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RDC Inquiry
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**Submission to the Productivity Commission Inquiry into
Rural Research and Development Corporations –
Response to the Draft Report**

Grain Producers Australia Limited (GPA) is a 'representative organization' in accordance with the *Primary Industries and Energy Research and Development Act 1989 (PIERD Act)*.

GPA is the ultimate output of two grains industry roundtables which were run by the Grains Council of Australia (GCA) in October 2009 and February 2010. At the GCA Roundtable in February, a steering committee was commissioned to develop a working representative model for grain producers in Australia to replace GCA as the national grain producer advocate. GPA succeeded GCA through a Deed of Company Arrangement in September, and by virtue of this process GPA has assumed all the roles and responsibilities of the former GCA. GPA has been developed through ongoing consultation and input from the grains industry and has been endorsed by a wider group of representative organisations, including PGA's Western Graingrowers, Council Of Grain Grower Organisations Limited, Grains Research Foundation Limited, South Australian Farmers Federation Grains Committee, Victorian Farmers Federation Grains Group and AgForce Grains Limited.

GPA recognizes and respects that there are diverging views on the best way to respond to issues around administration and oversight of the Grains Research and Development Corporation (GRDC) and its accountability to levy payers generally. However, GPA has consistently maintained that it is premature to advocate change to the RDC framework or reduced funding arrangements to effect change at GRDC when the issues are, by and large, the result of failings of the prescribed representative body responsible for oversight of GRDC. GPA has been constructed with a strong focus on providing better communication and engagement of levy payers to ensure equitable outcomes for industry. The *PIERD Act* provides ample opportunity for levy payers to influence and effect changes to the operation of GRDC and its funding arrangements, providing the representative body is functioning properly for and on behalf of all levy payers.

The submissions received by the Productivity Commission (“the Commission”) to date have thoroughly addressed the Inquiry’s Terms of Reference as well as the points raised by the Commission in the March 31 Issues Paper. GPA notes that submissions have been made by a wide range of groups and individuals including Commonwealth and State government departments, public- and private-sector research providers, eminent scientists and their professional organizations, primary producers and industry organizations. GPA commends and supports the submission made by Across Agriculture (sub. 116), which incorporates a comprehensive analysis and evidence-based approach. Keeping in mind the already extensive body of submissions, GPA’s submission is limited to several matters and Recommendations in the Commission’s Draft Report that are of particular importance to the grains industry in Australia.

Key points

1. *Regarding the broad framework and funding arrangements:*

- GPA supports the existing RDC model, in a largely unchanged form. While acknowledging there is opportunity for improvement, the existing RDC model is designed to meet the objectives of both investors; it is flexible; and has appropriate governance mechanisms provided an effective representative body exists.
- GPA does not support the Commission’s Draft Recommendation 7.1 – to reduce government funding for the existing industry-specific RDCs to half the current rate, over a period of ten years. This equates to a 16% (\$21.05m) cut in annual revenue to GRDC¹
- Equally, GPA rejects the Commission’s Draft Recommendation 6.1 insofar as it calls for the creation of ‘Rural Research Australia’ (RRA; which would sponsor non-industry-specific rural R&D).

GPA rejects Draft Recommendations 6.1 and 7.1 on the basis that the Commission’s analysis is fundamentally flawed: *i.e.* the Commission has

- drawn conclusions that contradict the weight of evidence;
- relied upon incorrect assumptions; and
- failed to adequately consider the consequences of implementing Draft Recommendations 6.1 and 7.1.

The most serious shortcomings of the Commission’s analysis include:

- Disregarding the immense weight of reputable evidence which clearly shows there is no justification for reducing government investment in rural R&D generally, or the RDCs specifically.
- Assuming levy payers will pay extra to cover the shortfall created by the proposed reduction in the government contribution to RDCs (in the order of \$20m *per annum* for GRDC).
- Assuming that a \$20m *per annum* cut to the GRDC budget will not have a severe, negative impact on public benefit outcomes.

¹ Based on a five-year average of revenue data reported by GRDC in the 2009-10 *GRDC Growers’ Report*.

- Failing to understand that funding cuts to the industry-specific RDCs will remove operating funds (cash) from the rural research sector, which will have the flow-on effect of project closures and withdrawal of base funding from State and Territory Agriculture Departments.
- Failing to consider the individual RDCs on a case-by-case basis.
- Assuming that food security does not provide sufficient grounds for Commonwealth Government support of rural R&D.
- Underestimating producers' contributions to R&D funding.
- Promoting the reincarnation of a twice failed RDC in the form of RRA.
- Failing to consider options for increasing RDC funding.

These points, and others, are canvassed further in *Section 1*, below.

2. *Regarding the 'supporting changes' proposed for the RDC model:*

The Commission has made a range of draft recommendations for specific 'supporting changes' to the RDC model. GPA's position on a number of these recommendations is detailed in *Section 2*, below.

In their existing form, Draft Recommendations 6.1 and 7.1 threaten the future of what has been a stable and successful rural R&D model – Australia's RDCs. GPA takes this position, not because the grains industry has a sense of entitlement to tax-payer funds, but because research indicates that the proposed funding cuts will have significant detrimental impacts on the community and environment, as well as negative flow-on effects to grain growers.

GPA asserts that the Commission has failed to prove its case or justify its recommendations. As they currently stand, with the Commission's methodology and conclusions being demonstrably unsound, the Draft Report and Recommendations are unsuitable for use by industry, research or government organizations in their policy development processes.

The Commission should not disregard the available empirical evidence regarding public benefits arising from the RDCs in order to clear the way for what should be a political decision for Government. If Government decides to cut expenditure to the RDC program, it needs to do so in the full knowledge that, (a) it is forgoing substantial public benefits; and (b) the evidence suggests the opposite course of action is most logical.

Yours sincerely,



Pete Mailler
Chairman

Section 1. The broad framework and funding arrangements

GPA's concerns with the Productivity Commission's analysis of the broad framework and RDC funding arrangements are manifold and relate to significant tracts of the Draft Report. A number of the more serious issues are presented within this section, loosely grouped under the headings:

- 1) Rationales for government funding support.
- 2) Not all RDCs are the same.
- 3) Some consequences of halving Government funding.
- 4) Rural Research Australia.
- 5) Options for increasing RDC funding.
- 6) Government and industry influence in the co-investment framework.

1) Rationales for government funding support

In its Draft Report, the Commission covered some aspects of the economic and policy rationale for Commonwealth Government support of rural R&D. GPA notes that these issues have been covered by others², and many submissions discussed the various rationales, to a greater or lesser extent³. While many Inquiry participants seemed to agree with the view A3P expressed, that "the rationale for Commonwealth Government investment in rural R&D has been more than adequately established", and that the "Inquiry should be taking these matters as given"⁴, the Commission did not proceed on this basis.

