



Australian Government

**Grape and Wine Research and
Development Corporation**

67 Greenhill Road, Wayville, SA 5034

Submission to the Productivity Commission
Review of Rural Research and Development Corporations

June 2010

Dear Commissioner,

I write on behalf of the Grape and Wine Research and Development Corporation (the Corporation) as part of the call for submissions from the Productivity Commission for its enquiry into the efficiency and effectiveness of the Rural Research and Development Corporations (the RDCs) initiated by the Minister for Agriculture Fisheries and Forestry, the Hon Tony Burke MP. Although an extensive submission is being prepared by the joint RDCs, the Corporation takes this opportunity to respond specifically on behalf of the Australian wine sector to present our reasoning for the continuation of support for the RDC system in terms of the benefits that are derived not only for the wine sector but also for the Australian government and the wider community and environment.

As background, it is important to recognise that the Australian wine sector is currently operating in an extremely difficult trading environment. Levy payers, that is the grape growers (who pay \$2 per tonnes of grapes delivered to a facility for processing) and winemakers (who pay \$5 per tonnes of grapes processed), who contribute levy funds and co-invest with the Australian government in the research, development, extension and communication (R, D, E and C) activities of the Corporation are at this moment price takers as opposed to price makers within the wine value chain. Given the business climate in which the wine industry finds itself globally, this submission will not attempt to justify the continuation of the current RDC system on the basis that it is critical to further increases in productivity and efficiency within the value chain. At a time of overproduction, an increase in productivity is ironically the last thing that the industry needs. The value generated in terms of increases in productivity by the Corporation's investment in R, D, E and C over time have not been evenly distributed across this industry's value chain. In current circumstance there is in fact a strong argument to suggest that the main beneficiaries of the co-investment in R, D, E and C have not been the levy payers but consumers, retailers and wholesalers; the price makers. This highlights the extent to which the benefits derived from R, D, E and C are dependent on the business environment in which an industry operates, environments which can change over relatively short periods of time.

If the agricultural sector, it's communities and the environment are to benefit from investment in R, D, E and C then arguments that support investment in these activities, and that advocate for the Australian government's continuing support, can only be made on the basis of maintaining and adding value to agricultural sectors and hence to the wider community. In the case of the wine sector, the value generated by co-investments with the Australian government that have added, or acted to maintain value, (a capacity to prosper) for the sector and broader community can be categorised into three broad spheres of endeavour or knowledge. All rely on a critical mass of expertise that address points in the value chain where the generation of value is potentially impeded. They are those which provide either;

- 1. Resilience:** where by industry is able to address fundamental questions which arise because of changing business conditions. The drought conditions face by horticulture throughout the Murray Darling basin over the past years is a good example. In viticulture, levels of production were to a very large degree maintained in the face of previously unheard of restrictions in the availability of water. None of the scientific conditions imposed on grapevines as part of water use efficiency trials initiated by the RDC and research agencies were anywhere near as severe as those which were eventually imposed upon the industry as a whole by drought. However, industry and researchers alike were able to adapt the knowledge that they had to come up with answers to a new set of environmental conditions. A critical mass of knowledge and expertise was able to adapt, learn from other industries and growing systems and provide answers to the questions that helped grape growers adapt to record water

shortage. In this case investment through the RDC system, other agencies and internationally has allowed the development over time of a fundamental understanding of water relations in the grape vine which was brought to bear on new questions which transcended boundaries of commodity and State.

The definition of the strategic areas of research or knowledge that provide resilience for industry need to be central to the production of any future strategic research and development corporation plans and ultimately in the development of national and rural research and development priorities.

2. **Choice:** both in the provision of market and production related information and in the development of the management, leadership skills and people that can deliver knowledge which has a business context. Over the past couple of years the Corporation has made a distinct strategic choice by developing an extension and communications program which concentrates not on levy payers themselves but on those people and businesses that provide information to levy payers that helps them make better decisions. This group includes representatives of large wine companies, regional industry development officers, industry consultants, bankers and suppliers of other goods and services to industry. Only a minority of those included in this group are direct levy payers but all benefit from inclusion in the program. Ultimately all are now also involved in providing better informed decisions to those that contribute levy dollars. Benefit from the program is diffuse; it provides a vehicle for the delivery all manner of initiatives, whether they be industry specific or those pertaining to environmental issues or Australian government programs and priorities.

3. **Protection:** in particular for the capacity to be prepared to address issues of technical barriers to trade and potential biosecurity threats. The Australian wine sector retains strong capacity in analytical chemistry and analysis which addresses a range of industry specific questions of wine and grape developmental chemistry. However, one of the most valuable aspects of this investment is the ability to very quickly use this capacity to answer questions pertaining to technical barriers to trade which seamlessly maintains the ability of the Australian sector to access a variety of international markets. Again although there is direct industry benefit to this capacity there are wider economic and societal benefits to be gained from being able to support a system of international product integrity.

It is important to recognise that the activities cited above would not be supported to the same degree in the future without either the ability to raise a levy as currently defined within the *PIERD Act 1989* or through the continued co-investment of the Australian government. There has been a great deal of debate and conjecture about the distinction between direct benefit of investment to participating industries and that which flows to the public in general. With regard to the generation and protection of value within an industry through investment in R, D, E and C it is extremely difficult to make sweeping generalisations as to where value flows. Attribution of benefit is by nature dynamic in that it is impossible to predict or define the future environments in which our industry will have to operate, let alone trying to predict across multiple commodities.

It is also worth noting the value generated to the Australian government by its connection to rural industries through the RDC network. This provides a level of engagement with regional

Australia, its environments and communities that would otherwise be difficult and expensive to establish and maintain.

The RDC system also provides investors in rural research with a sound system of governance and oversight of investment that in the Corporation's experience drives an ethos of evidence based decision making that strives to ensure greatest value for money from all investments and the greatest return to industry, government and rural communities in terms of efficiency of use of natural resources, job creation and sustainable business practise.

I hope that these points are instructive in highlighting the diffuse nature of the benefits that are derived for both rural industries and the Australian government and wider community through investment in rural research and development. This is not to suggest that efficiencies in the delivery of service to agricultural sectors cannot be improved but does support the Australian government's continuing investment in rural research and development. I trust that this input is of use to the Commission as it considers the value of the Australian government's investment in rural research and development through the Rural Research and Development Corporations.