

Response by the National Farmers Federation to the Productivity Commission Draft Report on Rural Research and Development Corporations.

Executive Summary

The National Farmers Federation is adamant that research and development plays a vital role in driving innovation in the Agricultural industries, and is pleased to note that the Productivity Commission has recognized the important role that the Rural Research and Development Corporations play in improving the productivity and sustainability of agricultural industries. The draft report makes a number of recommendations which may assist in improving the operation of these important institutions.

The NFF does not support a reduction in the Government's co-funding contribution to rural research and development. The NFF is strongly of the view that funding for rural research and development should increase because of the high returns generated from the research. Whilst the NFF recognises the logic of establishing Rural Research Australia to fund public good research which is 'additional' to industry focussed research, we have significant reservations regarding the proposal to establish a new organisation to undertake this role.

By restricting its analysis to focus on the efficiency of government funding through the Rural Research and Development Corporations the NFF believes that the Productivity Commission has fallen short of delivering policy recommendations that can shape Australia's rural research and development system to ensure agricultural industries innovate to meet future challenges.

The NFF believes that its narrow focus is a significant weakness of the draft report, but which can be addressed through the development of a whole-of-government strategy for rural innovation, developed in partnership with industry. A strategy for rural innovation would assist to:

- Establish a clear vision and direction for Australia's rural innovation system;
- Provide clarity on government and industry expectations and priorities for research and development outcomes;
- Clearly identify stakeholders and agencies with responsibilities for leadership, decision making and coordination;
- Ensure that data on funding and performance is collected across the rural innovation system, and there is consistency in reporting on performance and against objectives;
- Build on the strengths of existing organisations and initiatives identified in the draft report, including the Rural Research and Development Corporations as well as the work of the PISC National R,D&E Framework, the Rural Research and Development Council

Introduction

The NFF is adamant that research and development plays a vital role in driving innovation in the Agricultural industries. Research and development has played a significant role in providing the tools for agricultural industries as they responded to past challenges, as well as preparing current industries for the emerging challenges of the future, including water scarcity, managing energy and carbon, adapting and managing climate variability and climate change, and responding to public expectations around food production; food production systems; and delivering environmental services.

The NFF is pleased to note that the Productivity Commission recognizes the important role that Rural Research and Development plays in improving the productivity and competitiveness of agricultural industries. We also note that the Productivity Commission supports the unique and important role played by the Rural Research and Development Corporations, particularly in their capacity linking primary producers with researchers to drive research and development priority setting, which both improves the uptake of research and provides a reality check on the R&D investment made.

In many ways the draft report is a positive contribution to the debate on Rural Research and Development, and highlights a range of opportunities to improve the governance and operation of the Rural Research and Development Corporations. The work currently underway to improve efficiencies, coordination and governance of these organisations, through the Council of Rural Research and Development Corporations should be continued as a priority. The NFF does not support the proposal to reduce the Government's cofunding contribution, and whilst the NFF recognises the logic of establishing Rural Research Australia it has significant reservations in implementing the proposal to establish this new organisation.

By highlighting the lack of connection between the policy and funding framework of the RDCs and other areas of Government innovation policy, the draft report has served to highlight the logic of NFF's call for a National Food Strategy and a national cross-government research plan to deliver against this strategy. The NFF continues to call for a shared vision from industry and government for food and fibre production, and a national, cross-government, strategy for research and development to underpin this vision. To achieve this vision will require a whole-of-government approach to research and development –beyond just the RDCs.

As observed in the draft report, a significant decrease in Government funding for Rural Research and Development Corporations is likely to have unintended consequences. The draft report acknowledges that the implications of recent changes to CRC arrangements and decline in State and Territory funding for rural research and development is not clear. The draft report does not provide strong evidence that a decrease in the government contribution the Rural Research and Development Corporations would be offset by an increase in levies by agricultural industries. The draft report has not sought to examine how the investment behaviour of CSIRO, CRCs, Universities as well as the States and Territories may change as a consequence of reduced co-investment by the Rural Research and Development Corporations. The NFF believes these are significant weaknesses of the draft report, which can only be addressed by taking a broader perspective on rural research and development and with improved data.

Scope of the draft report

By restricting its analysis to a narrow review of the efficiency of government funding through the Rural Research and Development Corporations the Productivity Commission has fallen short of delivering policy recommendations that can shape Australia's rural research and development system to assist agricultural industries generate innovation to meet future challenges.

