



Submission  
Productivity Commission  
Draft Report  
Rural Research and Development  
Corporations

**November 2010**

## **About Growcom**

Growcom is the peak representative body for the fruit and vegetable growing industry in Queensland, providing a range of advocacy, research and industry development services. We are the only organisation in Australia to deliver services across the entire horticulture industry to businesses and organisations of all commodities, sizes and regions, as well as to associated industries in the supply chain. We are constantly in contact with growers and other horticultural business operators. As a result, we are well aware of the outlook, expectations and practical needs of our industry.

The organisation was established in 1923 as a statutory body to represent and provide services to the fruit and vegetable growing industry. As a voluntary organisation since 2003, Growcom now has grower members throughout the state and works alongside other industry organisations, local producer associations and corporate members. To provide services and networks to growers, Growcom has about thirty-five staff located in Brisbane, Bundaberg, Townsville, Toowoomba and Tully. We are a member of a number of state and national industry organisations and use these networks to promote our members' interests and to work on issues of common concern to the Queensland fruit and vegetable growing industry.

Earlier this year Growcom drafted a submission to the Productivity Commission on this issue and we are pleased that the current draft report has been prepared for further consultation and input. However, at the outset we wish to convey to the Commission our disappointment that this draft report shows a very narrow interpretation of the initial terms of reference. It would clearly be our preference if this report had allowed itself to consider more fully the global factors that will affect rural R&D into the future, such as climate change adaptation and international food security.

Reading through the draft it was also apparent that the Commission has seized on everyday expressions such as *additional research* and *value to the community* and infused these with purely economic meanings, some of which are highly contestable. In some ways this view is understandable, but again the narrow focus has diminished the overall effect of the draft report and served merely to undermine its good intentions.

There are many good intentions in the draft report - including the overall need to improve efficiency, transparency and co-ordination in the system – and we are of course happy to support these in our response.

For ease of reference our comments will follow the order of the Draft recommendations, findings and information requests as described in the

overview of the draft report (pp xxxv – xlv), however our concerns will sometimes range into other areas of the draft report as appropriate.

### **Overall spending on, and funding for, rural R&D**

Draft Finding 5.1

Draft Finding 5.2

These are reasonable conclusions and we agree that it would not be appropriate to establish a target level for overall rural RD&E expenditures, and that governments must be guided by public funding principles.

It is worth noting at this point however that, despite this initial finding, later on the draft report remains comfortable enough to prescribe the reduction of government funding by about half over ten years.

In our view these initial findings have also failed to provide an overall context for the current industry operating environment that will be driving the rural R&D research effort into the future.

This environment will be increasingly framed by global climate change and international food security, with specific Australian concerns of access to secure and reasonably priced water, the skilling of sufficient farm labour, ensuring Australian growers embrace innovation, and the long-awaited overhaul of biosecurity legislation.

So while research projects aimed at say soil technology or supply-chain logistics are important, there will be an enormous need for R&D that will provide Australians with the overall benefit of a resilient and efficient agriculture sector for many years to come. But by restricting the draft report to the limitations of the structure of the current model, rather than the essential drivers of industry, we fear that the whole exercise will overlook the fundamental needs of the rural sector.

So insofar as the findings serve to generate the recommendations, we would ask the Commission to incorporate a wider interpretation of the issues facing our rural industries, as this will more fully inform the final recommendations.

### **Public funding principles**

Draft Recommendation 5.1.

While we agree with this draft recommendation and fully endorse the funding principles, Growcom nonetheless remains concerned at some of the assumptions that have driven this recommendation.

The draft report claims with some confidence that “the level of additional research activity induced by the very significant Australian Government funding contribution has probably been quite modest”. (p.94).

At other times the Commission suspects there remains an element of “legacy public funding regimes” and an “entitlement mentality” amongst Rural RDCs.

Elsewhere they claim to find “too much emphasis on attempting to preserve existing industry structures”.

These assertions are not substantiated in any way. In our view they appear to be anecdotal at best, highly subjective and therefore contestable. Even given the benefit of the doubt, these findings would seem too flimsy a platform on which to build reform.

## **Framework data collection and program co-ordination**

### Draft Recommendation 5.2

Growcom is fully supportive of this recommendation as we have been concerned for some considerable time at the lack of data on the Australian horticulture industry.

As an industry representative body we are constantly obliged to provide input and industry feedback to governments and their agencies, inquiries and committees, but we are inevitably hampered by the absence of statistical data on Queensland horticulture and its linkages to the economy through the supply chain.

