (the Commission) for the opportunity to provide a submission and input into the Commission's review of Rural Research & Development Corporations (RRDC's).

As a representative organisation of grain growers who have a direct investment in RRDC activities through the Grains Research and Development Corporation (GRDC) levy, VFF Grains Group will largely restrict its commentary to issues impacting the GRDC. VFF Grains Group notes that this submission focussing on the grains sector should be considered in conjunction with the VFF's general policy submission to the Commission.

2 Executive Summary

In reviewing RRDCs the VFF Grains Group:

- request that the Commission have particular regard for its mandatory policy guidelines to consider the impact of their deliberations on rural & regional industry and development;
- support the RDC co-funding model and the existing structure and funding arrangements of the GRDC;
- consider that government investment in RD&E in agriculture is well justified by productivity gains relative to other sectors of the Australian economy;
- note that the theoretical debate to determine the level of public versus private benefit is off-set given the shared public and private funding arrangements;
- note that as rates of productivity growth decline with declining real investment in RD&E, Australian and world food demand is rapidly increasing;
- are concerned that as productivity gains from RD&E are lagged, that any temptation by Government to reduce expenditure on RD&E will have far reaching negative impacts on the economy into the future, especially as food consumption rapidly increases;
- support the existing Board, Governance, reporting, and consultation structure of the GRDC. VFF consider a skills based independent Board with reporting obligations to both government and industry provides the best balance of transparency, accountability, and efficient use of both public and private funds; and
- do not support a cross industry Board structure believing the quantum of issues faced by varying RRDC's would result in a less effective and less efficient model.

3 Objects of the Act and Terms of Reference

VFF request that the Commission in undertaking its review of RRDC's, not only assess productivity and efficiency, but do so in the context of rural and regional development, as required by the policy guidelines of the *Productivity Commission Act 1998* (the Act) section 8(1), as per the below.

That is VFF consider that in assessing RRDC's and the terms of reference as specified by the Minister, the Commission should do so in the context of its other mandatory guidelines as outlined in section 8(1), to consider RRDCs in the context of their impact on rural industry and regional development.

¹ "...8 **General policy guidelines for Commission**

- (1) *In the performance of its functions, the Commission must have regard to the need:*
- (a) *to improve the overall economic performance of the economy through higher productivity in the public and private sectors in order to achieve higher living standards for all members of the Australian community; and.....*
 - (c) *to encourage the development and growth of Australian industries that are efficient in their use of resources, enterprising, innovative and internationally competitive; and.....*
 - (e) *to recognise the interests of industries, employees, consumers and the community, likely to be affected by measures proposed by the Commission; and*
 - (f) *to increase employment, including in regional areas; and*
 - (g) *to promote regional development; and.....*
 - (i) *to ensure that industry develops in a way that is ecologically sustainable ..."*
[Emphasis added].

Therefore, in reviewing RRDCs VFF grains believe the Commission is obliged to consider:

- (i) Higher productivity benefits accruing from RRDC in both the public and private sectors;
- (ii) How to encourage growth in the grains industry which is regarded as one of the most efficient in the world;
- (iii) Those in the sector that will be impacted by the commission's deliberations, including those in regional areas;
- (iv) The promotion of an industry which has a direct impact on regional employment and regional development; as well as
- (v) Assisting the industry through investment in RRDC's to develop ecologically sustainable practices into the future.

¹ *Productivity Commission Act 1998, Act No. 14 of 1998 as amended, 26 June 2008, section 8(1).*

4 Productivity Gains resulting from RD&E

As highlighted in the Commission's issues paper, research development and extension (RD&E) does play a key role in enhancing the competitiveness and productivity of Australia's agricultural industries as well as providing wider benefits to the community. There are numerous Australian and international studies highlighting the productivity benefits of RD&E in Agricultural industries, so much so that VFF Grains do not intend to endeavour to represent the case but simply acknowledge productivity gains resulting from RD&E as accepted fact.

In support of this, VFF Grains cite some studies such as:

- *The importance of productivity growth in Australian agriculture*, (Mullen, 2007)
- *Contribution of R&D to agricultural productivity growth* (Mullen & Crean, 2006)
- *Determinants of total factor productivity in the Australian grains industry* (Kee et al., 2009)
- *Reassessing public-private roles in agricultural R&D for economic development* (Pardey, 2009)
- *Has growth in Australian broadacre agriculture slowed?* (Zhao, 2010)

These studies highlight the benefits of agricultural productivity growth as a result of RD&E in general, as well as productivity growth in the rural sector versus productivity growth relative to other Australian sectors and other countries. These findings of the relative productivity growth in Australia's rural sector demonstrate that public and private expenditure on RD&E is warranted.

