



**WAFIC**  
Western Australian Fishing  
Industry Council inc.

## Productivity Commission Inquiry into Rural R&D Corporations (RDC's)

### Submission by the Western Australian Fishing Industry Council (WAFIC)

This submission is focussed only with the Fisheries Research and Development Corporation (FRDC), which differs in its scope from the other rural RDC's in that fisheries are a community resource and there is a large 'public good' component in the research activities funded by the FRDC. The FRDC also funds activities which are of benefit to industry and the broader community.

Fisheries are a community resource because oceans beyond the high-water mark are vested in the crown and harvested only by licence. The public good component of fisheries research relates to the community and conservation benefits from sustainable fisheries, the amenity value from recreational fishing and the health benefit that the Australian community derives from the consumption of its seafood.

The significance of fishing to our national economy in the short and long terms also needs recognition. Indeed this point was explicitly recognised by the Treasury in the 2010-11 Budget papers:

*When Australia has mined its last tonne of iron ore, drilled its last drop of oil, smelted its last ounce of gold and polished its last diamond, all that will be left of our primary resources will be fishing, forestry and agriculture.<sup>1</sup>*

### Specific comments on the Terms of Reference

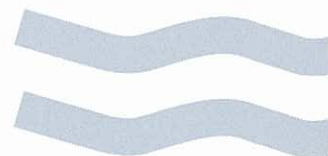
#### **1 Examine the economic and policy rationale for Commonwealth Government investment in rural R&D**

There is a clear rationale for the continuation of public investment in R&D, which has been acknowledged by the Productivity Commission:

*"There are two strong rationales for public funding support of science and innovation. The first is that publicly funded R&D is a significant contributor to innovation in the functions performed by government. Governments need to invest in research to improve the products and services they offer or to better discharge their functions, just as does the private sector. For example, expenditure on research and innovation is pivotal to effective environmental management, the provision of education, defence, and social welfare and health services."<sup>2</sup>*

<sup>1</sup> 2010-11 Budget paper #1, Statement #4 Table 1

<sup>2</sup> 2007, Public Support for Science and Innovation. Productivity Commission Research Report, Overview pp XVIII



*“In some instances, such as R&D for many environmental purposes, the net gains are mostly not measurable as short-run changes of GDP, but are nonetheless worthwhile”<sup>3</sup>*

In our view, these rationale have clear relevance to much of the research activities funded by the FRDC in terms of research to improve sustainability, to support improvements in fisheries management and to enhance the values of fisheries to the community and conservation. There is a strong policy rationale for the Commonwealth Government to continue to invest in fisheries science.

## **2 Examine the appropriate level of, and balance between, public and private investment in rural R&D**

It is important to strike the right balance in terms of allocation of public and private funding for fisheries research and it is vital that industry receives tangible benefits for relevant research and that this research activity reflects industry contributions to the FRDC. Due to the common property nature of the resource, FRDC has a higher level of public good remit than other RDCs but this is not necessarily reflected in a proportional level of public good funding for the Corporation.

## **3 Consider the effectiveness of the current RDC model in improving competitiveness and productivity in the agriculture, fisheries and forestry industries through research and development**

The return to industry from investment is reflected in the improvement in the profitability (determined by the competitiveness and productivity) of the commercial industry (both wild and cultured) as a result of FRDC investment in RD&E.

The return on this investment has traditionally been measured by improvements in Gross Value of Production (GVP). It should be noted that while GVP has been a surrogate for industry profitability and general economic wellbeing in the past, the wild fluctuations in the value for the Australian dollar for an industry dominated by exports has reduced the reliability of this measure of performance.

Research which highlights the contribution of FRDC funded research to improving competitiveness and productivity in the fishing industry include:

- Research has underpinned necessary rationalisation in some fisheries (eg Northern Prawn, South-East Trawl) and expansion in others (eg Crystal Crab, Blue Swimmer Crab) and aquaculture (particularly oysters, and Atlantic Salmon);
  - Greater production and higher values of production provide a revenue dividend to the Commonwealth Government through greater economic activity;

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<sup>3</sup> ibid ppXXI

- Individual examples of increasing profitability in fisheries in Western Australia include:

A suite of research, development and extension projects for Western Rocklobster (WRL) resulted in a best practice code for handling product for the industry. The Code introduced better handling at sea so now 95% of all lobster are landed alive and in good condition. This lifted the landings of WRL by up to 400MT on an average 10,000MT season simply because live lobster are heavier than dead ones by at least 4%. So, at USD30/Kg the project has added nearly \$15million of pure profit to the industry every year.