The research project by the Australian Farm Institute \* in mid-year came to exactly the same conclusion. Lamenting the paucity of information on which to develop workforce strategies for industry, their report stated:

Without accurate information, plans to deliver appropriate training run the risk of inadvertently misaligning education and training priorities with actual industry needs.

---

*\*Towards a Better Understanding of Current and Future Human Resource Needs of Australian Agriculture – Australian Farm Institute – June 2010.*

In other words the lack of research data is worse than useless; it's actually dangerous to industry.

These sentiments are echoed in the draft report:

the capacity to better integrate decision making across the framework is significantly hampered by the lack of robust data on how much is being spent on rural R&D, who is providing the funding and where it is being spent (p. 101).

In the case of horticulture it is likely that the problem has its source in the early days of data collection by the Australian Bureau of Statistics (ABS), when many horticulture enterprises were relatively small compared to wool and wheat, and our industry was simply classified under "agriculture n e c". This category lumped virtually the entire Australian horticulture industry in together, not accounting for seasonality, climate, location, and hundreds of other factors that affect individual commodities differently.

This has resulted in a jumble of data that has no practical application to individual commodity growers, severely impacting on our ability to contribute meaningful analysis of major policy areas such as water and natural resource management; industrial relations and skills development & training for industry.

So we would like to see this recommendation expanded. As well as assembling and maintaining robust data on rural R&D, we would like to ensure that all data-collection agencies – the Australian Bureau of Statistics (ABS), Horticulture Australia Limited (HAL), the Australian Bureau of Agriculture and Resource Economics (ABARE), and the Bureau of Rural Sciences (BRS) are talking the same language when they say "horticulture". Data collection, reporting and analysis have to be consistent across agencies.

### Draft Recommendation 5.3

Growcom acknowledges that, in a crowded and noisy marketplace rural RDCs have not excelled at self-promotion, nor have many projects achieved "cut-through" to the mainstream media in Australia.

This recommendation may facilitate an improvement in that field as well as delivering some uniformity and co-ordination, although at this time we are unable to provide further information on the form or functions of this proposed new mechanism.

## **Changes to the configuration of, and funding for, the RDC model**

Draft recommendation 6.1

Draft recommendation 7.1

While we agree that the RDC model “is not problem free”, Growcom does not believe that the findings provide enough evidence to justify such a major structural overhaul of the current model.

Growcom therefore does not support the proposed modifications to the RDC model as detailed in Draft Recommendations 6.1 and 7.1.

We believe that the cross-sector research institute, *Land and Water Australia* contributed much to the industry before it was foolishly dispatched by government in 2008. However we believe that the establishment of the new proposed RDC – *Rural Research Australia* – should only be contemplated if extra government funding is allocated.

In coming to this view we have consistently observed that the findings and assertions outlined in the draft report simply fail to support the recommendations.

In particular we note that the rationale behind the 50% reduction in government contribution to RDCs relies on many unfounded assumptions:

- Government funds do not buy additional research but rather subsidise projects that growers would have funded anyway (1.).
- RDCs conduct too many “small, short-term, low risk, research projects” (2.).
- At least some RDCs waste research effort trying to “preserve existing industry structures” (3.).

More worrying is the assumption that primary producers would fund gaps as they emerged with the withdrawal of government funding. This is a fantastically optimistic assumption, as it is highly unlikely that individual growers would be able to undertake the kinds of projects that could plug these gaps. In horticulture, these projects will only ever be undertaken within the co-contribution funding model in the existing RDC structure.

Even if primary producers would fund gaps in some circumstances, it remains a high risk strategy and, again, a rather unreliable base on which to build reform.

We believe that the required reforms can be achieved by implementing the remainder of the proposed draft recommendations.

Information request:

The establishment of RRA may be justified if it did not cannibalise funds from other specific rural RDC projects.

We would be interested in further information on funding options

### **Principles to guide the future operation of the RDC program**

Draft recommendation 8.1

We have no real issues with this recommendation but again would note that this section is informed by some very contestable assertions from the draft report that may well have led to overly prescriptive recommendations.

For example we see no real basis in the statement that : “the current arrangements involve very large subsidies for research that rural producers would often have sound financial reasons to fund themselves” (p. 169).

We would contend that even if this were true then it is not a situation unique to rural RDCs.