4.1 The Rationale for Australian Government Investment

Mullen 2007 finds that: "... Given its importance, productivity is a focus of government policy. Governments use a range of instruments including direct investment to foster productivity growth through R&D.". Government's investment in rural R&D is further justified given its effectiveness in delivering productivity growth in agriculture relative to other sectors.

4.2 Effectiveness of the RDC model - productivity of Australia's rural industries

The productivity of Australia's agricultural industries performs well relative to other industry sectors, this in itself is an indicator of the effectiveness of the current system. For example, Mullen found that : "...Within the Australian economy, productivity growth in agriculture has been around 3 times that in the economy as a whole, and has markedly outpaced the decline in the terms of trade facing farmers...".

4.3 The appropriateness of current funding levels – Lagged Productivity Growth

Despite the apparent productivity gains and justification for investment in RD&E, a key point of concern is the potential lagged benefits resulting from expenditure on R&D. Mullen & Crean found, amongst other things:

- "...Agricultural research is a much smaller share of total investment in research in Australia now than it has been in the past...";
- "...that R&D has been an important source of productivity growth but that the impacts are lagged. Hence, the current lack of growth in public investment in research gives cause for concern about future productivity growth in Agriculture".
[emphasis added].

VFF Grains Group consider the issue of lagged productivity benefits becomes an even greater issue for concern were the government to consider reducing investment in rural research development and extension.

That is, while productivity may be high now in agriculture, further reductions in investment in RD&E will result in a lagged negative impact upon future year's productivity growth.

5 Public Good Outcomes from RD&E in Grains Industry

5.1 Public vs. Private Funding

VFF Grains Group consider that while the extent or degree of public benefit versus private benefit resulting from investment in RD&E is widely debated, it is broadly accepted that there are broad public benefits resulting from this investment (see below for examples). Further, having accepted this, the debate as to the degree of public versus private benefit is somewhat mitigated by the fact that public funding for RRDC in grains is matched by private levy funds contributed by grain growers.

Further, as per section 8(1) (a) of the Act, one of the Commission's considerations is how to increase 'higher productivity in the public and private sectors' not simply the public sector alone.

5.2 The impact of Lagged benefits on Public Good

VFF Grains further contend that the lagged productivity benefits resulting from both public and private grain grower's investment in RD&E, increase the public good nature of the grower's investment. Investment of today's levy funds results in a lagged productivity benefit to the wider community, which cannot be captured or quarantined to the original levy contributors, thus resulting in non-excludable benefits for the broader public good.

Put simply, today's community benefits from past investment by levy providers, and similarly the community in the future will be beneficiaries of current investment. Therefore, productivity gains are largely non-excludable and public good in nature.

5.3 Examples of Public Good in Grains Industry

There are a number of public good outcomes resulting from increased productivity as a result of RD&E carried out by organisations such as GRDC in the Grains industry. Examples include:

5.3.1 Scientific Capacity:

Increased investment in Australian scientific capacity, for example:

- GRDC invest in targeted PhD scholarship programmes;

- GRDC support industry conferences to encourage knowledge transfer, and invests in programs to raise the awareness of agriculture in schools;
- Industry capacity through GRDC-funded activities such as technical workshops, educating extension providers, formal education programs, and numerous projects where consultants, with agribusiness, run demonstration trials to increase growers' knowledge.

Other programmes that GRDC support that improve leadership capability include:

- The Australian Rural Leadership Program;
- The Nuffield Scholarship Program;
- The BHP Billiton Science Awards; and
- The Science and Innovation Awards for Young People in Agriculture.

5.3.2 Rural & Regional Community Benefits:

- Increased Australian rural and remote regional leadership capacity (see above);
- Increasing rural and regional networks;
- Improved industry input into government rural policy;
- Health - improved farmer well being through reduction of chemical use by farmers;
- Improved rural & regional employment & housing due to increased productivity.

5.3.3 Australian Health Benefits:

- Improved national health benefits (reduced costs) from improved regional health;
- Potential health benefits from new grain products such as high oleic canola oils.

5.3.4 Social Benefits:

- Increased resilience of regional communities – investment in RD&E to improve agricultural productivity during drought (e.g. through management practices & drought tolerant varieties) to adapt to climate change, enable local communities to become more resilient with respect to associated regional development, employment, and health.

