



AUSTRALIAN FODDER INDUSTRY ASSOCIATION LTD.

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**Submission to the
Productivity Commission Inquiry
into the
Australian Research and Development Corporations**

Summary

The present system of separate silo based R&D corporations has not worked well for the coordination and funding of balanced cross industry issues such as fodder.

Existing agricultural levies do not focus on the fodder R&D gaps identified by AFIA. Hay and silage production underpins the Australian cattle, dairy, sheep and horse industries yet the fodder industry is currently relying on a small program based on voluntary export levies and some contributions from RIRDC core funds. This program is insufficient to fund the productivity gains needed to respond to climate change, reduced availability of water, increased competition for land, changes in the relative profitability of agricultural enterprises and the rising demand for food and agricultural products in South-East Asia and the Middle East.

While the existing RDC model works well for commodity specific research, industry RDCs guard their own levy collections and matched funds jealously. Some RDCs see that their key objective is to gain credit for R&D outcomes from their levy payers. This objective is ultimately aimed at achieving a positive outcome from their next levy poll of levy payers. While some limited cross industry programs have been undertaken the experience from a fodder perspective has been that RDCs are reluctant to fund broad cross industry programs

AFIA sees investment in fodder R&D as critical for drought preparedness, as fodder is a vital input for Australian dairy, beef and sheep farmers. Unfortunately specific R&D into hay and silage has been neglected. As fodder is a feed input for many livestock industries, no individual industry takes responsibility for fodder and commits to funding fodder R&D. Under the current RDC system issues such as fodder are not addressed well.

To fund this necessary cross industry fodder research, some mandated pooling of funding resources should be considered.

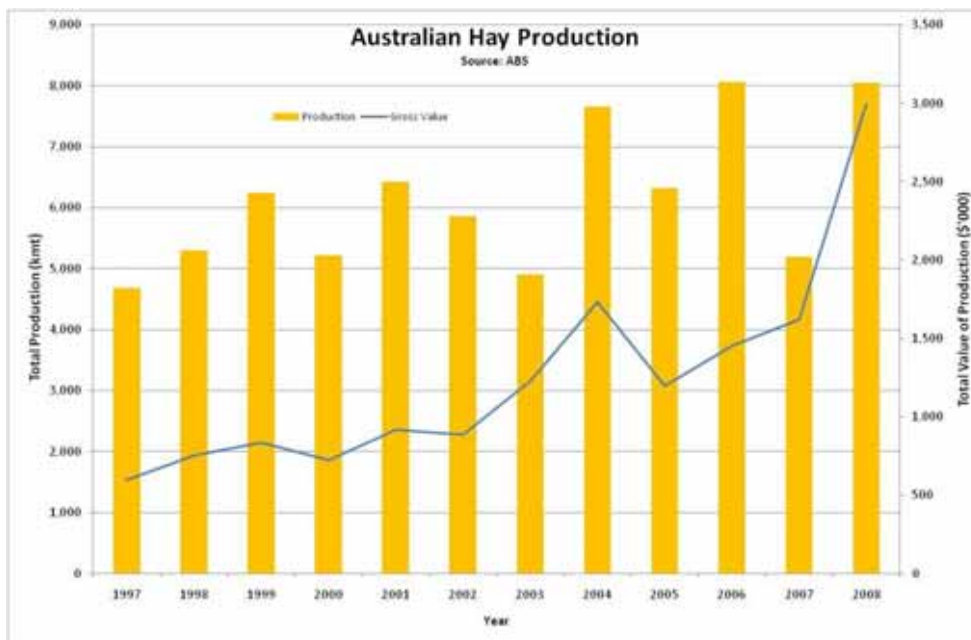
1. Who is the AFIA?

The Australian Fodder Industry Association (AFIA), as the peak body for the hay and silage industry. AFIA members represent all sectors of the supply chain including producers, contractors, agronomists, transporters, laboratories, domestic consumers and exporters.

