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Re Rural Research and Development Corporations - Submission

The Commission has recognised that private and public R&D should not be mixed. However, only half-hearted recommendations were made in that regard. A strict separation with complete control and funding of the public R&D and no funding and no involvement in the private R&D by the government would eliminate the conflict of aims that exist when both types of R&D are conducted by one organisation.

Looking at the public sector R&D, one would think that it is the role of the Productivity Commission to advise on the productivity of any system that conducts the R&D and not to determine the volume of such R&D as well, especially not when the productiveness of such a system has not been quantified. Why fund public rural R&D with \$50 million, why not with 100\$ million or \$25 million? Is it not solely the task of the government to weigh up the public interest for instance in hospital beds, the war in Afghanistan etc against the public interest in rural R&D? Of course, the \$50 million are only a recommendation although an unsubstantiated one. If governments were uncertain about their policies, they would be better off to engage a polling agency rather than the Productivity Commission presenting no quantitative findings on productivity.

It has been recommended to form a new organisation (RRA) that deals with the public rural R&D. There are many already existing organisations that carry out public rural R&D. Directing the funds to these organisations would certainly be more efficient by avoiding additional administration costs.

The enormous increase of productivity in the rural sector in the last century is to put down to R&D conducted by businesses. Its results went into the rural sector in form of chemicals, machinery, fencing- and watering systems etc. This fact has been completely ignored by the Commission and no investigation has been undertaken into what could be done to strengthen the very efficient R&D from that direction.

Reading the Commission's report one gets the impression that R&D is only conducted by RDCs. What effect the only recently introduced RDCs really had on any productivity increase in the rural sector has not been established at all. Instead, the Commission based its findings almost entirely on information and opinions of the RDCs themselves. Under these circumstances, the Commission could only come to one conclusion: The existing rural RDC model is basically sound.

The rural producers in whose businesses the productivity increases supposedly occur were not involved. The two-sentence submission of great substance No 058 from a 'half-farmer' suggested that engagement. However, how can a two-sentence submission beat the many 100 pages submissions?

Just gauging the opinions of rural producers would at least have created some balance to the self-interest driven opinions of the RDCs. However, opinions are just opinions. At the time of the last wool tax poll, 18 local framers (certainly not a representative number) were questioned about their opinion. Two wanted to see the levy abolished and 16 were for a continuation at various levels. When those for the continuation were asked for a justification, not even one could name any research result from AWI that had been implemented on their farms.

An almost religious belief exists amongst some that any R&D is good. Industry R&D that does not result in an actual increase of profitability is worthless.

One would have thought the Productivity Commission as the name suggests would have investigated the productivity increases created by the RDCs and based recommendations on these results. However, obtaining quantitative results was said to be too complicated or even impossible.

It would have been possible to randomly select a number of R&D projects and obtain their costs from the respective RDC. Also randomly to select a number of levy payers and ask them whether any results from the projects had been implemented by them and if so to give an estimate of annual savings and/or output gains that resulted. The number of projects and levy payers would have to be set according to the desired certainty of the findings.

Why 'the rate of uptake of research outputs by primary producers', as recommended, should be investigated only in ten years time and has not been investigated now is a mystery.

A business that conducts its own R&D would only engage in a project that promises to increase profitability and no other measures can be seen to yield a higher return on investment. Investment decisions are made within the limits of available funds. Under the RDC model with compulsory levies, such considerations cannot be made. A levy payer might envisage a number of other measures that are far more profitable than any R&D or he might be in a position not having any funds for any investment available. He will be taxed regardless.

A need for cooperative R&D surely exists because of the size of the individual rural businesses. With some thought a communication system could be devised into which the business enter their needs for R&D projects and state what the projects if completed successfully would be worth to them. Researchers could enter suggestions as well. If a sufficient number of participants is found, the project goes ahead and will be funded by them. Progress reporting would be included in the project costs. Such a system would guarantee that all projects have an outcome leading to an increase of productivity, not regarding the risk of failure, which is inherent in all R&D. It cannot be seen why researchers could not operate for example as freelance architects do. Why funding the enormous overhead costs of RDCs?

'Free riding' and 'the limits of intellectual property' are taken as an argument for compulsory levies. As an example: 'Claimed antibacterial properties of Manuka honey' were discovered through R&D. The price of that honey has allegedly risen tenfold. The fact that everybody can feed bees of that bush and therefore no patent can be obtained is given by the Productivity Commission as an example for the need of compulsory levies. It may be pointed out that there could only be a niche market in which the tenfold-price-honey can be sold. Honey is competing against other food products and the vast majority of consumers will stay with the ordinary priced honey. This reverses the argument for compulsory levies. The few apiarists who specialise in the production of Manuka honey would become 'free riders' on the back of their industry.

'Free riding' occurs in all sectors of society not only in the rural sector and not only in R&D. Coca-Cola advertises its brew as having happiness in the bottle. Some people might seek this happiness in some bottle of unadvertised Cola. Its producer becomes a 'free rider'. Even an idea that sparks another creates 'free riding'. How many other industries have compulsory levies for R&D or advertising to prevent 'free riding'?

The results of this inquiry if implemented will have effects far beyond the humble R&D. The power of the RDCs will be further strengthened with the blessing of the Productivity Commission. With the marketing and industry representation functions, which they already widely practice they are moving into the role of industry franchisors or industry governments. The economic effects of this trend on individual participants and on productivity have not been considered at all. RDCs that cover production and processing sectors can lead and largely have already led to a complete dominance of one sector over the other meaning dominance of processors over producers. In such a situation, nothing will ever be done to improve the market position of the producers.

The report states: As submissions to this inquiry demonstrate, there is remarkably strong support for the RDC model within the rural sector. True: 97% (if counted correctly) of the 163 submissions came from people and organisations living off the rural sector, only 3% came from those who work in it.

The whole inquiry is just like an unfair debating competition where one side, the RDCs, get all the resources and the time to prepare their speeches and the other side, the rural producers, get none of that. The umpire selects the winner based on the amount and the eloquence of the words.

It is obvious that this submission is a most unproductive effort since it criticises the Commission and there is no scope for major changes after the fundamental findings are already published in the draft report. It is a little depressing to see that one had to contribute to the funding of the submissions of RNDs and has neither the funds nor the time for hundreds of pages of counterarguments.

Kind regards