The Productivity Commission
Locked Bag 2, Collins St East
Melbourne VIC 8003, Australia

18 November 2010

Re: Submission on PC draft Report on Rural R & D Corporations

We are a significant contributor to the Fisheries Research and Development Corporation (FRDC).

We support the Commission’s main draft conclusions about the role of FRDC, and that the current funding model for FRDC should continue. However, we also wish to comment about some of the more generic recommendations in the draft Report.

Background to Industry and Association

The Australian Southern Bluefin Tuna (SBT) Industry Association (ASBTIA) represents all the holders and users of SBT quota in Australia. Over 90% of the national SBT quota is held in SA and 98% is used for tuna fishing (and subsequent growout in SA. This concentration of ownership and use in SA is because SA is part of the migratory path of SBT from South Africa to NZ.

SBT was the first fishery in Australia to be managed by Individual Transferable Quota (ITQ). The introduction of ITQ’s in 1984 followed an Industry Commission report in 1983. Since then around 80% of the ongoing quota rights has been traded.

The SBT industry is relatively complex and unstable

The Gross Value of Production (GVP) of the SBT industry has ranged from $298 million in 2003/04 to $103 million in 2009/10. This instability is due to:

(1) SBT is managed internationally by the Commission for the Conservation of SBT (CCSBT). Australia holds around 40% of the global quota. The other participating countries are Japan, Taiwan, Korea, NZ, Philippines, South Africa, and the EU.

The CCSBT meets annually to decide on the total quota level and periodically reviews the allocation of the quota. For example, in 2006 Japan’s quota was halved because it was discovered they had been illegally catching large tonnages since at least 1985. In 2009, the CCSBT quota was cut by 20%, but Australia’s allocation was cut by 24% as part of a package, and specific trade-offs between NZ and another CCSBT Member.
(2) The Australian SBT industry straddles both the wild fishery and wild fish growout. The process involves capturing live SBT in the Great Australian Bight (GAB) from December to March each year, towing them to Ranching Zones around Port Lincoln, and growing out the fish for 3-7 months before marketing. About 70% of the harvested SBT are sold as super low temperature (minus 65°C). The other 30% are air freighted to Japan as fresh fish.

(3) The wild catch is managed by the Commonwealth Government, and the wild fish growout component by the SA government.

(4) Over 99% of the harvest is exported – mainly to Japan. Therefore, the Yen exposure has to be managed.

Research Structure

SBT is arguably more dependent on research than most fishing and other rural industries because:

(1) It requires both a wild fishing research program and a growout research program

(2) It is a very young industry. The global tuna ranching technology was invented in Port Lincoln in 1991 as a blue-skies value adding project, funded by a mix of FRDC, the industry, and the Japanese Government.

(3) Australia is still the world leader in tuna farming technology. There is substantial investment by other countries (eg EU for France, Malta, Greece, Italy; Croatia; Turkey), but little improvements we can adopt from them.

Therefore, to ensure the best use of resources, ASBTIA itself manages the total industry growout research structure with its own staff.

Industry’s Relationship with FRDC

To a large extent we have a choice of the channel through which we invest our research funds, because the majority of our contribution is voluntary. Over a long period we have found FRDC to be highly effective in managing the co-investment by industry and government. This view is based on our experience of FRDC as cost-effective, strong governance, innovative, flexible, and strategic thinking. They are particularly competent at what the Commission calls in the draft Report “Systems Integrators” and “Brokers.”

Our FRDC levy for the total industry consists of growout component and a wild component. ABARE divides the total Gross Value of Production (GVP) between an imputed value for fish into farms as the wild component, and the balance for the growout component.
The result is:

(1) The majority of our research funding is via a voluntary growout levy. It is collected by the SA Government, on the understanding that it will all be passed on to FRDC as our annual FRDC levy on growout. The amount of levy for each of the ranching companies is based on the hectares of ranching sites they have, which are granted pro rata to tuna quota holding.

As yet there has been no market failure (ie everyone pays). However, from 2011 the payment will be compulsory under amendments to the SA legislation.

(2) The Commonwealth (wild fishery) levy is compulsory, and collected as a separately identified part of the general AFMA levy. Note: Extra to the FRDC levy, the SBT industry also contributes a substantial AFMA research levy. This is used for SBT research such as the CSIRO annual aerial assessment of the global juvenile stock.

FRDC/ASBTIA Aquaculture MOU and Subprogram

The SBT aquaculture research projects are managed under the umbrella of an MOU between FRDC and ASBTIA, and under one of the special subprograms run by FRDC. This program approach provides real flexibility if there is a sudden change in research priorities.

The Recommendations in the PC draft Report

Again, we support the Recommendations in the draft Report which allow for the current FRDC funding model to remain intact (eg see page xxvii). The other Recommendations of particular interest to us are below.