As the investment into fodder research, development and extension (R&D) was one of the founding principles of the association, AFIA continues to be an advocate for fodder R&D. The AFIA has been working on behalf of hay and silage producers since 1996 to develop a case to Government for a compulsory R&D levy on fodder production to improve industry productivity and competitiveness. A major submission made to Government in 1998 failed due to lack of industry support from some domestic consumers of fodder. Discussions with stakeholders have been ongoing since then. Presently there are a number of supporters for a mandatory levy on fodder production, yet other stakeholders fear a backlash to their own levies if a proposal for another levy is introduced

2. What is the scale of production?

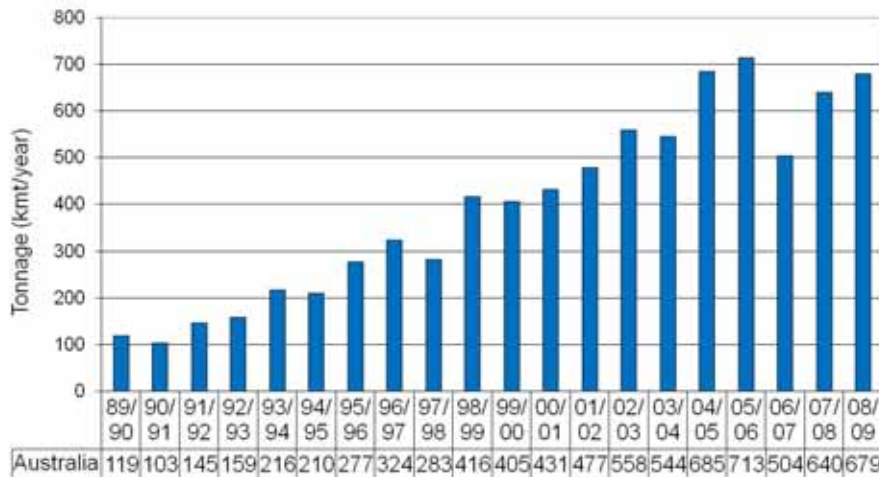
The total gross value of Australian fodder production was estimated by the ABS to be \$2.8 billion dollars in season 2007-08. The total value of fodder production is estimated to have averaged \$1.4 billion over the five years to 2006-07 making. The value fodder produced is similar to the barley (\$1.6 billion), sugar (\$1.5 billion) and poultry (\$1.5 billion) sectors.



A severe shortage and substantial price rise in fodder was experienced during the 2006–07 drought. The availability of roughage was a major concern for the dairy, feedlot and horse industries. Shortage of conserved roughage for the livestock industries is likely to be further exacerbated by the probable commercialisation of second-generation ethanol production from plant fibre.

A changing climate and rapid growth in demand for fodder and animal protein, position the Australian fodder industry at the centre of food security for Australia. With hay sales of over 700,000 tonnes to north Asia and the Middle East, the fodder industry is also an important export industry.

Australian Exports of Hay/Straw
(Source ABS)



3. What are the gaps in fodder R&D?

There are many areas where further research could substantially improve efficiencies across the fodder value chain. In particular, hay fires cost the industry over \$25 million in 2007; chemical residues in hay and straw need to be monitored to ensure compliance within safe limits; and fodder storage and feed-out losses can exceed 40%. Extension of current knowledge across the industry is fragmented, declining and requires across industry coordination.

This existing R&D programs are insufficient to fund the productivity gains needed for fodder producers to respond to climate change, reduced availability of water, increased competition for land and changes in the relative profitability of agricultural enterprises.

Contributions to productivity growth in agriculture that will work towards meeting these demands will include scientific discoveries that improve the understanding of particular production systems, the introduction of new technology, changes in plant varieties or animal genetics or the application of cost-effective measurement and monitoring systems.

Threats exist for pastures and ultimately fodder from incursions and no single industry body represents this sector on Plant Health Australia. PHA is not focused on this issue at present but is prepared to enter into a deed of arrangement with the appropriate body if funding was available.

Unfortunately the current level of resources for research and development is grossly insufficient to address any of these factors. Existing agricultural levies do not focus on the gaps identified by AFIA in fodder R&D.

4. What scale of R&D is appropriate?

Direct investment into fodder-specific research in 2007 was just under \$900,000, or 0.045% of the gross value of the product. By comparison, the direct investment in research by the other major rural industries in Australia is approximately 1% of the value of their industries.