The narrow scope of the Productivity Commission's inquiry falls short of our expectations, and we believe that it falls short of the broader expectations and needs of government and industry. We note that the agreement between the Australian Labor Party and the Independent Members (Annex

B Section 4.5 Regional Agriculture; Regional Agricultural Innovation¹) includes reference to the expectation that the Productivity Commission Report would examine Australia's Aid commitments in Agriculture, through ACIAR, as part of its report. The Productivity Commission's draft report has fallen well short of this.

On the 22nd of September 2010 Australia's Foreign Minister announced at the UN General Assembly that "across our entire overseas development assistance program, Australia expects between now and 2015 to allocate... \$1.8 billion to food security"². Without examining how Rural Research and Development Corporations compliment the work of ACIAR and other investors in rural research and development, as well as a broader examination of policy to encourage the rural research and development effort, there are significant gaps in the Productivity Commission's consideration and consequent recommendations.

Over time the range of organisations which invest in rural research and development, and their respective motivations for investing in rural research and development, have become more complex. The NFF believes that perpetuating a 'silo approach' to rural research and development by focussing on the Rural Research and Development Corporations is poor policy, and will not improve the overall efficiency or level of investment (including both private and public investment) in rural research and development. We believe that this approach will not maximise the benefits from the investment in rural research and development because it ignores the interests and roles of this broader group of stakeholders and investors.

A key finding of the 2009 Review of the National Innovation System related to Rural Research and Development (Annex 11)³ was that the Australian Government should develop a rural innovation strategy as a matter of priority. This finding is still to be acted upon. The NFF believes that the Productivity Commission should recommend the development of a Rural Innovation Strategy, which delivers against a National Food Strategy, and that this Rural Innovation Strategy should form a key recommendation of its final report. A Rural Innovation Strategy would provide a mechanism for coordinating government activity in rural research and development and identify appropriate decision making and coordination roles; identify and provide clarity as to the stakeholders and institutions and their roles and responsibilities; and clarify the different groups of investors across government as well as the private sector and their respective interests and motivations.

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

The NFF notes that a key focus of the Productivity Commission's recommendations has been on government investment in rural research and development through the Rural Research and Development Corporations. The activities of the Rural Research and Development Corporations represent only part of the Innovation System that supports the agricultural industries and the management of natural resources by Australia's farmers. Australia needs a policy that addresses rural innovation as a whole, not dealing with it piece by piece or recommendations on individual parts of the rural innovation system.

The Productivity Commission has observed that changes to funding by the States and Territories and by DIISR, through changes to the CRC guidelines, are having an impact on rural research and

¹ <http://alp.org.au/getattachment/293a73cf-a0d7-46b4-a3ea-7ab7a3773f8f/government-agreements/>

² http://www.foreignminister.gov.au/speeches/2010/kr_sp_100922.html

³ <http://www.innovation.gov.au/innovationreview/Documents/Annex-11.pdf>

development and the consequences of these decisions are unknown. However, the Productivity Commission has recommended reductions in funding, despite recognizing that there is not the data to establish benchmarks for current investment.

Significant challenges exist for Australian agriculture. Delivering better quality and more competitively priced food and improved environmental and animal welfare outcomes, whilst addressing challenges such as implementation of a Murray Darling Basin Plan, responding to climate variability and climate change, dealing with emerging biosecurity threats and adapting to energy and resource scarcity mean that there will be greater demands for innovation in agriculture. The capacity for rural research and development to make a significant contribution to these challenges, which have far reaching implications for all Australians, is evident from the high returns identified from past research through the various published studies on return on investment from rural research and development. The challenge is to make sure the agricultural innovation system works; the research effort is maintained; and the system can deliver the innovation required and encourage further investment - not reduce funding to what is recognized as an effective program.

The draft report asserts that farmers will invest to make up any shortfall that results from the withdrawal of government funding, in recognition of the high returns delivered by research and development. As the Productivity Commission has recognized in the draft report, Australian consumers have benefitted from the research through better quality and lower price food and improved environmental and animal welfare outcomes. Unfortunately Australian farmers have found that consumers are often unwilling to pay for these benefits; that benefits are captured along the food value chain; or the benefits have been delivered by farmers as a consequence of the demands of regulation. The capacity of farmers in different industries to directly realise the gains from research will vary, and decisions of farmers to increase levies will also vary in light of business risk including markets, rising business costs and poor seasons. In light of this market failure it is appropriate for Government to continue to invest in rural research and development. Indeed, the NFF suggests, along with a number of other contributors to the Productivity Commission's Review, that public investment in rural research and development should increase.