There are a number of serious problems with the Commission's ensuing analysis.

a) Returns from investment in rural R&D are sizable

Academic studies over the past fifty years have examined the returns from public investment in rural R&D. They have consistently found that public rural RD&E investment produces very high rates of return. This has been the finding of international studies⁵, studies within Australia⁶ and studies relating specifically to the RDCs⁷. Comments from DAFF are representative of many that were put to the Commission: "over many years and research projects, strong evidence has been collected that indicates high returns on rural R&D with extensive spillovers beyond the sector"⁸. Indeed the Commission itself went so far as to say,

² For example, The Cutler Review (2008); Pardey (2009); PC (2007)

³ For example, governments (e.g. DAFF, sub. 156; DAFWA, sub. 137; DPI Victoria, sub. 161), universities (Go8, sub. 105), industry (e.g. Across Agriculture (sub. 116); NFF, sub. 109; NSW FA, sub. 145), and many others (e.g. AIAST, sub. 12; CRRDC, sub 128; T. Fischer, sub. 25)

⁴ Australian Plantation Products and Paper Industry Council (A3P), sub. 142, p. 3.

⁵ e.g. Alston *et al.* (2000)

⁶ e.g. as summarized by Mullen and Crean (2007), and PC (2007)

⁷ CRRDC (2008); CRRDC (2010); GRDC, sub. 129

⁸ DAFF, sub. 156, p.v

- *whatever the precise magnitude of the gains, almost all studies suggest that soundly based rural R&D can deliver significant benefits for both primary producers and the broader community*⁹;
- *notwithstanding a variety of data and methodological limitations, this work strongly suggests that, in aggregate, past investments in rural R&D have provided a significant payoff both in Australia and internationally*¹⁰; and
- *collectively, the empirical work suggests that there have been significant benefits for Australia from investing in rural R&D, and that the rates of return to such investment have not declined over time*¹¹.

Logically then, and based on the weight of evidence, there is no justification for reducing investment in rural R&D generally or the RDCs specifically. In fact, the level of investment should be increased until the rate of return shows signs of declining¹².

However, the Commission did not come to this conclusion. Inexplicably, it arrived at the opposite conclusion. It effectively dismissed fifty years worth of research after exploring the idea that the academic and RDC-commissioned studies had significant ‘methodological difficulties’¹³. The Commission questioned the findings of the empirical studies citing issues such as:

- the use of incomplete data on rural R&D investment, including in relation to the overall quantum and the private/public split;
- failure to account for additional variables that could contribute to productivity growth;
- possible bias arising from including only successful projects in analyses;
- difficulties with correctly modeling the lags between R&D investment and the subsequent benefits; and
- the studies and evaluations have focused strongly on productivity-related benefits, but have only poorly quantified the environmental and social impacts.

However, the Commission’s superficial assessment of these issues does not stand scrutiny when compared to the research community’s scientific and rigorous approach to addressing the ‘methodological difficulties’ in the available studies. Researchers have for example,

- Applied meta-analysis methodology to examine the trends in the body of research as a whole (e.g. Alston, 2000).
- Changed their methodology to take advantage of new technology or approaches developed in others’ work (e.g. Sheng *et al.*, 2010, p.3).
- Worked specifically on updating the database of Australian rural R&D investment, so for instance the data used by Mullen (2010) and Sheng *et al.* (2010) is an improvement over that used previously.

⁹ PC (2010), p.40

¹⁰ PC (2010), p.90

¹¹ PC (2010), p.256

¹² Alston *et al.* (2000); Mullen (2010); Piesse & Thirtle (2010)

¹³ PC (2010), e.g. pp. 3, 41, 91, 164, 249

- Undertaken studies that specifically explore co-factors which could potentially influence the relationship between R&D and productivity growth (e.g. Sheng *et al.*, 2010, examined climate, water stress, farmer education and a number of other potential co-factors).
- Developed protocols to ensure entire project portfolios are assessed when examining RDC benefit-cost ratios (e.g. CRRDC, sub. 128; GRDC, sub. 129)
- Used sensitivity analysis to investigate how sensitive their conclusions are to factors such as lag structures (e.g. Thirtle, *et al.*, 2008).
- Worked on improving methods to quantify environmental and social impacts attributable to rural R&D (e.g. Gillespie, 2008, in the Australian context; and internationally, the FAO for instance, has research underway into payments for environmental services).

Studies incorporating these refinements still find very high rates of return for rural R&D and the RDCs. Further, as noted by the CRRDC, “these studies have also confirmed the earlier findings that there is no evidence that rates of return to research are declining over time”¹⁴.

There is such an extensive body of research available in this area demonstrating almost universally positive, high rates of return for rural R&D¹⁵ that the methodological difficulties in any individual study are not sufficient to undermine or refute the conclusions consistently drawn from the existing body of work. The considerable and overwhelming body of evidence available from academic and RDC *ex post* evaluations means that it is not valid for the Commission to disregard this body of work and instead rely upon “a range of largely qualitative evidence to assess whether current government support for the RDCs is reasonable”¹⁶, and then recommend Government funding to the RDCs be cut.

b) **Balance between public and private benefits**

One of the principle rationales for government funding of the rural RDCs is to address instances of under-investment in rural R&D by the private sector arising as a result of spillovers – in particular positive spillovers (benefits) that accrue to third parties. As noted by the Commission, the spillover benefits from rural R&D mean that, without government intervention¹⁷, there would almost certainly be under-investment in rural R&D from the community’s point of view¹⁸. The RDC co-investment model facilitates joint investment by industry and government in rural R&D, which in turn benefits producers, businesses in the industry value chain, and the wider community. The issue then is how to achieve a level of investment in the RDCs from each stakeholder which is balanced in a way that reflects the benefits they are likely to receive from R&D.

¹⁴ CRRDC, sub.128, p.18

¹⁵ e.g. consider Alston *et al.*’s (2000) meta-analysis, which included approximately 1,800 observations but only reported about 10 instances of small negative rates of return.

¹⁶ PC (2010), p.159

¹⁷ e.g. intellectual property rights, industry-wide levies, regulatory reform and public funding

¹⁸ PC (2010), p.53

There is a body of research that has examined this balance for rural R&D in Australia generally¹⁹ and RDC's specifically²⁰. Looking at the RDC results, the CRRDC analysis found that the estimated benefits from RDC-funded research were almost equally distributed between industry and the community²¹, while analyses of GRDC's outcomes find that the benefits arising from GRDC's research portfolio are proportionate to the funds contributed by government and industry²². The results of the empirical studies provide no evidence to suggest the current funding balance should be varied in either direction.

However, once again the Commission arrived at a conclusion inconsistent with the evidence: *i.e.* the funding contributions from the Australian Government for the industry-specific RDCs (except for the Fisheries RDC) should be reduced²³.

Arguments put forward by the Commission in an attempt to justify their spurious conclusion include:

- The RDCs have their portfolio balance wrong: *i.e.* "much of the R&D sponsored by the RDCs is applied work ostensibly directed at increasing productivity or reducing primary producers' costs. Moreover, while some of the rural R&D undertaken in Australia is 'cutting edge', much of the domestic research sensibly focuses on the adaptation of knowledge, technologies and varieties developed overseas to meet particular local requirements"²⁴.