The areas for investment are not well coordinated and duplication exists. The direct investment attracts in-kind investment from research provider organisations in a ratio of approximately 40 direct to 60 in kind. However, the research organisations are explicit in stating that their in-kind investment depends on receiving direct investment from outside sources.

The RIRDC Fodder program currently spends around \$600,000 annually mainly on research into fodder quality research and plant breeding. Although some RDCs conduct isolated R&D into hay and silage, the R&D spend within the RIRDC program represents 0.021 percent a far cry from other commodities such as grains (1.0 percent) and wool (2.0 percent).

The AFIA believes the existing funding levels of 1.0 percent of gross value of production are appropriate for the existing agricultural levies. In the case of fodder a funding level less than 1.0 percent would be feasible.

5. How is R&D managed at present?

Current direct investment into fodder-specific research is from a diverse group of organisations including the Rural Industries Research and Development Corporation (RIRDC), Dairy Australia, hay exporting companies, seed companies and state governments. While some fodder related research is currently conducted on an ad hoc basis by existing RDCs, the only program dedicated to fodder R&D is managed through RIRDC. This program is currently relying on one of the few voluntary levies in Australian agriculture. These levies are joined with some contributions from the Federal Government via RIRDC core funds.

AFIA has faith in the RIRDC programs. The investment principles and financial disciplines operated by RIRDC have provided the fodder industry with an ideal cost effective vehicle to commission some small but highly effective projects over the years.

6. How equitable is the current system of R&D funding?

Each year hay exporters contribute a voluntary levy of \$0.50 per tonne of exported hay and straw towards the RIRDC program. Funding for this small RIRDC program relies on this voluntary levy and core funds from RIRDC (Federal Government contributions). Despite many attempts by the national body the Australian Fodder Industry Association (AFIA) to gain similar voluntary contributions from domestic producers, the RIRDC program relies on export funds.

The ongoing nature of this voluntary levy is under question. With hay exports of around 700,000 tonnes each year, the RIRDC research burden is presently being undertaken by 10 percent of the total hay produced. Hay exporters are now questioning why they should be carrying the research programs when the other 90 percent of production benefits from the outcomes of the R&D projects.

7. How is Government investment into R&D justified?

Contributions to productivity growth in agriculture that will work towards meeting future demands will include scientific discoveries that improve the understanding of particular production systems, the introduction of new technology, changes in plant varieties or animal genetics or the application of cost-effective measurement and monitoring systems.

There is a strong need to have government funds contributing to agricultural R&D due to the market failure. Unlike non agricultural industries most research outcomes generated in agriculture are not able to be commercialised by individuals. Gains from R&D are shared by many small producers across Australia. No single player in agriculture can afford the cost of the existing R&D programs that work successfully within agriculture.

The current model of shared investment between farmers and Government is effective. Often the matching contribution from Government is essential for industry to raise their matching portions and inspire levy payers.

While the scale of the small RIRDC fodder program is different to that of the livestock and grains programs the concept of matching government funds is similar.

8. Proposed funding of fodder R&D

AFIA favours a mandatory levy similar to other industries to address the shortage of funding for fodder R&D. The model that AFIA favours could provide the fodder industry with a levy collection system that would be one of the most efficient of any agricultural levy in Australia. Presently there are a number of supporters for a mandatory levy on fodder production, yet other stakeholders fear a backlash to their own levies if a proposal for another levy is introduced.

In order to maintain a competitive production base of hay and silage in Australia, AFIA believes an expanded R&D program with broad contributions representing all hay producers in Australia needs to be established.

An alternative to a mandatory levy is a new mechanism that better distributes the spending on fodder R&D from the existing agricultural levies. We suggest that this issue is prioritised through the Primary Industry Ministerial Council process to support a cross RDC fodder initiative, allocating a proportion of already levied funds to address these very important issues. There is currently a model for this under a program at RIRDC called Pastures Australia.

It would be important for this initiative to be managed within an existing organization. Producers who pay agricultural levies are eager to avoid the additional administrative burden of establishing and operating a new and separate organization.