The deep-sea (Crystal Crab) project effectively created a new industry with 200MT of production at USD25/Kg, or \$12million per year.

A very small (\$75K) development project for Blue Swimmer Crabs has resulted in the creation of a suite of high-end food service products and converted processing 'waste' into a crab meat ingredient worth over \$70/Kg. It is expected that over 50MT of 'waste' will be converted to food service products, increasing profitability by \$3.5million annually.

Other relevant points in regard to the value of FRDC funded research include:

- Unlike some other Commonwealth funded research agencies, the FRDC engages in strategic fisheries research which is of more generic value and does not necessarily provide a return which can be captured separately by industry or individual fisheries.
  - Representing the interests of all fisheries in Western Australia, WAFIC has a strong history of supporting research which benefits industry as a whole and which occurs over a long time frame;
  - For example, the FRDC investment in standardising names for fish, with which the industry had wrestled for over 80 years, has been critical to the Food Standards Code, reducing fish substitution and generating confidence in international trade. Australia is the only country in the world with such a Standard.
- Other FRDC activities which have supported industry profitability are its investment in industry and fisheries leadership capacity building. In recent years these projects have been successful in educating and training up and coming future leaders and encouraging them to stay involved in the sector – participants have ranged from fishermen and crew all the way through to the restaurant and retail ends.

**4 Examine the appropriateness of current funding levels and arrangements for agricultural research and development, particularly levy arrangements, and Commonwealth matching and other financial contributions to agriculture, fisheries and forestry RDCs**

From the point of view of efficient delivery of R&D activities, the FRDC has demonstrated exemplary technical efficiency (administration and overhead costs are about 8% of total expenditure on RD&E activities); it appears that the FRDC has the lowest administration cost of any RDC.

The FRDC is also unique in that it is not funded by Commonwealth levies on industry; State governments collect industry contributions and pass them to the Corporation. Through State governments, industry has consistently contributed more to the FRDC than the Commonwealth will match, reaching 169% of matchable contributions in 2008-09.<sup>4</sup>

WAFIC recommends that the Commonwealth Government should lift the industry matchable funding to the FRDC to 0.5% of GVP. The Commonwealth Government should also recognise that the recreational fishing community would be willing to contribute more to the FRDC if its own contribution was also matched. (In Queensland and Western Australia, recreational fishers contribute to the FRDC through their State governments but these contributions are not eligible to be matched under the GVP calculation).

**5 Consider any impediments to the efficient and effective functioning of the RDC model and identify any scope for improvements, including in respect to governance, management and any administrative duplication**

While WAFIC generally believes that the FRDC is efficient and effective in meeting its statutory objectives, there is scope for the efficiency and effectiveness of the FRDC to be improved.

While the FRDC runs a decision-making framework for project selection which is fairly responsive to stakeholders, it is hampered by the fact that it must correspond with eight individual State jurisdictions. Significant efficiencies would be gained, and better extension of results achieved, if the consultation framework was based on three bioregional fishery regions, rather than seven States, the NT and AFMA.

State boundaries are arbitrary in term of fisheries and sustainability issues and the savings from reducing the number of jurisdictions could be reinvested in three fully maintained regional offices which would both generate stakeholder support for RD&E and, importantly, ensure that the outcomes of R&D projects are fully extended to industry. The consultation between the FRDC and its stakeholders would be massively enhanced if such a structure were to be established.