### **Specific changes to help give effect to the principles**

Draft recommendation 8.2  
Draft recommendation 8.4  
Draft recommendation 8.5  
Draft recommendation 8.6  
Draft recommendation 8.7

Growcom has no comment on Draft Recommendations 8.1 to 8.7

### **Levy arrangements**

Draft recommendation 9.1

Information request  
Draft recommendation 9.2  
Draft recommendation 9.3  
Draft recommendation 9.4

Draft finding 9.1  
Draft finding 9.2

Growcom supports these and any measures to encourage and expand the voluntary contribution and commodity levies would be welcomed.

### **Further review**

Draft recommendation 9.5

We would be supportive of a Review.

### **Conclusions and recommendations**

Overall we find the draft report a disappointing read on several fronts and we are hoping for some enhancements to the final report.

We believe that the initial reference to the Commission allowed a far wider examination of the issues than this draft delivered, but that the issues were examined within a very narrow focus and prescriptive definitions of value to the Australian taxpayer.

And the far wider scope of the totality of industry future operating environment will therefore be required before the Commission delivers a final report.

Horticulture has evolved specific R&D requirements that are best met by the current model, and would be sorely disadvantaged by the new proposed structure:

- Unlike rice or wheat, horticulture is fragmented - 39 distinct industries, with 70 separate commodity groups
- These separate industries are inevitably small when compared to the critical mass of say wool or meat
- The businesses are run by an overly mature workforce – average age of farmers is nearly 60 years
- The nature of the products and structure of the businesses therefore discourage investment in long-term R&D via the current taxation system



- Most commodities therefore rely on levies to raise R&D funds

Over the years we have been encouraged by the attributes of the co-investment RDC model, acknowledged in the draft report as having “important strengths” (p. xiv), has “remarkably strong support” (p. 2), and only “some shortcomings as currently configured” (p. 125).

We therefore question the draft recommendation to halve the public contribution to such a successful program.

We believe that the vast majority of reforms will be achieved without draft recommendations 6.1 and 7.1

If draft recommendations 5.1 to 5.3 are fully implemented between now and 2016, and the proposed Levy Arrangement reforms are implemented, then this would be enough to substantially improve rural R&DCs performance and boost public confidence in the rural RDC system.

---

Reference Notes: From *Productivity Commission Draft Report - Rural Research and Development Corporations*:

*(1.) However, as the model is currently configured, a significant part of the Government’s funding contribution appears to have supported R&D that primary producers would have had sound financial reasons to fund themselves.*

- *In terms of buying additional research, the Government’s contribution appears to have been of more limited value. (key findings p. xiv)*

*(2.) Second, there appears to be merit in the argument that, even in an adaptive context, Australia is investing in too many small, short-term, low-risk, research projects. By way of illustration, Horticulture Australia Limited — the second largest RDC — reported that its average project size in 2009-10 was just \$77 000. Even with smaller projects such as ‘study tours, conferences and industry annual communications excluded’, the average project size was still only \$150 000 (sub. 101, p. 20). Certainly, in its discussions with New Zealand rural R&D entities, the Commission was struck by the seemingly much greater emphasis given to larger-scale, ‘game-changing’ research in that country. (p 108)*

(3.) Even so, there are two particular areas where the Commission suspects that the current balance across the broad framework is not right. First, there sometimes appears to be too much emphasis on attempting to preserve existing industry structures — rather than helping forward-looking and innovative primary producers and rural enterprises to enhance their intrinsic competitive strengths. For example:

- *While the National Primary Industries RD&E Framework initiative seeks to consolidate funding and research delivery for each of its constituent streams, it is seemingly premised on retention of the current funding relativities between individual industry sectors. As discussed in box 5.3 later, it remains to be seen how easy it will be to adjust those funding relativities if the circumstances of particular industries change, or if new rural industries with pressing and potentially high-payoff research needs emerge.*
- *There are inherent pressures for RDCs to invest in a portfolio of projects that returns a benefit to all levy payers. One manifestation of this is the need for a degree of regional balance in RDC research portfolios (see chapter 9). However, it is also likely to require the RDCs to invest in projects that are explicitly directed at addressing the, often local and small-scale, issues of some levy payers, rather than simply targeting the more innovative producers and relying on demonstration effects to encourage uptake across the whole of an industry.*

*Meeting this requirement without undesirably skewing the project mix may not always be easy — with the Australian Superfine Wool Growers Association (sub. 9, p. 35) observing that this has been a long-term issue of debate within the wool industry. The Department of Agriculture and Food Western Australia (sub. 137, p. 12) contended that the same pressures may also lead to spending on industry sub-sectors with limited future prospects. (p.107)*