GPA is rejects this assertion and is not alone in doing so²⁵. The available data clearly shows that the assertion is insupportable: CRRDC analyses demonstrate that this assertion is not true for the RDCs generally²⁶, and independent analysis shows it is not true for GRDC in particular²⁷.

GRDC reports that one of its primary goals is to,

achieve a balanced portfolio of projects in terms of the following parameters:

- *project type (pure basic, strategic basic, applied, experimental development, deliver outcomes of R&D in products and services to stakeholders, capacity building)*
- *delivery time of R&D outcomes (long-term projects versus short-term)*
- *probability of overall success (high-risk long shots versus lower-risk sure bets)*
- *benefit to cost ratio*
- *induced spillover benefits to the broader community.*²⁸

Investment portfolio and *ex post* analyses show that GRDC is achieving this goal.

- *Ex post* evaluations don't adequately measure environmental and social benefits, therefore caution needs to be exercised when interpreting the results. This is true, but

¹⁹ *e.g.* Gillespie (2008); and others cited by Across Agriculture, sub. 116, p. 31-32.

²⁰ CRRDC (2010); GRDC, sub. 129

²¹ CRRDC (2010)

²² GRDC, sub. 129, Appendix 3

²³ PC (2010), Draft Recommendations 6.1 and 7.1

²⁴ PC (2010), p.79

²⁵ *e.g.* Cotton Australia, sub.68, p.26; AIAST, sub. 12

²⁶ CRRDC (2010)

²⁷ GRDC sub. 129, Appendix 3.

²⁸ GRDC (2009), p.83

analysis indicates that difficulties in (i) measuring public benefits and (ii) attempting to separate them from private benefits, do not in themselves invalidate the estimates that have been generated. In fact, it is recognized in the RDC system that environmental and social benefits are routinely understated because they are hard to quantify and because reporting arrangements are primarily directed at reporting benefits to levy-payers²⁹. On this basis, it can be argued that environmental and social benefits are systematically under-valued, and this should be reflected in any analysis of the balance between public and private benefits.

- An assertion that Government has “concerns that RDCs should be spending more on cross-sectoral research and less on farm-level industry-specific research”³⁰. This is an unsupported assertion: it is not reflected in the Inquiry’s Terms of Reference; it is directly contradicted by the Commonwealth Government’s 2009 decision to cease funding Land and Water Australia (LWA; a cross-sectoral research specialist); and the Commission provided no evidence to support their assertion.
- Government support for rural R&D is more generous than in other parts of the economy. A number of submissions, including the Across Agriculture submission³¹, explored this claim. GPA supports the Across Agriculture analysis which concludes there isn’t sufficient weight in this argument to support a rebalancing of the level of public/private investment in the RDCs.

To reiterate, the results of the empirical studies provide no evidence to support the Commission’s conclusion that the current funding balance should be adjusted to reduce the Government contribution.

c) **Additionality**

At a theoretical level, in assessing what would be an appropriate balance between public and private investment within the RDC framework, the Commission takes the view that the existence of spillover-related under-investment in rural R&D (as discussed in (b), above) is not sufficient justification in itself to warrant government funding support. Rather, an additional criterion should be imposed – that of ‘additionality’. The ‘additionality’ concept is incorporated in Draft Recommendation 5.1:

The primary aim of government funding is to enhance the productivity, competitiveness and social and environmental performance of the rural sector and the welfare of the wider community by inducing socially valuable R&D that would not otherwise be undertaken³².

²⁹ CRRDC, sub. 128; GRDC, sub. 129

³⁰ PC (2010), p.79

³¹ Across Agriculture, sub. 116

³² emphasis added

That is, government will not fund research directed to public good outcomes if someone else will pay for it – be they levy-payers, private agribusinesses, international rural R&D providers, or others. In the Commission’s words, “to deliver ‘value for money’ in public expenditure, governments should seek to use funding contributions to induce socially valuable research that would otherwise not have occurred — that is, *additional R&D*”³³.

The importance of this concept to the Commission’s evaluation of the RDC model cannot be overstated: according to the Commission, “perhaps most importantly, from a public policy perspective, the key issue in assessing the performance of the RDC model is the extent to which the Government’s funding contribution has induced additional, socially valuable, rural R&D”³⁴. It is unfortunate then that the Commission’s analysis in this area has a number of shortcomings.

- The Commission used a number of individual project evaluations from part of a larger *ex post* study to demonstrate the idea that some historical RDC projects would still likely have proceeded without government funding³⁵. What this approach fails to take into account is that an additionality assessment can only effectively be made at the investment planning stage: when individual projects are competing for funding within a pool of other project proposals. An evaluation conducted in hindsight is unlikely to be able to capture whether an individual project was so compelling at the time it was given the go-ahead that it would have been funded exclusively by levy-payers, without government contribution.

GPA considers that the Commission could obtain an estimate the current level of additionality for the RDCs by undertaking an additionality analysis on the RDC’s 2011/2012 proposed new projects list.

- If it is clear that henceforth the additionality criterion is to be applied to the RDCs, it will undoubtedly be incorporated explicitly into the investment planning process. Certainly if adjustments need to be made to increase the level of additionality, GRDC has extensive lists (submitted by industry Research Advisory Committees³⁶) of possible projects from which to choose, and levy payers are sure to be more than willing to indicate those projects they would not support with their levies. The simple matter of making it clear that additionality needs to be considered at the project planning stage would help ensure that the degree of additionality required by government is achieved across the RDCs.
- While GPA understands the imperative to achieve ‘value for money’ for the taxpayer dollar, it notes that the concept of ‘additionality’ is not conducive to maintaining a sense of partnership and good-will within the context of the RDC co-investment model. The message to industry is that when it comes to R&D that will have spillover benefits to the community, government will **‘free ride’ on levy payers** as much as possible.

³³ PC (2010), p.61

³⁴ PC (2010), p.66

³⁵ PC (2010), p.81

³⁶ For South Australia, Tasmania, Victoria, New South Wales and Queensland, http://www.grdc.com.au/director/about/stakeholder_engagement/rac and for Western Australia, http://www.grdc.com.au/director/about/stakeholder_engagement/industryforums.

- ‘Free riding’ on international rural R&D is likely to be a very limited option according to the AIAST: “The assumption that we can just import the results of overseas R&D is a fallacy that should no longer be accepted. Except in the area of basic research, it is hard to find concrete examples of a simple importation of technology from overseas that could then be instantly applied on farms. Australia needs significant agricultural R&D to enable the importation of the simplest of overseas technologies and adapt it to our situation”³⁷. “The biological nature of agricultural production, ... which [means] appropriate technologies vary with changes in climate, soil types, topography, latitude, altitude, and distance from markets”³⁸, will always restrict Australia’s ability to ‘free ride’ on international rural R&D.
- In the absence of information or analysis from the Commission specific to GRDC, GPA does not accept the proposition that the overall degree of additionality attaching to the Government’s funding contribution to the GRDC has been modest. GRDC’s research portfolio has a substantial proportion of projects directed to public good objectives: considering the number of projects involved, the sizable sums of money devoted to them, and the number of unfunded projects waiting for support, it is inconceivable that grains levy payers would fund the ‘public benefit’ projects in the absence of government funds.

d) **Private investment will not cover the ~\$20m that will be lost annually to the GRDC through the reduction in the matching funding cap**

The Commission has incorrectly asserted that private investment will cover the ~\$20m that will be lost annually to the GRDC through the reduction in the matching funding cap.