**6 Consider the extent to which the agriculture, fisheries and forestry industries differ from other sectors of the economy with regard to research and development; how the current RDC model compares and interacts with other research and development arrangements, including the university sector, cooperative research centres and other providers;**

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<sup>4</sup> 2009 FRDC Annual Report 2008-09 pp V

**and whether there are other models which could address policy objectives more effectively**

The fundamental difference between the rural and other sectors of the economy is that they are permanent and renewable sources of wealth. While there are logical arguments for the integration of some of agricultural and land-based RDC's to improve focus and reduce duplication, the unique nature of many of the FRDC's activities do not make amalgamation a sensible option.

FRDC's stakeholders in industry, the community, the recreational sector and research organisations are generally quite different to those of other RDC's and this is recognised in the structure of the FRDC.

Indeed WAFIC believes that the FRDC's model for investment in RD&E is robust and works well. Certainly neither the Commonwealth Department of Agriculture, Fisheries and Forestry nor Ausindustry can deliver such RD&E investment with equivalent efficiency within the confines of the public service (WAFIC has direct experience of both).

WAFIC has found the FRDC framework more responsive to industry needs than the Australian Seafood CRC. We have had some issues in achieving industry responsiveness from the CRC, despite the significant investment of Western Australian industry in its funds.

Western Australia's investment in the Australian Seafood CRC undertaken through the FRDC and this is one aspect of the FRDC which we would like to see reviewed at some stage.

WAFIC has strong links with researchers in the tertiary education sector and is concerned to see that they do not play dual roles – on the one hand determining the direction of research and on the other being recipients of such research funding.

**7 Examine the extent to which RDCs provide an appropriate balance between projects that provide benefits to specific industries versus broader public interests including examining interactions and potential overlaps across governments and programs, such as mitigating and adapting to climate change; managing the natural resource base; understanding and responding better to markets and consumers; food security, and managing biosecurity threats**

WAFIC views the FRDC as the primary source of Commonwealth investment in fisheries RD&E. The significant public good element required of the Corporation means that it does not invest as heavily in areas of private good and industry recognises that it too benefits from public good research.

The FRDC is, however, responsive to the fact that its capacity to invest is predicated on industry GVP and this is one reason why WAFIC supported its co-investment in

the Australian Seafood CRC. However, as noted above, the responsiveness of the CRC to industry needs is not clear.

The FRDC has also been the logical conduit for funding in fisheries research in regard to climate change, industry knowledge of markets and consumer behaviour, aquatic animal health and threats to the environment from invasive species.

The PIERD Act limits what the FRDC may and may not fund and there are anomalies which industry finds confusing and illogical. For example the PIERD Act precludes the FRDC from funding promotion/marketing of industry, however, it does not preclude it from funding promotion/marketing R&D

It is unclear whether market investigation may be regarded as 'promotion'. Artificial restrictions on what the FRDC may or may not fund should be removed, giving the FRDC more freedom to respond to industry needs. This was exemplified in the last two years, with the Global Financial Crisis and the massive revaluation of the Australian dollar, which made the climate for exporters exceptionally difficult, but the FRDC was frequently unable to help industry defend its markets and market share against lower cost competitors.

#### **8 Examine whether the current levy arrangements address free rider concerns effectively and whether all industry participants are receiving appropriate benefits from their levy contributions**

The industry currently contributes to the FRDC at well above the rate currently matched by the Commonwealth Government. The Government should recognise this additional effort and lift its matching contribution to 0.5% of GVP. Industry voluntary contributions already exceed the maximum matched by the Federal Government by nearly 80% (\$9.52m compared to \$5.3M in 2008-09).

The Federal Government should also match a recreational contribution to the FRDC. At present the recreational community receives a benefit but makes no direct contribution as that contribution will not be matched. Effectively the recreational fisheries are subsidised by taxpayers. In fairness, the recreational community is prepared to contribute, but sees no point if that contribution is not matched.

Fisheries, forestry and agriculture are prey to the vagaries of climate, disease, currency fluctuations and international competition. They can cope with all of them, but continued investment in the RD& E which underpins the sustainability and success of fisheries is critical.

The FRDC makes a significant contribution to fisheries management and development in Australia and while there is scope for improvements in terms of greater flexibility, WAFIC believes that the FRDC should be maintained as separate entity, recognising the unique characteristics of fisheries and the importance of RD&E in this important sector.