We note that the general thrust of the draft Report is very consistent with our experience. For example, the alternative models outlined in the draft Report (eg CSIRO, Universities) would lead to much lower co-funding levels. They would also not address the free rider/market failure challenge.

The current model has also led to major gains in the productivity and competitiveness of rural industries – which needs to be the key national goal of research (see Terms of Reference). In our experience, if these are achieved, then the social and environmental benefits very often follow.

We also support the logic of a Rural Research Australia (RRA) to address the cross-industry issues. Our only concern is that at some point the macro studies on issues, such as climate change, have to quickly be turned into regional assessments so that mitigation or utilisation can proceed.

We also support the guiding principles for the future operation of the RDC program (see page xxix).
The one thing we do question in the draft Report is the supposition that it is likely that the Government’s funding has led to only a modest overall level of genuinely additional research (eg see page xxv). Certainly, in the wide range of fisheries we know, it has led to substantial incremental and longer term research.

**Draft Recommendation 8.2**: That the formal Ministerial involvement in priority setting and approving FRDC’s plans should remain. We agree. The Government has a major stewardship responsibility over Australia’s fisheries resources, and this is reflected in the public good component of the government contribution. This means also a right and responsibility for a much higher level of government intervention.

**Draft Recommendation 8.3**: That the function to fund marketing should be added to the RDC, but only where it is supported by the majority of levy payers and approved by the Minister. In addition government contributions to the RDC could only fund R & D. We have no objection to this being tested, but we would not vote for it, and would not use FRDC to fund any SBT marketing. ASBTIA has a substantial promotion program which is internally funded (including EMDG), and has been successful.

We are concerned that marketing is not a core skill of FRDC. The only benefit of using FRDC is the statutory levy. However, these statutory levies must be a matter for each industry sector within FRDC and there must be no cross-subsidisation between sectors. We note that in the case of fisheries, over 80% of Australia’s fish consumption is imported, so domestic marketing expenditure inevitably has a spin-off benefit to imported seafood, a non-contributor.

**Draft Recommendation 8.4**: To create the option for an RDC to appoint a Director outside the normal nomination process (eg a Commonwealth public servant). We strongly support a Commonwealth public servant being on the FDC Board. We have extensive experience where this is very effective at improving the decision-making process. An example is the AFMA Board – where the Uhrig report led to the loss of the “Government Member.” It was a setback to the efficiency of the decision-making. The appointment has to be outside the normal process to allow for government personnel changes.

**Draft Recommendation 8.5**: Require of all RDC’s a regular, transparent and comprehensive program-wide evaluation process. We agree, but the PC needs to define “regular” to avoid constant reviews being unduly disruptive to the RDC core role. We also support the need for peer review, and retrospective analysis of adoption rates, etc.

**Draft Recommendation 8.6**: RDC’s be required to have an independent performance review at least every three years. The review would consider whether the project portfolio met criteria such scientific merit, a balance between longer term and riskier research, and shorter term and low-risk research. We agree with the concept but given the breadth of the proposed evaluation, we see three years as too short, and suggest four years. We agree that such reports should be provided to the Minister, and require the RDC to address the issues.
Draft Recommendation 8.7: DAFF provide an annual monitoring report on issues such as RDC funding arrangements (eg balance between industry and government funding; investment in R & D and other activities, a broad overview of funded research; and DAFF’s performance on levies. We agree with the accountability principle, but again question whether an annual report is required, and suggest two-yearly. There is a real risk of spending too much of the research dollar on a reporting structure, rather than the research itself.

Draft Recommendation 9.1: Remove product-specific maximum levy rates from the relevant Act. We agree.

On the PC’s request for input on whether an RDC should be allowed to vary the allocation of funds between R & D and marketing without seeking the approval of levy payers. For FRDC, we oppose this. Aside from the governance issue, fisheries is made up of many very different sectors, and cross-subsidisation between programs and sectors would lead to inequities, and market failure.

Draft Recommendations 9.2 and 9.3: Comment: These are normal cost/benefit and reporting processes and are welcome.

Other Issues

(1) The PC has raised the issue of whether industry representation a generally allowable function of an RDC (eg page 239). This is one of a number of issues which would be considered by a review of the effect of the changes – over 10 years from now. Therefore it is not an immediate issue. However, we note that we do not support FRDC being given an industry representation function. It compromises the core R & D function.

(2) The PC rejects (eg page 234) the concept of levying processors – largely based on submissions to the Commission that the processors would simply pass on the costs to the rural producer. We disagree with this logic in the case of fish. Equally important, the value of increasing the size the size of the research pool needs to be taken into account.

Yours Sincerely

Brian Jeffriess
Chief Executive Officer – ASBTIA