- In accordance with market failure theory, grain growers will not pay for R&D when the benefits from that R&D flow to external parties. Grains levy payers understand that GRDC-funded research returns a mix of private and public benefits. Unlike the Commission though, when it comes to the matter of public benefits, grain producers accept the results of the empirical studies, *ex post* project evaluations³⁹, and GRDC investment portfolio analyses, which consistently show that GRDC-funded R&D has delivered significant public benefits from its investments. Therefore, if ~\$20m is to be cut from the GRDC annual budget, instead of levy payers picking up the cost of ‘public good’ R&D (as the Commission proposes will occur), reductions to the investment portfolio will be targeted to projects, or components of projects, primarily directed to meeting Government objectives. GRDC have demonstrated that they can effectively do this: they manage the investment portfolio to appropriately apportion their investments to account for each stakeholder’s level of investment⁴⁰.
- It is difficult to understand why grain producers would increase their level of investment in the co-funded GRDC at a time when their ‘partner’ in the RDC (Government) is withdrawing funding.

³⁷ AIAST, sub. 12, p.9

³⁸ Pardey and Alston (2010)

³⁹ CRRDC (2010); GRDC, sub.129

⁴⁰ GRDC, sub.129, Appendix 3.

- Public and private investment in rural R&D is not interchangeable since it is directed to achieving different objectives. For reasons detailed elsewhere⁴¹, private businesses in the grains value chain in Australia, and multinationals will not step in to cover the ~\$20m that will be lost annually to the GRDC through the reduction in the matching funding cap.
- GPA notes that other submissions have made the same point in relation to their RDCs⁴².

e) **The Commission has mistakenly decided that food security does not provide sufficient grounds for Commonwealth Government support of rural R&D**

As noted by the CRRDC, “rural RD&E has a range of other policy objectives — not readily measured in monetary terms — that have strategic national importance, and that form a further, strong imperative for ensuring that Australia maintains a robust rural RD&E effort”⁴³. Food security is uppermost amongst these and was listed in the Inquiry’s Terms of Reference, but the Commission dismissed it as “not provid[ing] sufficient — or possibly even good — grounds for intervention”⁴⁴. To the grains industry – producers and exporters of staple foods – the Commission’s position is indefensible.

Although the Commission argues that,

- “reduc[ing] barriers to trade and improv[ing] market access” will improve the international outlook for food security, especially for developing countries; and
- “insofar as Australia has a moral obligation to feed people in other countries, it is not a matter for rural R&D policy *per se*. Rather ... it rightly forms part of the international aid program administered by the Department of Foreign Affairs and Trade”;

it is impossible to dispute the fact that agricultural R&D results in increased food output⁴⁵. As others have argued, governments can invest in rural R&D to meet humanitarian and “moral obligations to developing nations”⁴⁶.

Uncertainty around international food security can translate into a matter of national security (in the Defence Department sense), especially if, as GRDC considered, Australia found itself in a position of having a secure food supply while other countries did not⁴⁷. A global population of 9 billion by 2050, and an increase in global demand for food, feed and fibre of 70% by 2050⁴⁸, will not allow any country to ‘opt out’ of the challenge of meeting the growth in demand for food: food security is the responsibility of every government and rural R&D is a proven measure for addressing the issue through increasing productivity.

⁴¹ e.g. Across Agriculture, sub. 116, p.45; Pardey and Alston (2010)

⁴² e.g. Corporate Agriculture Group, sub. 134; Australian Lot Feeders’ Association, sub. 19

⁴³ Council of Rural RDCs, sub. 128, p.30

⁴⁴ PC (2010), p.37

⁴⁵ Pardey (2009)

⁴⁶ NSW I&I, sub. 69, p.9; also AIAST, sub. 12; CCRDC, sub. 128, p. 6

⁴⁷ GRDC, sub. 129, p.9

⁴⁸ Piesse and Thirtle (2010)

With respect to food security for Australian citizens, the Commission states, “The food security argument is also considerably less compelling in a domestic context. Notwithstanding prolonged drought conditions in much of the country, Australia remains a net exporter of agricultural produce, with 56 per cent of all farming output sold overseas (DAFF, sub. 156). While there is variability across different industries, on the whole, the prospects of Australian food supplies ‘running out’ would appear remote”⁴⁹. Consider though:

- stem rust pathotype *Ug99*, with its devastating impact on wheat crops, and Bovine Spongiform Encephalopathy (BSE, mad cow disease) with its similarly damaging effect on beef and dairy production, as just two examples of known, potentially catastrophic, biological threats to Australian agricultural production; and also
- the increasing environmental challenges to agricultural production within Australia, including climate change, declining water availability and population increase.

Both of these points serve to demonstrate that **the Commission has been extremely shortsighted in its judgment regarding food security as a rationale for the Commonwealth Government to invest in rural R&D. Consequently, its conclusions on this topic are not a sound basis for policy development.**

In addition, failure to account for food security as a rationale for Government funding support has arguably resulted in the Commission underestimating the public benefits arising from government funded rural R&D.

f) **Producers’ contributions to R&D funding have been underestimated**

In considering funders of rural R&D in Australia, the Commission listed three main sources of private funding for rural R&D in Australia: (i) RDC levy-payers and industry-owned research organisations such as BSES Limited, the South Australian Grains Industry Trust and the Agriculture Produce Commission; (ii) large commercial farming companies such as Auscott Limited and PrimeAg; and (iii) chemical and fertilizer research companies such as BASF and Syngenta⁵⁰. However, this assessment fails to account for the substantial **in-kind contribution** producers make through the provision of land and facilities for experiments, as well as through the activities of grower groups⁵¹. Not only is this contribution significant in monetary terms⁵², it is essential to the R&D process. A large component of grains R&D needs to be undertaken ‘in the field’, and those ‘fields’ are predominantly owned by grain growers⁵³.

⁴⁹ PC (2010), p.50

⁵⁰ PC (2010), p.16

⁵¹ AIAST, sub. 12. In relation to the in-kind contribution of grower groups, consider, for example, the Birchip Cropping Group (sub. 84) and members of the CAAANZ group (e.g. the Western Australian No-tillage Farmers Association (WANTFA) and Conservation Farmers Inc.).

⁵² For example, the Cotton Australia submission (sub 68) provides the quantitative data with respect to the value of cotton grower in-kind contributions to the Cotton Catchment Communities CRC research projects.

