

RURAL RESEARCH AND DEVELOPMENT CORPORATIONS

SUBMISSION TO PRODUCTIVITY COMMISSION BY DR JOHN KENIRY AM

I make this submission as an interested individual. The opinions expressed are my own and are not intended to reflect the views of any organisation with which I have been or presently am associated. My opinions are based on several decades of involvement in research and research administration in the private and public sectors, including positions at board level in Rural R&D Corporations, Co-operative Research Centres, Innovation Australia and PMSEIC. I am also a sheep producer who experiences at first hand the need for research and extension activity across the broad spectrum of productivity and natural resource management.

My submission is structured in question and answer format.

1. Should growers pay compulsory levies for R&D?

Yes. R&D and associated extension activity is fundamental to productivity improvement in agriculture, which in turn is fundamental to economic survival of the farming enterprise in an open market economy such as Australia. Without compulsory levies, there will be too great an opportunity for free-riders to get the benefit of R&D because most productivity-based gains cannot be protected or policed by conventional means.

2. How should the amount of the levy be determined?

Levy paying growers should vote every five years on the quantum of the levy to apply for the ensuing five years. Prior to the vote, the organisation that receives the levies (ie the RDC) should be obliged to prepare an information memorandum setting out its recommended levy rate, and what it proposes to spend the money on. This document should be prepared to the standards required of a Prospectus issued under corporations law. Votes exercised by growers should be based on the amount of levies they have paid in the preceding, say, three years. The "Prospectus" should offer growers the option to vote for a levy of either zero or the levy rate recommended by the RDC. In the event that the majority of votes are cast in favour of a zero levy, there should be a further vote six months later. If that vote also results in a majority of votes in favour of a zero levy, the RDC should be wound up.

3. Should the Government match R&D levies paid by growers?

Yes. There are many spillover benefits from rural R&D which benefit the community generally. Additionally, an increasing amount of rural R&D, especially in extensive agriculture, is aimed at environmental outcomes, which should be borne in part at least by taxpayers. Additionally, successive Australian Governments have followed free market policies in agriculture which have not been followed so enthusiastically by many of our competitor nations. Contributions by Government to rural R&D will go some way to offsetting the relative competitive disadvantage imposed by our free-market policies.

4. Should the Government reduce its level of matching?

No. Increasing world population is putting increased demand for food production on the world's agricultural industries. This is occurring at a time when the rate of productivity growth in world and Australian agriculture has been declining, as has access to increased land areas. On a world scale, Australia and other agricultural nations need to invest more, not less, into productivity-based R&D.

Looking specifically at Australia, it needs to be recognised that successive governments, both state and federal, have placed increased requirements on their research provider organisations to earn external income. The result of this increased emphasis on external earnings has been to increase the importance of cash in the rural R&D system, as a means to leverage in-kind public sector research effort. The R&D corporations, which are the major source of such cash, have therefore become even more important to the direction and quantum of rural R&D that is undertaken by state departments of primary industries and CRC's. Any reduction in the cash available through RDC's will have a very significant multiplier impact on the quantum of rural R&D that is undertaken.

It needs to be recognised also that RDC's have had to pick up an increasing role in extension activities, to make up for a declining effort in this area by most state departments of primary industries.

For all of the above reasons, both domestic and global, now is most definitely not the time to reduce funding to rural R&D.

5. Should RDC's undertake marketing and promotional activities?

Yes. Over recent years, several RDC's have metamorphosed into industry-owned corporations (IOC's) which have then provided industry marketing and promotional activities, in addition to R&D, on behalf of their levy payers. Where this has occurred, in my opinion, there have generally been significant benefits for the industry as a result of closer integration of marketing and R&D programs, and a more holistic approach overall to industry development. Such industry-owned corporations obviously need to work within strict guidelines to not become involved in agripolitical activity, and to ensure that government matching funding is used strictly for R&D and not siphoned into commercial or representational activities.

Just as I believe growers should vote every five years on the quantum of R&D levy to be paid, so should they vote every five years whether to pay for a marketing and promotional levy, and if so, what that levy rate should be. In my opinion, the "Prospectus" (see 2. above) for such corporations should separate the voting for the R&D levy from the voting for the marketing and promotion levy, and not combine the votes into one overall levy rate.

6. What Governance arrangements should apply to RDC's and IOC's ?

We have in Australia a well-developed corporations law, which should be used as the framework for governance of RDC's. Levy payers should have voting rights in proportion to levies paid over, say, the preceding three years. To aid in director selection, there should be a nomination committee which is responsible for selecting nominees for election as directors at each AGM. Consistent with corporations law, one third of directors should retire by rotation each year. The nomination committee should be required to ensure they nominate people who, if elected, will provide a board that is comprised of directors who have, in aggregate, a specified mix of skills, and whose other interests do not create serious conflicts of interest between the director and the corporation. The nomination committee should be comprised of incumbent directors, nominees of industry peak bodies and elected levy-payers, to ensure appropriate, broadly based input to director selection. The MLA model is one which, in my opinion, works well. By contrast, AWI, which does not operate a nomination committee, experiences a director-election process based on populism, which, in recent years at least, has elected a dysfunctional board. There must also be provision for

individuals who have not been put forward by the nomination committee to seek election as directors, but it would be difficult for such persons to gain election “under their own steam”. Prior to the implementation of the Uhrig Committee recommendations, it was common practice for there to be a government director on RDC boards. Removal of these appointees was, in my view, a mistake. It removed a direct communication path between the government (who was providing significant funds) and the corporation, and it provided an additional light hand and possibly early-warning mechanism on governance issues.

7. **Should the Government’s matching funds be opened up to competitive bidding?**

No. I have set out in paragraphs 3 and 4 above arguments to justify that taxpayers should contribute to the cost of Rural R&D. If the government funds are held separately, and opened to competitive bidding, for example, for pursuit of certain environmental or “public good” purposes, there will be created a probable disconnect between the productivity-related research and other research. Farming is a holistic business, and the research systems must recognise that. If governments want input into what is done, it should achieve this through the Statutory Funding Agreement negotiations, through appointment of a government director to the board, or through encouraging collaborative R&D among existing R&D Corporations with common interests. Competitive bidding is a costly process!

John Keniry AM, BSc, PhD, FAICD, FTS, FRACI
Sydney, 25 June, 2010