5.3.5 Environmental Benefits:

- Increased water-use efficiency, improved water quality, and biodiversity;
- Reduced green house gas emissions through improved fertiliser management, increasing organic matter in soil (carbon), adapting to climate change including improved weather forecasting, and increased knowledge of frost and heat stress on crops. Project examples specific to Victoria include:
 - Department of Primary Industries, Victoria (DPI) project: Decreasing Nitrous Oxide Emissions in High Rainfall Cropping Systems
 - Birchip Cropping Group, Victoria project: Benchmarking Study of the Economic, Agronomic and Environmental Impacts of GM Herbicide Tolerant Canola
- Improved land-use and soil management including maintaining organic matter and groundcover, balancing the application of inputs to maintain soil fertility, managing plant disease, managing soil structural stability, matching enterprise activity to land-use

capability, and balancing production, and ecological and environmental services. Project examples include:

- Soil biology program which encompasses the use of microbial inoculants to increase crop yields.
- DPI project : Harnessing the Biological Potential of Australian Cropping Soils

5.3.6 National Productivity Benefits:

- Increased food production;
- Reduced inputs. E.g. chemicals, fertilizer, water;
- Increased consumer access to food due to lower prices;
- Increased export earnings for Australia's balance of trade.

6 Governance, Consultation, & Investment processes

VFF Grains support the existing governance, consultation, and investment processes exhibited by the GRDC. That is a skills based Board selection process that involves consultation with the industry representative body in question.

Further, VFF support an individual Board structure that is focussed on the one grains industry, rather than endeavour to amalgamate Board structures across RRDC's. Given the size and number of issues faced by each commodity within the grains sector alone, VFF Grains consider a cross-industry Board structure (e.g. grains, dairy, livestock, wool, etc) would not enable an appropriate level of either commodity specialisation or focus. Further, that this would actually result in inefficiency when endeavouring to deal with the multitude of projects and issues in question across different RRDC's and different rural industries.

6.1 Board Selection

VFF supports a non-partisan skills based Board structure. The GRDC Board selection process includes: a Chair selected and appointed by the Minister; a Managing Director selected by the Board; a Selection Committee chosen by the Minister for Agriculture, Fisheries and Forestry on advice from the Grains Council of Australia (GCA) to nominate between five and seven GRDC directors. Appointment of directors nominated through this mechanism is subject to ministerial approval. This process provides a balance of both industry and Government oversight and accountability.

The GRDC has a predominantly skills based Board in the areas of business management; corporate governance; commodity production, processing and marketing; finance; risk management; management and conservation of natural resources and the environment; R&D administration; science, technology and technology transfer; intellectual property management and public administration.

6.2 Corporate Governance & Transparency

VFF support an appropriate corporate governance framework. VFF understands GRDC is assessed against the Australian National Audit Office Guidelines for Best Practice Corporate Governance. GRDC is a statutory corporation and must meet corporate planning and reporting requirements. Through its Board, GRDC is accountable to the Australian Parliament through the Minister for Agriculture, Fisheries and Forestry.

As such, VFF Grains Group support a framework that requires transparent reporting to Government and the public, while not being embodied within a Government department. Thereby GRDC is held to account by the minister but also to the Grains industry, with a much more independent and transparent report regime than otherwise may be the case. For example, GRDC obligations and reporting requirements include:

- The *Primary Industries and Energy Research and Development Act 1989* (PIERD Act);
- *Commonwealth Authorities and Companies Act 1997*;
- *Environment Protection and Biodiversity Conservation Act 1999*; and
- ISO 9001:2008 quality assurance accreditation;

6.2.1 Independent acknowledgement of Corporate Governance:

GRDC corporate governance has received independent endorsement from a number of parties, including:

- May 2010, the Institute of Public Administration Australia (ACT Division) Annual Report Awards - gold award in CAC Act category for the 2008-09 Annual Report;
- October 2009, NAB Agribusiness Award winner of Risk Management Award & shortlisted for Governance Award;
- October 2008, NAB Agribusiness Awards shortlist for Governance Award, and
- October 2007, NAB Agribusiness Awards winner of Risk Management Award.

6.3 Industry Consultation

VFF Grains support industry consultation, in addition to Government statutory obligations, as key to ensuring transparency, efficiency and accountability of expenditure.

6.3.1 GRDC Regional Panels

GRDC industry consultation to determine strategic and investment priorities occurs via regional panels, covering the northern, southern and western grain growing regions of Australia. Regional Panels comprise grain growers, agribusiness practitioners, scientists and executive managers from GRDC, with provision for other industry experts to participate as appropriate. These panels work closely with grower groups and organisations, and have formal interactions with local Research Advisory Committees, which refer research issues to the panels on an annual basis.

- The panel members assess regional investment proposals, help to ensure that the investment plan responds to the regional and national priorities of grain growers as well as the Australian Government, and is aligned with the GRDC's corporate strategies.

Therefore, these Regional Panels provide another level of industry and government consultation and scrutiny of GRDC project investment, to ensure transparency, efficiency and accountability of expenditure.