⁵³ Note: the rationalization of publicly owned research station infrastructure across the country has accelerated under the National Primary Industries Research, Development and Extension (RD&E) Framework initiative.

In assessing the appropriate public-private balance for rural RDC funding, the in-kind contributions of producers must be explicitly taken into account, especially in view of the fact that the Commission has recommended that DAFF should track the level of implicit funding support for rural research that comes through ‘undercharging’ for research work by public research providers⁵⁴.

2) Not all RDCs are the same

In its 2007 review of public support for science and innovation, the Productivity Commission considered that “it would be appropriate to conduct an independent assessment of the relative magnitude of induced spillovers on a case-by-case basis [for each RDC] before public funding is scaled back”⁵⁵. However, the Commission:

- (i) now contends that this would be too cumbersome⁵⁶;
- (ii) explicitly dismissed the CRRDC program of *ex post* evaluations⁵⁷ as having “underlying methodological issues”⁵⁸, and did not mention the independent impact analysis commissioned by the GRDC⁵⁹ (which together, provide the best empirical information we have on the relative magnitude of induced spillovers from the RDCs); and
- (iii) makes some generic statements about differences existing between the RDCs before going on to base its conclusions on broad generalizations across all of the RDCs (except in some instances, RIRDC and FRDC).

In failing to independently assess GRDC’s situation when deciding to implement a cut to the existing cap on matching funding contributions, the Commission has undermined the accuracy and relevance of its conclusions. For instance:

- Although the Commission notes that some RDCs operate with levy-payer contributions exceeding the government contribution, they go on to base the bulk of their analysis on a 1:1 ratio for industry/government contributions. The GRDC position of a 2:1 ratio for industry/government contributions puts issues such as assessing the balance of private and public good in an entirely different light than that presented by the Commission.

Where the Commission does mention the 2:1 ratio for GRDC, it goes on to apply some perverse logic to come to the erroneous conclusion that the grains industry’s ‘additional contributions’ (over and above the 1:1 ratio), “suggest that, [without] government

This has resulted in research providers increasingly having to depend on individual growers to host (and in some instances, conduct) on-farm experiments and evaluation/demonstration trials.

⁵⁴ PC (2010), p.110 and Draft Recommendation 5.2.

⁵⁵ PC (2007), p.437; noted by PC (2010), p. 164.

⁵⁶ PC (2010), p. 164.

⁵⁷ CRRDC (2008, 2010)

⁵⁸ PC (2010), e.g. pp. 4, 68 & 164

⁵⁹ The Allen Consulting Group prepared an impact analysis framework for inclusion with GRDC’s submission to the Commission’s Inquiry: GRDC, sub. 129, Appendix 3.

funding for the RDCs, private funding contributions would likely increase”⁶⁰. GPA rejects this conclusion.

- GRDC can demonstrate that they achieve an appropriate balance of public and private benefits from their research portfolio, given the proportion of funding contributed by each of their two stakeholders. GRDC has detailed processes in place to ensure that Government and levy-payer objectives are explicitly covered as their R&D investment portfolio is developed⁶¹, and this extends to independent analysis of their investment portfolio. GRDC follows a number of well-defined, legislated reporting protocols, and they have shown that GRDC are addressing Government objectives⁶². GRDC undertake regular *ex post* project evaluations and have commissioned an independent impact analysis, and these assessments have consistently demonstrated that GRDC is delivering sufficient public good outcomes in return for the level of government investment involved.
- In the grains industry, post-farm-gate businesses do not contribute to GRDC funds (unlike some other industries). However, there is a constant demand on GRDC to fund R&D that generates benefits for stakeholders along the supply chain, and a body of research is funded to meet this demand. At a theoretical level then, spillovers accruing to this group of stakeholders should be explicitly acknowledged⁶³ and be specifically included in the ‘community benefits’ attributable to the government portion of GRDC funding. It is not apparent that the Commission has made this distinction in their analysis, instead including supply chain benefits as an ‘industry benefit’, as opposed to a ‘consumer/wider community benefit’⁶⁴. It is incorrect to assume that levy payers will fund research that will primarily benefit post-farm-gate stakeholders.
- The sheer magnitude of the GRDC’s budget does matter. One example of this is in the area of ‘capacity building’ (education). In considering the key features of the RDC model in Chapter 2 of the Draft Report, the Commission noted that some RDCs invest in education, and listed a number of examples⁶⁵. In 2008-09, GRDC spent \$2.7m on capacity building⁶⁶. To put that into context, this is approximately equivalent to the entire annual R&D budget of the two smallest RDCs⁶⁷. Coincidentally, under the Commission’s proposed regime for reducing the government’s matching funding contributions, GRDC will be facing cuts incrementing at a rate of about \$2m per annum. It is difficult to see how the Commission can justify taking an average approach to its assessment of the RDCs and their future funding arrangements when there is such a disparity in size between the RDCs.

⁶⁰ PC (2010), p.82

⁶¹ GRDC, sub. 129

⁶² Including the GRDC Strategic Plan, Annual Operational Plan, Portfolio Budget Statements and Annual Report.

⁶³ As was the case in the Allen Consulting Group Impact analysis of GRDC (GRDC, sub. 129, Appendix 3)

⁶⁴ PC (2010), p.38

⁶⁵ PC (2010), p.31

⁶⁶ GRDC (2009), p.178

⁶⁷ PC (2010), p.33

3) Some consequences of halving Government funding

The Commission has provided very little information about the consequences that are likely to arise from the proposed halving of government funding for the existing industry-specific RDCs.

- a) Recall that GRDC is facing a cut in annual revenue in the order of 16% (\$21.05m)⁶⁸.
- b) The Commission concedes that, “to the ostensibly modest extent that public funding support for the RDCs has previously induced additional research, a reduction in that support would most probably result in some long-term decline in the amount of rural R&D”⁶⁹. In reality, **the decline in the amount of grains R&D arising directly from the funding cuts will be substantial and commensurate with dollar values involved** (*i.e.* not ‘modest’ or trivial, as implied by the Commission’s statement). GPA comes to this conclusion based on empirical data – including from GRDC’s *ex post* project analyses and from the Allen Consulting Group Impact Analysis of GRDC⁷⁰. As noted earlier, this data clearly shows that the public benefits arising from GRDC’s research portfolio are proportionate to the funds contributed by government.
- c) **As a consequence of cuts to GRDC expenditure, State Governments and Universities will cut their base funding to grains research projects.**

In the rural R&D sector, RDCs provide a large proportion of the operating funds for many projects that are co-funded with research organisations such as state governments and universities⁷¹. With its annual expenditure being in the order of \$120m per annum⁷², this is particularly true for the GRDC and grains-related R&D projects. State governments in particular, traditionally provide in-kind/non-cash resources for these projects, and rely very heavily on RDC funds for operating expenses⁷³. **In the absence of operating cash from the GRDC, state agriculture departments will inevitably close entire projects, put off research staff and reallocate their base funds. Cuts to RDC funding will therefore accelerate the existing decline in funding from State and Territory governments**⁷⁴. For the grains industry and wider community, this will result in the loss of grains R&D projects to a much greater extent than indicated by the ~\$20m funding reduction proposed for GRDC under the Commission’s Draft Recommendation 7.1.

