



Livestock Committee

Response to Draft Report
Of the
Productivity Commission Inquiry

Into

Rural Research and Development
Corporations

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Introduction

The Pastoralists and Graziers Association of WA (Inc) (PGA) is a non-profit industry organisation established in 1907, which represents primary producers in both the pastoral and agricultural regions in Western Australia. This organisation has a history of taking on the status quo in order to deliver real benefits to producers. Examples include lobbying to end the single desk in wheat marketing, to abolish the wool reserve price scheme, and to remove the command and control economics of the lamb marketing board. In each of these examples, vested interests and proponents of market intervention profited at the expense of producers, who paid an equal but opposite cost in lost flexibility, lost independence, lost brand identity, lost control over marketing opportunities and cross subsidisation of under performing business units and assets. The PGA is proud to have challenged those vested interests in the face of substantial opposition.

PGA and its Livestock Committee welcome the Productivity Commission's Inquiry into Rural Research and Development Corporations (RDCs).

The Livestock Committee of PGA represents progressive Western Australian meat and wool producers who believe in the benefits of competition and the reduction of government regulation within their industry. This includes freedom of choice in how, and on what, producers spend their disposable income.

However, the PGA is a "broad church" and acknowledges that the pursuit of group objectives properly managed by group members and responsive to group members can be acceptable.

Executive Summary

In response to the draft report of the Productivity Commission on their inquiry into Rural Research and Development Corporations, we make the following general comments:

1. There are only four findings;
2. Two of these relate to improving the broad framework;
3. The remaining two relate to levy and review arrangements;
4. The recommendations and findings flow from chapter 5 onwards. This assumes that the RDC model should continue to be supported and has performed adequately;
5. Despite an opportunity for change, the draft report does not address government intrusion per se;
6. The PGA anticipates more of the same;
7. The commission believes that the justifications for government intervention do not stand up to scrutiny (p53), except on the basis of spillover benefits to the wider community. **This therefore informs the commission's advice.**

Comment on Findings and Recommendations

In order to better address the findings and recommendations of the draft report, it is intended to speak to them on a chapter by chapter basis.

5. Improving the Broad Framework

Draft Finding 5.1

It would not be appropriate to establish a target level for overall spending on rural R&D – nor a target for rural R&D intensity

Draft Finding 5.2

Setting an indicative target for the share of total spending on rural R&D to be met by governments would be a blunt, and quite possibly counter-productive, approach.

The commission has previously concluded that the econometric evidence was too imprecise for calibrating funding levels (p92). Economic analysis of this scope is also beyond the ability of the PGA and therefore we accept these findings on trust.

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 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 undertaken.*
- *Public funding programs for rural R & D should:*
 - *Give appropriate recognition to non-R & D related drivers of performance improvement in the rural sector*
 - *Facilitate or at least not impede, structural adjustment in one sector*
 - *Be consistent with other policies and programs designed to improve the performance of the sector*
- *The design of individual funding programs should:*
 - *Encourage the efficient delivery of quality research outputs, including through promoting effective intra- and inter-program coordination*
 - *Build in appropriately resourced mechanisms to facilitate the adoption of worthwhile research outputs*
 - *Promote transparency and accountability in regard to program outcomes through effective governance, evaluation and reporting requirements*
 - *Promote transparency in funding flows and discourage leveraging behaviours that is administratively costly and/or designed solely to shift costs.*

The Australian Government should further:

- *Commit to regular independent review of its various rural R & D programs against these principles*
- *Through the Primary Industries Ministerial Council, seek the agreement of State and Territory Governments to incorporate the principles and the review requirement:*
 - *In all of their rural R & D policies and funding programs*
 - *In the National Primary Industries RD & E Framework Initiative.*

The PGA acknowledges that these are worthy objectives. However, it suggests that the leveraging behaviours that the commission identified above are exactly the product of competing rural RDC research proposals being driven to satisfy the pursuit of wider government objectives. Managing natural resources, food security, biosecurity, market penetration and responding to climate change are national issues and they should be researched by the nation's peak scientific bodies and not by rural RDCs.

Furthermore, the PGA suggests that recognition of non-R & D related drivers of performance improvement are not at all appropriate for a rural **Research and Development** Corporation.

Draft Recommendation 5.2

In consultation with its State and Territory Government counterparts, DAFF should establish a process for assembling and maintaining robust data on:

- *Total funding for rural R & D in Australia – including from R & D programs not specific to the rural sector, and indirectly through the charging practices of government research suppliers*
- *The respective shares of that funding provided by governments and private parties*
- *The programs and other channels through which this funding is spent, and the way in which spending is delineated across the main rural R & D provider groups.*

This is acceptable to the PGA as the commission has identified a paucity of reliable data on what is happening across the totality of the rural R & D framework (p110).

