

Submission to

The PRODUCTIVITY COMMISSION DRAFT REPORT ON RESEARCH AND DEVELOPMENT CORPORATIONS

26TH November 2010

Riverina Citrus :

Riverina Citrus (RC) is a statutory authority with powers and functions regulated by the NSW Agricultural Industry Services Act 1998. There are 432 registered citrus growers with approximately 550 farms covering 8500 hectares in the Hillston, Griffith, Leeton and Narranderra regions of southern NSW. Riverina citrus growers produce about one-third of the national crop and two-thirds of juice production. The farm gate value is \$75 million and value added rises to \$500 million. It is the largest citrus growing region in Australia.

Through its Regulation, Riverina Citrus collects a compulsory levy that is used to fund marketing, policy development, market access initiatives, communication, Old Fruit Fly control and support Research and Development. The R&D projects can be funded directly by RC or by projects managed through Horticulture Australia Limited, usually on voluntary contribution (VC) basis where costs are shared (58% Industry and 42% HAL).

Comments :

Riverina Citrus is strongly of the view that the removal of HAL with its financial contribution, corporate history and administrative role would seriously diminish the level of R&D undertaken in horticulture. The NSW Department of Agriculture (now Industry and Investment New South Wales) has drastically curtailed its R&D and extension effort. CSIRO has reduced its commitment to horticultural R&D.

While there is much to agree with in the Draft Report of the Productivity Commission (PC) on Research and Development Corporations (RDCs), Riverina Citrus has some major concerns with the recommendations in the Draft Report.

Two matters are elaborated in this submission.

- Riverina Citrus disagrees with the proposal to halve the matching levy, and
- Riverina Citrus suggests that the proposed new RDC, Rural Research Australia (RRA), will not be as effective as existing arrangements.

In both cases, Riverina Citrus relies in part on arguments presented by the PC in its Draft Report.

In essence, the draft recommendation by the PC that the matching levy should be gradually reduced rests on the claim at page xiv and elsewhere that 'a significant

proportion of the Government's funding contribution appears to have supported R&D that primary producers would have had sound financial reasons to fund themselves.' Put slightly differently at page xxi, the PC claim is that 'Government's funding contribution appears to have been of more limited value in buying *additional* research activity.'

The first observation of Riverina Citrus is that believing primary producers 'would have had sound financial reasons to fund [R&D] themselves' is not the same thing as *would fund R&D themselves* in the absence of the existing matching grant.

In this context Riverina Citrus refers to statements and arguments by the PC itself at pages 56-61 when the PC discusses several reasons, initially set out on page 56, 'why the levy arrangements on their own are unlikely to always encourage primary producers to invest in the socially optimal level of R&D – even where the direct benefits to producers would most likely exceed the costs.' These qualifications could be summarised as reflecting the diversity of primary producers in several dimensions such that they do in fact not share equally in the benefits of R&D or, just as importantly, perceive that this is the case. It should be noted there is significant adjustment underway in the citrus industry. In these circumstances the necessary element for commitment to R&D is stressed. That is, the benefits of R&D are in the future and many growers are uncertain about their ongoing capacity and this erodes support for industry R&D.

The experience of Riverina Citrus with its own members is that the matching Commonwealth contribution to the levy is the cement that holds the system together. Reducing the levy would put the system at risk. Whether the proposed reduced Commonwealth contribution would serve the same purpose is so far untested and deserving of more evidence and argument in the Final Report of the PC.

The proposed RRA is supposed to 'sponsor broader rural research that is likely to be under-provided by industry-specific RDCs.' Implicitly, if not close to explicitly, the activities of RRA would substitute for the now defunct Land and Water Australia (LWA) and for the funds recommended to be withdrawn from industry RDCs by reductions in Commonwealth contributions.

Appropriate questions for the PC for its Final Report includes 'how do they judge that cross-industry research is under-provided', and if it is, 'why do they assume that a new RDC-style body like RRA will be more effective than LWA'? Arguably, environmental research coordinated by an industry-based RDC, or several RDCs, would be more acceptable to primary producers in some parts of Australia than an exclusively Commonwealth funded entity. The PC should consider this proposition in its Final Report.

Riverina Citrus note that the PC endorsed in its Draft Report many aspects of the current operations of RDCs, especially the way that close links between RDCs, producer organisations and levy payers have contributed to their success. The PC also acknowledged the expertise that has accumulated in RDCs over the last twenty years and the usefulness of RDCs in integrating research between multiple rural research agencies.

If not handled carefully, RRA could put these successes at risk. The recently released Guide to the Murray-Darling Basin Plan suggests that all further institutional changes should be carefully considered. The PC would be aware the proposed water reforms by the Commonwealth Government will require improved productivity by irrigation industries to ensure their survival and growth. The capacity of our growers to adjust to these reforms and reach sustainable diversion limits, which will benefit all of society, will be heavily influenced by industry productivity and profitability. The PC will need to have strong evidence the adoption of the RRA model will promptly improve productivity and grower capacity to adapt to less consumptive water.

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