⁶⁸ Based on a five-year average of revenue data reported by GRDC in the 2009-10 *GRDC Growers’ Report*.

⁶⁹ PC (2010), p.171

⁷⁰ GRDC, sub 129

⁷¹ Core (2009); DAFWA, sub. 137; Go8, sub. 105; NSW I&I, sub. 69.

⁷² GRDC (2010a)

⁷³ AIAST, sub. 12

⁷⁴ The following references and submissions support the proposition that there has been a decline in funding (not just percentage of funding) from State and Territory Governments – Mullen (2010); Across Agriculture, sub. 116; DAFF, sub. 156; DAFWA, sub. 137; NSW I&I, sub. 69; Tas DPIPWE, sub. 148.

- d) As the Commission noted, some rural industries have not changed their levy rates since the *PIERD Act* was enacted in 1989⁷⁵. However, it would be shortsighted to conclude that this apparent inertia means that levy payers are unlikely to respond to the Government funding cut with a cut to the producer levy rate. All industries with an R&D levy “need to review and vote on new levy rates”⁷⁶ before the current Levies Regulations expire in 2016. This means that all industries (including the grains industry) will be required to consider their level of commitment to the RDC model within five years, as Government proceeds with its funding cuts.

4) Rural Research Australia

The Commission’s proposal to create Rural Research Australia (RRA) as a cross-sectoral RDC for dealing with predominantly ‘public good’ R&D issues is untenable.

- The Commission has glossed over the fact that the proposed RDC is just **another iteration of a twice failed model**. Land and Water Australia (LWA) and the Energy RDC (ERDC), each of which had similar working briefs to that proposed for RRA, both failed in the face of Commonwealth Government budgetary pressures. The Commission has not provided justification as to why a re-run of the failed model will succeed now when it has already been unsuccessful twice within the RDC system.
- There is a significant risk that the creation of RRA will end up being part of a step-wise mechanism for removing public funds from the RDC system. If RRA goes ahead according to Draft Recommendations 6.1 and 7.1, and then follows the path of LWA and the ERDC to closure, it will have effectively removed approximately \$50m of investment per year (that would otherwise have been invested in the existing industry-specific RDCs) from the RDC system.
- The critical premise underlying the Commission’s drive to create RRA is that it is possible to separate R&D that will generate public benefits from R&D that will generate private benefits. Although such a dichotomy is attractive to economic theorists because it simplifies their analysis⁷⁷, it fails as an assumption in the real world of rural R&D. Published literature and submissions to the Commission have reported repeatedly, that within rural R&D, public and private benefits are inextricably linked⁷⁸. This has also been shown to be the case within the RDC context by *ex post* project evaluations⁷⁹.
- As an alternative to creating RRA, there are other mechanisms available to increase cross-sectoral R&D activity within the current RDC framework. For instance, the RDCs have already demonstrated in a number of instances that they can deliver cross-sectoral project through collaboration⁸⁰. The Climate Change Research Strategy for Primary Industries is one such program currently underway, and the

⁷⁵ PC (2010), p.222

⁷⁶ *Ibid.*

⁷⁷ e.g. Mallawaarachchi *et al.* (2009)

⁷⁸ e.g. Alston (2010); Australian Biosecurity Cooperative Research Centre, sub. 29

⁷⁹ CRRDC (2010); GRDC, sub. 129

⁸⁰ CRRDC, sub. 128; GRDC, sub. 129

CRRDC is “examining further collaborative opportunities for cross-sectoral investment ... for example, in the area of natural resource management”⁸¹. Although this approach may need further development to meet the Commonwealth Government’s objectives on cross-sectoral rural R&D, it suggests itself as a more cost-effective strategy than developing a new RDC (*i.e.* RRA), and it delivers the added benefit of maintaining ties to industry – *i.e.* it comes with a well established pathway for the adoption and deployment of R&D outcomes through the community.

5) Options for increasing RDC funding

The approach taken by the Commission in its review of rural RDCs did not give serious attention to options for increasing RDC funding. However, examining options for increasing RDC funding is within the scope of the Inquiry’s Terms of Reference: “The review will...examine the appropriateness of current funding levels...”⁸². It is also a logical course of action considering the empirical evidence overwhelmingly shows that the level of investment in rural R&D, including through the RDCs, has not yet reached the point of diminishing returns⁸³: *i.e.* additional investment in the RDCs will return additional benefits.

At this point, GPA is not committed to any particular mechanism for increasing the RDC funding pool, but suggests the Commission explore options including those listed here:

- a) Across Agriculture⁸⁴ suggested increasing the current 0.5% GVP cap on government matching contributions.
In the context of the co-investment model, such an increase may encourage industry to raise their level of investment in response. In order to assess the likelihood of such a response by industry, the Commission could ask industry to comment.
- b) GGA⁸⁵ suggested imposing a levy for R&D on food at the retail point of sale. A similar suggestion was also raised at the Northern Grains RD&E Industry Forum in April 2010⁸⁶.
- c) DAFWA⁸⁷ proposed imposing a levy on grain trades – to provide funds to GRDC for R&D on post-farm-gate issues.

GPA suggest the Commission explore options for increasing RDC funds in view of the high returns on investment that are undeniably available to the community and industry through rural R&D.

⁸¹ CRRDC, sub. 128, p.59

⁸² <http://www.pc.gov.au/projects/inquiry/rural-research/terms-of-reference>

⁸³ *e.g.* Mullen (2010); CRRDC, sub. 128; GRDC, sub. 129

⁸⁴ Across Agriculture, sub. 116

⁸⁵ GGA, sub. 160, p.4

⁸⁶ http://www.cfi.org.au/public_documents/ForumProceedingsBook2010.pdf, p.9

⁸⁷ DAFWA, sub. 137, p.12

6) Government and industry influence in the co-investment framework

The RDC co-investment model requires individual RDCs to **balance government and industry priorities** – with the expectation being that the level of investment by both investors will be proportionately reflected in the RDC’s investment portfolio and outcomes.

This is no easy task, but **provided Government and the industry representative organisation effectively discharge their responsibilities**, the existing RDC Framework provides the necessary mechanisms for industry and government to ensure their respective needs are met.

a) Government influence

DAFF provided an overview of the mechanisms employed by the Commonwealth Government to ensure its requirements and objectives are met by the RDCs⁸⁸:

- The RDCs’ investment decisions must address the National Research Priorities, the Rural R&D Priorities, and Ministerial statements of priorities, which have been issued periodically by the Minister periodically⁸⁹.
- The RDCs’ Strategic Plans and Annual Operational Plans are developed in consultation with DAFF, and require Ministerial approval before they can be implemented.
- The RDCs must demonstrate to the Minister that they are meeting Government objectives through formal reporting structures: the Annual Report and Portfolio Budget Statements.