Draft Recommendation 5.3

The Australian Government should establish a mechanism to better inform and coordinate the totality of its funding for rural R&D with a view to:

- *Promoting the consistency in approaches across specific and more general Australian Government programs that provide funding for rural R & D*
- *Assisting in the identification of gaps or unnecessary overlaps in program coverage and means to address them*
- *Informing considerations of the effectiveness of overall Australian Government funding support for rural R & D*
- *Ensuring that the States and Territories and other relevant entities are fully aware of changes in Australian Government funding programs and the likely implications for other rural R & D funding arrangements.*

The PGA suggests that within the extensive body corporate of the Australian Government there already exists a suitable government entity that could readily assume this role. This would be a simple matter of leveraging off existing mechanisms. At the very least a simple 'registry of research projects' would go a long way in the first instance.

6. Should the RDC Model be Retained

The Australian Government should retain a modified Rural RDC model.

- *It should establish and fund a new RDC, 'Rural Research Australia' (RRA) to sponsor non-industry specific R&D intended to promote productive and sustainable resource use by Australia's rural sector.*
 - *RRAs remit should broadly encompass land, water and energy use, with the precise coverage of its activities determined having regard to the further input to this inquiry.*
 - *As part of that coverage decision, consideration should be given to the benefits and costs of bringing the 'national rural issues' R & D that is currently the responsibility of the Rural Industries RDC within the new entity.*
 - *However, RRAs remit should not extend to the sector specific 'public good' research undertaken by the Fisheries RDC.*
- *RRA should be created as a statutory R&D corp. under the PIERD Act 1989 (Cwlth).*
 - *It should be funded by an annual appropriation from the Australian Government under a quadrennial funding arrangement.*
 - *RRA should be able to supplement its appropriation from the Australian Government with funding from other sources, including from other RDCs*
- *Following the establishment of RRA, the other RDCs – except for the Fisheries RDC - should focus predominately on sponsoring R & D of direct benefit to their levy payers.*
- *In consequence, the funding contributions from the Australian Government for all of the existing RDCs, except for the Fisheries RDC, should be gradually reduced (see draft recommendation 7.1).*

The PGA views the proposed RRA as a replacement for “Land and Water Australia” which previously did non-industry specific R&D, but was disbanded by the previous Howard Government on mostly budgetary reasons.

Whilst the PGA agrees that RRA should be created using existing legislation and funded by an annual appropriation, it does not agree that RRA should be able to supplement its funding from other sources, including other RDCs.

This report notes on p2 that “the policy focus for rural R&D has shifted somewhat towards areas of cross-sectional interest and wider community benefit (for example addressing climate change), rather than solely on increasing industry productivity and returns to primary producers”.

It is precisely for this reason that RRA should not be able to supplement its funding from other RDCs. Producers, as taxpayers, will have already funded RRA. They should not then lose co-mingled funds to a statutory authority bearing the power of ‘national rural issues’.

If the funding contributions from the Australian Government for all of the existing RDCs are to be gradually reduced then it must be combined with a determination to sponsor R&D of direct benefit to their levy payers.

Consequently, the PGA believes that if RRA comes into existence, it should take on research into climate change, energy efficiency, battery storage, alternative fuels, etc and this research must be stopped at other RDCs.

7. Future Government Changes to the RDC Model

Draft Recommendation 7.1

The Australian Government should contribute to the cost of rural R & D sponsored by the Rural RDCs on the following basis:

- *There should be direct appropriations for the proposed new RDC, Rural Research Australia; for ‘public good’ research sponsored by the Fisheries RDC; and for ‘national rural issues’ research sponsored by the Rural Industries RDC (RIRDC), unless responsibility for this research is transferred to RRA (see draft recommendation 6.1).*
- *The appropriation for RRA should be progressively increased over 5 years to around \$50 million a year, with additional funding provided for any research responsibilities transferred to the new entity from other programs (see draft recommendation 6.1).*
- *The Australian Government should continue to link its funding for the industry-specific RDCs to contributions made by the industries concerned.*
 - *However, the cap on matching contributions for all statutory levies should be reduced from 0.5% to 0.25% of an industry’ gross value of production (GVP). This reduction should be phased in over 10 years with the cap reducing by 0.025 per cent of GVP each year during this period.*
 - *The appropriation for RIRDC should allow it to continue to match voluntary industry contributions at the current level.*

The PGA approves of the commission’s recommendation to continue to contribute to the cost of rural R & D. The PGA acknowledges the commission’s view expressed on pXXI of the report which says “in helping to address potential under investment in rural R&D, the levy arrangements rather than the funding contributions from the Gov. have been the most critical factor.”

However, we insist that the remaining government co-funding be invested in the core function of supporting improvements in private rural production to increase productivity and provide a return to producers from their tax paid to the government.

