

Inquiry into Rural Research and Development Corporations
Productivity Commission
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Introduction

The Victorian Farmers Federation welcomes the opportunity to comment on the Productivity Commission's draft recommendations from the Inquiry into Rural Research and Development Corporations.

Research and development work is obviously extremely important to the Agriculture sector and particularly to attain on-farm productivity gains. The VFF's original submission to this review outlined the importance of research to the sector and is attached as an appendix to this submission.

General Comments

Current funding levels should not be reduced

The VFF have consulted with its membership on the draft recommendations and there is overwhelming opposition to a reduction in the government contribution to RDCs. As outlined in our original submission there are many ways that research conducted by RDCs provide a public benefit (spill-over effects, environmental benefits and increasing food demand) and it is extremely important that the government does not turn its back on that public benefit. The VFF submission pointed to the following comments on Rural R&D in Australia:

Putting aside the question of quantum, the rationale of public support for rural research is well grounded. There is a broader economy wide agenda to foster productivity growth and, in the case of rural industries, research generates substantial spillover benefits to the broader community.¹

A reduction in the R&D funding from the federal Government to RDCs will have direct and immediate impacts on regional development, skills and capacity in the industry, and further erode interest and opportunity in the industry.

It is also surprising to the VFF that the recommendation to cut government funding by 50% appears to be arbitrary in nature and has no analysis to support the reduction. In contrast, there is a large amount of evidence and experience that shows the public benefit from government funded research in agriculture.

¹ Core, P. (2009) A Retrospective on Rural R&D in Australia: Australian Government Department of Agriculture Fisheries and Forestry

Existing funding levels and creation of the RRA are separate Issues

If it is determined that the creation of a new body called the RRA is needed, especially to continue the type of work conducted by Land and Water Australia, then that should be evaluated on its own merits and funding accordingly by the Commonwealth. This is a separate issue to funding of existing RDCs. **Research dollars should not be sacrificed from the RDCs to fund the RRA.**

Research results difficult to predict

The VFF is concerned that the approach suggested through the recommendations have too great a sensitivity towards private benefit derived from RDCs activity. We are concerned that in an effort to reduce government funding from projects that may have some private benefit, important projects will be missed that would otherwise provide significant public benefit.

Exacerbating this problem is the difficulty in predicting the full outcome of research, especially research that is focused on long term, high-risk, high reward strategy. One of the recommendations is to invest in a 'balanced project portfolio that includes longer term, riskier and higher reward research...'²

Particularly in the case on long term – high risk, high reward research projects, the quantum of private and public benefit would be difficult to predict on the outset of the research. Therefore, we do not want to see a reduction in government funding of RDCs that would lead to less visionary research projects.

Timeframe for implementing Changes

The PC report suggests considerable changes to RDC reporting/governance and funding model. The best approach may be to defer any changes to the funding model until after the reporting and governance changes have been put in place and have been evaluated.

What will happen if Government funding is reduced?

It is the VFF's view that a reduction in government funding will simply mean a reduction in the research program for agriculture. Although there are high cost benefit ratios on the RDCs work, farmers will not be willing to increase the R&D spend due to the long lead times, low return on equity in farming and variable climatic conditions.

Conceivably, the real result will be that the low priority projects will be dropped off the research program which will most likely medium to long term projects with less of a private focus. In other words, the impact of less government money into RDCs will be less high risk/high reward, public benefit research.

² Page 179

Some points on Specific recommendations

6.1 It should establish and fund a new RDC, 'Rural Research Australia' (RRA) to sponsor non-industry specific R&D intended to promote productive and sustainable resource use by Australia's rural sector.

There are concerns within the VFF membership that this will add another layer of administration to conduct research for the public good. If the RRA is needed, due to the disbanding of Land and Water Australia, the most administratively efficient model should be adopted to ensure as much funding as possible is available to conduct the research.

As there are already a number of research organisations (private, public and partnerships) there should consideration for these organisations to compete for the research dollars based on the accepted principles and goals for the research.

7.1: The appropriation for RRA should be progressively increased over five years to around \$50 million a year, with additional funding provided for any research responsibilities transferred to the new entity from other programs

This is a difficult question to address as we do not have a clear idea on the structure and research program for the RRA, however the clear feedback from our membership has been that funding to RDCs should not be sacrificed to fund the RRA.

– However, the cap on matching contributions for all statutory levies should be reduced from 0.50 per cent to 0.25 per cent of an industry's gross value of production (GVP). This reduction should be phased in over ten years, with the cap reducing by 0.025 per cent of GVP each year during this period.

Disagree. Current funding levels need to be maintained. The current levels of investment into agriculture R&D are justified. There are considerable spill-over effects that benefit all of Australia. Australians benefit from research into environmental outcomes, a reliable and safe food supply and reliable and safe fresh food.

The most glaring example of this is the considerable amount of research conducted on carbon mitigation. In the absence of a price on carbon ALL of that work is to the benefit of the greater community.

8.1 Use government funding solely for R&D and related extension purposes and not for any marketing, industry representation or agri-political activities

When it comes to the issue of marketing or generic promotion there is not agreement within the farming community if this should be undertaken. There is general agreement that there should be trust in the decisions made by skills based board charged with the responsibility to direct activities of the RDCs based on their mission statement. If this includes some level of generic promotion or market development/access then it should not necessarily be rejected.

8.7: The Commission seeks further input on what ‘intermediate’ sanctions could be used to address ongoing underperformance by a Rural Research and Development Corporation prior to any withdrawal of public funding for the entity concerned.

The requirement for sanctions on underperforming boards should be minimised in the case where the RDCs are governed by a skills based board. Any added transparency in RDC activities will also assist in assuring the accountability of existing boards and preventing underperformance.

9.1 The Commission seeks further input on whether R&D and marketing levies should be separate; or combined into a single industry levy, with some scope for a Rural Research and Development Corporation (see draft recommendation 8.3) to vary the allocation of funds between R&D and marketing without seeking the formal approval of levy payers.

The VFF disagrees. Each of the industries is different and there needs to be flexibility in the way levies are collected. A ‘one size fits all’ is not the proper approach.

Conclusion

The VFF does not feel that a reduction in Government funding to the RDCs is justified and would prefer to see an increase in overall government funding to research into food and fibre production. The amount of agriculture land has nearly reached its limit in the world and demand is set to double over the 40 years. If there is ever a time to increase research, it is now.

With regard to Rural Research Australia, if there has been a gap left by the closure of Land and Water Australia, it should be filled, but not at the expense of existing research funding.