Unsurprisingly then (with such an array of mechanisms in force), GRDC reports that it is addressing Government priorities to an appropriate degree for the grains sector⁹⁰. It is also the industry’s experience that the Commonwealth Government has and does exert considerable influence over GRDC and its investment decisions. GPA therefore finds it impossible to accept the assertion made by the Commission that Government has behaved as a passive stakeholder with the interests of industry unduly holding sway⁹¹. Under the existing RDC framework, Government has all of the tools it requires to ensure its objectives are met. Thus, changes to the RDC model (such as the creation of RRA) are not required.

b) Industry influence

Levy-payers rely on their representative organisation(s) to ensure their requirements and objectives are met by the RDCs. representative organisations have a number of formal, legislated roles, which include

- providing advice to the Minister regarding the recommended levy rate;

⁸⁸ DAFF, sub. 156, pp.27-30.

⁸⁹ Under the *PIERD Act* the Minister has wide powers to direct the RDCs: *s143 Minister may give directions*
(1) *The Minister may give to an R&D Corporation or an R&D Council written directions as to the performance of its functions and the exercise of its powers.*

⁹⁰ GRDC (2009); GRDC, sub. 129

⁹¹ PC (2010), p.129

- providing advice to the RDC on industry priorities;
- consulting during the development of the RDC’s strategic and annual operational plans; and
- meeting with the RDC to review its Annual Report.

In the grains industry, failure of the representative organisation to discharge these responsibilities effectively and in a transparent manner has resulted in a degree of discontent. Grains levy payers have legitimately raised questions about several issues including GRDC’s administrative efficiency, communication with levy payers, and spill-over benefits – with benefits perceived to be flowing disproportionately across regions, to small volume grains crops, to cross-sector projects, and to other non-levy payers (e.g. private breeding companies; agribusiness, the community, *et cetera*)⁹². Under the existing RDC framework, a competent representative organisation has the ability to deal with issues such as these through the formal oversight processes, so changes to the RDC model are not required on this front.

The grains industry itself has acted to strengthen its capacity to provide industry oversight of the GRDC. The former representative organisation (GCA) ceased operations in September, and GPA has replaced it as the industry’s representative organisation. GPA has been established in a way that makes it directly accountable to levy payers, it has proposed transparent processes for levy payer input into defining R&D priorities, and it is not reliant on GRDC for its financial stability⁹³. These changes will improve the standard of industry oversight of GRDC, and GPA’s improved processes for levy payer engagement should result in a better relationship between GRDC and grains levy payers. With an effective representative organisation in place, GRDC will be well positioned to ensure they achieve an equitable balance between government and industry priorities and outcomes⁹⁴.

⁹² e.g. Pastoralists and Graziers Association of Western Australia (PGA), sub. 115; WA Grains Group Inc. (WAGG), sub. 61.

⁹³ i.e. GPA has been established in a way that avoids the conflict of interest the Commission noted GCA operated under (PC, 2010, p. 187). GPA is not reliant on GRDC for its operating funds: http://www.gpau.com.au/2010_09_03_Grain_Producers_Australia_Proposal.pdf (pp.18 & 19).

⁹⁴ Recall that in the grains industry the balance, based on funding, is 1/3 government and 2/3 industry; unlike the 50/50 split for many other RDCs.

Section 2. ‘Supporting changes’ proposed for the RDC model

Although the Commission has made many draft recommendations for specific ‘supporting changes’ to the RDC model, GPA’s comments on the recommendations are limited to those of particular importance to the grains industry.

- a) GPA supports the component of **Draft Recommendation 5.1** – “The Australian Government should incorporate the following high level public funding principles in all of its rural R&D policies and funding programs... The design of individual funding programs should...build in appropriately resourced mechanisms to facilitate the adoption of worthwhile research outputs”.
- b) GPA supports the component of **Draft Recommendation 8.1** – “As a condition of receiving government funding, Rural Research and Development Corporations should ... use government funding solely for R&D and related extension purposes and not for any marketing, industry representation or agri-political activities”.
- c) GPA supports the component of **Draft Recommendation 8.1** – “As a condition of receiving government funding, Rural Research and Development Corporations should ... implement board selection processes that result in boards with an appropriate balance of relevant skills and experience, rather than a balance of representative interests”. Governance best practice requires the appointment of skills-based boards, and GPA strongly supports this approach for GRDC.

GPA rejects **Draft Recommendation 8.4**, which provides for the appointment of a ‘government director’ to RDC boards. The *PIERD Act (1989)* should not be amended so that the Minister can, if requested to do so by a statutory RDC, select and appoint a single director to that RDC’s board outside of the usual nomination process. GPA rejects DR 8.4 on the basis that it:

- (i) directly contradicts the recommendations of the 2003 Uhrig Review of corporate governance, which led to the removal in 2007 of the provisions from the *PIERD Act* allowing for the government appointment of a director to an RDC board. The reasoning given in the Uhrig Review is still valid today, so there is no reason to reverse the 2007 decision to remove the government appointee provision of the *PIERD Act*.
- (ii) is unnecessary considering that RDCs can (and do) invite government observers to their board meetings.
- (iii) gives undue influence to government, which is a ‘representative interest’ in the context of DR 8.1 (above). In the interests of good governance, neither government nor industry should be allocated a dedicated seat on the GRDC board.
- (iv) seems contradictory for the Commission to recommend government reduce its investment in RDCs, but simultaneously increase government control and oversight.

- d) To the extent that it is consistent with s.15 (2) of the *PIERD Act*⁹⁵, GPA supports the component of **Draft Recommendation 8.1** – “For its part, the Australian Government should ... ensure that nominated representative bodies for each of the statutory RDCs continue to be suitably representative of the interests of the industries concerned, and not dependent on funding from the RDCs they are meant to oversight”.

The role of representative organisation in the RDC framework is essential for ensuring levy payers interests are represented and for the good governance of RDCs.

GPA recognizes that, as a representative organisation, it needs to be independent of, and at arm’s length to, GRDC if it is to fulfill its role as a representative organisation. As noted above (p.19), unlike GCA, GPA is not dependent on GRDC for its financial stability, so it is in a position to effectively discharge its responsibilities as a representative organization for the grains industry.

- e) GPA suggests that **Draft Recommendation 8.2** requires further consideration. As it stands, the recommendation proposes to remove the requirement for Ministerial approval of the Strategic and Annual Operational Plans of the industry-specific RDCs, which implies the Commission is suggesting the repeal of s.20, s.21, s.24aa, and s.26 of the *PIERD Act*. However, the existing requirements under the *PIERD Act* for Ministerial approval of RDC Strategic and Annual Operational Plans serve three functions:

(i) They contribute to the stability of the RDC model, which in turn, has encouraged agribusiness to have confidence to co-invest in research with RDCs such as GRDC.