There should be no strings attached to this reduced level of matching government funding that would result in them being used for politicised, “flavour of the month” investment.

8. Supporting Changes to the RDC Model

Draft Recommendation 8.1

As a condition of receiving government funding, Rural RDCs should:

- *Invest in a balanced project portfolio that includes longer-term, riskier and potentially higher-reward research, as well as short-term, low risk, and adaptive research*
- *Have in place effective processes to ensure timely adoption of research results*
- *Use government funding solely for R & D and related extension activities and not for any marketing, industry representation or agri-political activities.*
- *Promote effective communication with industry stakeholders, researchers and the Australian Government*
- *Publish information on the outcomes of all completed research projects in a timely manner*
- *Implement board selection processes that result in boards with an appropriate balance of relevant skills and experience, rather than a balance of representative interests*
- *Pursue on-going improvements in administrative efficiency*
- *Undertake rigorous and regular ex ante and ex post project evaluation*
- *Participate in regular and transparent independent performance reviews.*
- *Remedy identified performance problems in an effective and timely manner.*

For its part the Australian Government should:

- *Engage openly and constructively with RDCs and their industry stakeholders*
- *Discharge its administrative responsibilities in relation to the RDC program in a timely and efficient fashion*
- *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 oversee*
- *Monitor the RDCs' performance in a way that will enable transparent assessment of the outcomes of the program as a whole, and identification of specific performance problems*
- *Effectively communicate with RDCs in regard to opportunities to improve performance, and take prompt and appropriate action if performance problems are not satisfactorily addressed.*

The PGA believes that no funding, government or not, should be used for any marketing, industry representation or agri-political activities.

The commission comments that short of withdrawing co-funding, the Government has few, if any, effective sanctions to address an under-performing Rural RDC. It also comments on the damage in confidence in the Rural RDCs caused by the on-going concerns about the performance of AWI (p177).

The PGA believes that past experience has shown there is a compelling case for special protection of levy payers through access to a grievance mechanism such as the ombudsman or a standing committee of the federal parliament. The PIERD Act could make reference to this so that it is legislatively enforceable.

The PGA also notes that the commission says there would be a compelling case to withdraw government funding to AWI if the next 3 yearly review finds that the problems have not been satisfactorily addressed (p177). If this is the case then the

ultimate sanction of withdrawing government funding may be appropriate, and only requires the political will to do so.

Draft Recommendation 8.2

Consistent with the overarching public funding principles for the rural R & D framework (see draft recommendation 5.1), the legislation and statutory funding agreements for Rural RDCs should indicate that the ultimate objective of the public funding they receive is to induce socially worthwhile rural R&D that would not otherwise be undertaken.

With that guidance and the RDC specific principles (see draft recommendation 8.1) in place, requirements for ministerial involvement in priority setting and approving RDCs plans should be removed, except for the Fisheries RDC and Rural research Australia.

The PGA sees no need for the federal MAFF to continue to approve strategic and operating plans for statutory RDCs, if the correct corporate governance regime is maintained by the Australian Government.

Draft Recommendation 8.3

The Primary Industries and Energy Research and Development Act 1989 (Cwlth) should be amended so that statutory Rural RDCs can add marketing to their functions, where this is supported by the majority of levy payers and approved by the MAFF. The amendments should ensure that government contributions to any RDC that takes on marketing functions are only used to fund R&D, as defined in the Act.

The case for making industry representation a generally allowable function for any RDC - statutory or industry owned - should be considered as part of the proposed future review of the new RDC arrangements (see draft recommendation 9.5). In the interim, the two RDCs that already have an industry-representation role – the Australian Egg Corporation and Australian Pork Limited – should be allowed to maintain that function.

The PGA reiterates that no funding, government or not, should be used for any marketing, which can also conceal industry representation or agri-political activities. The PGA points out that this recommendation protects and quarantines government funding from non R & D activities that have proven contentious in the past, such as marketing and industry representation, but offers no such protection to levy funding.

Draft Recommendation 8.4

Provision should be made in statutory funding agreements for the Australian Government to appoint a director to the board of an industry owned Rural RDC where that RDC requests such an appointment in order to complement existing board skills and improve dialogue with the Government. This director should not be a current Commonwealth public servant, but should have experience in, and knowledge of, government policy processes and public administration.

For the same purpose, the PIERD act should be amended so that the Government can, if requested to do so by a statutory RDC, select and appoint a single director to that RDCs board outside of the usual nomination process. Such a director could be, though need not be, a current Commonwealth public servant.

The PGA accepts this recommendation as a good will effort to improve board selection of skills, and therefore performance. The PGA notes that its implementation would be by request.

However, the PGA believes that if rural RDCs confine their research activities to provide direct on-farm benefit to their levy payers, and these research projects are properly managed by skilled specialists, then board selection processes could simply favour producers.

Draft Recommendations 8.5, 8.6 and 8.7

The PGA chooses not to specifically comment on these recommendations, as they follow naturally from good public administration that is transparent, accountable, fair and responsive.

However, the PGA believes that RDCs should be accountable to the levy payers and not to the Government and notes that good public administration is invariably expensive public administration.

9. Levy and Review Arrangements

Draft Recommendation 9.1

Product specific maximum levy rates should be removed from schedules 1 to 26 to the Primary Industries (Excise) Levies Act 1999 (Cwlth).

This is accompanied by the following comment that;

“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 & Development Corp (see draft recommendation 8.3) to vary the allocation of funds between R&D and marketing without seeking the formal approval of levy payers.”

The PGA believes that marketing should exist totally post-farm in a commercial setting. Competition in a deregulated agricultural market is already dramatically improving trade.

By its very nature, the principal purpose of a Rural R&D Corporation is research. There is no scope to vary the allocation of levy funds in favour of marketing without seeking the formal approval of levy payers.

However, this Act was passed to provide some small measure of protection against RDCs changing the mix between industry research and industry marketing without proper approval from the people paying the monies.

Draft Recommendation 9.2

The Australian Government DAFF should revise the Levy Principles and Guidelines document to ensure that the costs for an industry of seeking a change to a levy are commensurate with the magnitude of the proposed change.

Draft Recommendation 9.3

An indicative time limit of six months should be introduced for the implementation of new levies, and changes to the rules of existing levies following receipt of a complying proposal. As part of its annual monitoring report on the overall Rural Research and Development Corporation program (see draft recommendation 8.7), the Australian Government DAFF should report on its performance against this requirement, and where the requirement has not been met, indicate the reasons for this.

Draft Recommendation 9.4

The Levies Revenue Service should routinely monitor its performance and the costs of collecting levies, and promptly communicate the results of that monitoring – along with details of any proposed changes to its procedures or cost allocation protocols – to stakeholders.

The PGA acknowledges these recommendations as government housekeeping and would hope they are part of everyday government business policy.

Draft Finding 9.1

R&D levies on processors should not be extended beyond their current application.

The PGA agrees with the commission's comments on pp 233 & 234 that if processors paid levies, then this cost would be passed back to producers. However, the PGA notes that due to a quirk of history, fell-mongered wool is not considered to be shorn wool for the purposes of levy collection.

This allows sheep meat processors a windfall benefit, in that not only do they benefit from producer funded productivity increases in sheep meat carcass weights and eating quality, they do not pay any levies on the wool by-product from skins.

Draft Finding 9.2

Rural Research and Development Corporations (RDCs) should continue to recognise and cater for differing regional research needs. However, RDCs should not be required to more precisely calibrate the expected regional distribution of the benefits of their project portfolios with the regional distribution of levy payments. Similarly, in determining the regional spread of their spending with research suppliers, RDCs should be cognisant of the intent of the National Primary Industries RD&E Framework.

A major concern of most levy payers is the regional distribution of benefits from levy contributions.

The commission agrees that a serious imbalance in the regional distribution of benefits would be a problem. It could lead producers to vote to reduce or discontinue levy payments.

Although the commission has not seen any evidence that the current regional distribution of benefits from RDC research is seriously unbalanced (p237), the PGA believes that the spending of monies on specific commodity research should be in proportion to contributions by that commodity. This should ensure that those producers who shoulder a larger burden of levy payments through being most productive will be rewarded by research in their area of production.

Draft Recommendation 9.5

At the end of the 10 year phase-in period for any new arrangements governing the funding and operation of the Rural Research and Development corporations, there should be a further independent and public review. Amongst other things, that review should examine:

- *The impact of the new arrangements on the overall level and mix of R & D sponsored by the RDCs, the rate of uptake of research outputs by primary producers, and the resulting benefits for the community*
- *The extent to which the new arrangements, and specially the establishment of Rural Research Australia, have helped to increase the amount of additional, socially valuable R & D induced by the Government's funding contribution to the RDC program*
- *The effectiveness of the proposed new mechanism for coordinating Australian Government funding for rural R & D*
- *The case for making industry representation a generally allowable function for any RDC*
- *The arguments for and against continuing to provide government contributions for levies paid by processors*
- *The effectiveness of the statutory levy rate review requirements in helping to ensure that rates remain contemporary to an industry's R & D needs*
- *The implications of changes in the wider rural R & D framework for the RDC arrangements.*

The PGA concurs that re-visiting the new arrangements is a reasonable suggestion. However, the PGA points out that the commission has already determined the answer to arguments both for and against continuing to provide government funding for rural R & D.

The PGA also does not see the need to examine the case for making industry representation a generally allowable function. Producers do have access to many and varied voluntary organisations, associations and interest groups to represent them. Wise producers join these groups to provide an advocacy service for them.