(ii) They provide an indirect, but important ‘check and balance’ for industry representative organizations. Under the *PIERD Act*, RDCs are required to provide their Strategic Plans and Annual Operational Plans to their representative organisation at the same time as they are presented to the Minister. This gives the representative organisation an opportunity to provide feedback to the Minister before he/she approves the plans, or asks for changes. If DR 8.2 were implemented as suggested by the Commission, that avenue for industry oversight and input would be lost.

(iii) They are a direct ‘check and balance’ mechanism for the Minister – a tool for Government oversight of each of the individual RDCs.

These are important functions, which will need to be addressed through other avenues (e.g. strengthening s.29 of the *PIERD Act*) if DR 8.2 is implemented.

GPA recognizes that the GRDC has had trouble with the delay caused by the requirement for Ministerial approval of Annual Operational Plans – with the financial year and

⁹⁵ s.15 (2) of the *PIERD Act* states: “Arrangements made by an R&D Corporation under subsection (1) may provide for:

(a) the Corporation agreeing to meet travel expenses reasonably incurred by a person in connection with consultations with the Corporation; and

(b) subject to written guidelines given to the Corporation by the Minister, the Corporation agreeing to meet expenses (other than travel expenses) reasonably incurred by a representative organisation of the Corporation, or a member of a representative organisation of the Corporation, in connection with consultations with the Corporation.

planting cycle being out of synch⁹⁶. However, GPA is of the view that GRDC and the Minister should be able to negotiate a solution to this problem – without necessarily removing the checks and balances afforded by the *PIERD Act*, with its requirement for Ministerial approval of RDC Strategic Plans and Annual Operational Plans.

On a related matter, **Draft Recommendation 8.6** suggests that RDCs undergo performance reviews every three years, and the “review reports should be provided to the Minister for Agriculture, Fisheries and Forestry — along with proposed actions to address any identified performance deficiencies — and then be made publicly available”. GPA suggests that the proposed provision should be consistent with the similar, existing provisions in the *PIERD Act*⁹⁷, which specify that the President of the representative organisation receives a copy of the report at the same time as the Minister.

- f) GPA rejects **Draft Recommendation 8.3**, which proposes to allow statutory RDCs to take on industry-funded marketing functions.
- Marketing is an extremely contentious issue – especially in the grains industry. It would be difficult territory for the GRDC to enter as a statutory authority:
 - the lack of direct accountability of the statutory authority to levy payers is undesirable and would be unacceptable to levy payers.
 - the marketing-related demands on the RDC could easily overshadow the R&E component.
 - extreme care would need to be taken to avoid the RDC being seen as engaging in agri-political activities.
 - Under the existing framework, Statutory authorities can be converted into Industry Owned Corporations if industry requires them to engage in marketing functions. Therefore, DR 8.3 is unnecessary.

The Commission made a formal request for information: *“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.”*

As stated above, GPA rejects DR 8.3. In response to the Commission’s request for information, GPA adds the following comments:

- R&D and marketing levies should be separate. The efficiencies to be gained by the implementation of a single levy would not outweigh the risk of marketing funds being increased over time at the expense of R&D funds.
- Variation in the allocation of funds between R&D and marketing should require the approval of levy payers.

- g) According to **Draft Recommendation 8.3**, a decision as to whether industry representation should be a generally allowable RDC function would be deferred until the

⁹⁶ PC (2010), p.180; GRDC sub. 129

⁹⁷ e.g. s.20 (4) and s.26 (7) *PIERD Act*.

next RDC review. GPA's position is that industry representation should not be a generally allowable RDC function for the statutory RDCs:

- Under its existing structure, GRDC is not representative of levy payers. Although it may consult with levy payers, individually or collectively, it is not currently directly accountable to them.
- RDCs operate on the basis that they are not to engage in agri-political activities. 'Industry Representation' is inherently agri-political and so should not be an allowable function for GRDC.

The statutory funding agreement for Australian Wool Innovation contains provisions that explicitly prohibit it from promoting itself as an industry representative body. The *PIERD Act* should be amended to incorporate similar provisions so that statutory RDCs such as GRDC understand the limits very clearly, and don't exceed their authority.

- h) GPA supports **Draft Recommendation 9.1**, which proposes the abolition of product-specific maximum levy rates.
- i) GPA supports **Draft Recommendations 9.2 and 9.3**, which aim to streamline those parts of the levy principles and guidelines dealing with changes to levy rates, as well as introduce suggested time limits for departmental responses for implementing levy proposals that comply with the relevant requirements.
- j) GPA conditionally supports the Draft Recommendations that will increase the provision of information (**DR 5.2**) and impose additional reporting obligations on the RDCs (**DR 8.1, 8.5, 8.6 & 8.7**). Conditional support is given on the proviso that the additional administrative burden arising from these Draft Recommendations will lead to improved RD&E outcomes, RDC governance, administrative efficiency and/or policy development. GPA is concerned that, when read collectively, the Commission's Draft Recommendations significantly increase the administrative burden associated with the RDC model. Leaving aside RRA (which in itself would require the establishment of a new stand-alone RDC administration), all of the individual RDCs, CRRDC and DAFF would see their administrative obligations and costs rise under the proposed recommendations. Considering the existing mechanisms, which already apply to RDCs, it is difficult to see that the proposed changes will substantially improve outcomes relative to costs.
- k) Producers' in-kind funding for rural R&D should be included in the data assembled under **DR 5.2 and 8.5** (as discussed in section 1 f), above).
- l) GPA supports the Commission's conclusion, "that it would be inappropriate to amend the *PIERD Act* to remove the role of nominated representative organisations"⁹⁸. As discussed above (pp.18 & 19), nominated representative organisations have a fundamental, legislated role, which is essential for ensuring RDC's are accountable to levy payers.

⁹⁸ PC (2010), p.188

List of acronyms and abbreviations

A3P	Australian Plantation Products and Paper Industry Council
IAAST	Australian Institute of Agricultural Science and Technology
CAAANZ	Conservation Agriculture Alliance of Australia and New Zealand
CRRDC	Council of Rural Research and Development Corporations
DAFF	Australian Government Department of Agriculture, Fisheries and Forestry
DAFWA	Department of Food and Agriculture Western Australia
DPI Victoria	Department of Primary Industries Victoria
DR	Draft Recommendation
FRDC	Fisheries Research and Development Corporation
GCA	Grains Council of Australia
GGA	Grain Growers' Association
Go8	Group of Eight (coalition of leading Australian universities)
GPA	Grain Producers Australia Limited
GRDC	Grains Research and Development Corporation
NSW FA	New South Wales Farmers' Association
NSW I&I	New South Wales Department of Industry and Investment
PGA	Pastoralists and Graziers Association of Western Australia
<i>PIERD Act</i>	<i>Primary Industries and Energy Research and Development Act 1989</i>
R&D	research and development, including extension
RDC	Research and Development Corporation
RIRDC	Rural Industries Research and Development Corporation
RRA	Rural Research Australia
Tas DPIPWE	Tasmanian Department of Primary Industries, Parks, Water and Environment (DPIPWE)

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