The Productivity Commission has disregarded the unintended consequences of its recommendations to Australia's national capacity to innovate and facilitate adaptation and change in the Agricultural industries. Reduced funding will result in fewer public benefits flowing from research; have consequences for the science workforce undertaking research to the environment as well as to industry; have consequences for young scientists seeking to enter the workforce; have implications for Australia's capacity to deliver against international aid commitments; and send poor messages to the Australian community about the commitment of Government to address the environmental and social challenges which Australia is facing. The NFF asserts that Government policymakers should work with the various agricultural industries to understand these issues and motivations before making sweeping policy recommendations.

The NFF has continued to call for government to work with industry to establish a "silicon-valley" for agricultural research which can address the challenges for Australian and global agricultural industries. Given the complexity of the agricultural innovation system and the scope of the challenges faced, it makes no sense to adopt a piece meal approach of cuts and 'tinkering'.

Public funding principles

The NFF supports greater transparency in the expectations of public funding for rural research and development. At present the Rural Research and Development Priorities and the National Research Priorities are applied across the investment portfolios managed by the Rural Research and Development Corporations. Whilst these priorities exist and have been agreed, there has been a lack of clarity in government expectations which has created uncertainty in industry as to what the Government is looking for from its investment partnership through the Rural Research and Development Corporations.

Due to the long term nature of research and the lead time in delivering research outcomes, it is important that there is continuity in the principles underpinning government investment in rural research. It is also important that mechanisms for measuring performance against these principles are transparent and robust. For this reason Ministerial involvement in priority setting should be avoided as it may tend to a more short term, reactive framework for priority setting.

The NFF has significant concerns regarding the assumptions applied by the Productivity Commission on 'additionality' being an underpinning principle for government investment in research. This argument has been pursued by the Productivity Commission to the exclusion of other considerations, and also suggests that the Productivity Commission has not clearly recognised how the Rural Research and Development Corporations operate to deliver public good outcomes through the agricultural industries. For innovations which deliver public benefit to be adopted by farmers, in the absence of functioning markets for biodiversity or carbon, Rural Research and Development Corporations seek to integrate the delivery of research outcomes – often described as win-win situations – so that recommended practises with private benefit also incorporate public benefits. Without this approach 'additional' research is likely to 'sit on the shelf' and return little value to the Australian public. Indeed, this lack of linkage to industry is a significant weakness in the proposal to establish Rural Research Australia as outlined in the draft report.

The NFF supports the development of a clear set of guidelines and principles which describe Government's expectations from the Rural Research and Development Corporations. The NFF believes that this will reduce 'second-guessing' of Government interests by RDCs and at the same time require the Government to provide clarity on its expectations. To be relevant to the long term nature of research, it is important that the guidelines have persistence and are durable to changes in Government and Government priority setting. For this reason it is not appropriate for Government Ministers to be directly involved in priority setting.

Framework data collection and program coordination

Productivity Commission's findings have highlighted the lack of transparency in funding, and that currently decisions on rural research and development policy and investment are made in isolation of each other. The need for more transparency in funding for rural research and development is consistent with findings from the Review of the National Innovation System. Information on investment in rural research and development, and the type of research and development invested in (basic to applied and development) needs to be done in the context of a broader review of policy to encourage greater investment by agribusiness, including international agribusiness, as well as international investment through philanthropic organizations.

The NFF suggests that the development of a national strategy on rural research and development be developed in partnership with all of the stakeholders and policy agencies involved. Collecting

information on the money spent through the Rural Research and Development Corporations is not a replacement for a National Strategy to encourage innovation in agriculture, and is a recommendation which, on its own, does little to improve the rural innovation system.

In addition, data collected needs to be relevant and consistent with the whole of the rural innovation system, so it is clear how the different elements of the system are investing and performing relative to each other. The Productivity Commission's analysis indicates that there are deficiencies in data collection at a range of levels, and a comprehensive strategy is required to address this. As was observed in our earlier submission, there is a need to better understand and coordinate investment in Rural R&D across the various stakeholders.

It is also important to note that the collection of data to monitor performance is only of value if the performance and evaluation framework is relevant and appropriate. This requires clarity on government and industry objectives, the development of measures that are relevant to performance and mechanisms to ensure that continuous improvement occurs on an ongoing basis. It is also important that the performance monitoring mechanisms are efficient and effective and that they do not result in additional cost. Significant concerns exist that the collection of further data will add to the administrative costs of the Rural Research and Development Corporations.

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

The NFF recognises the rationale for the establishment of Rural Research Australia; however there are significant reservations in implementing the proposal to establish a new organisation. The NFF was a strong supporter of Land & Water Australia, and we noted significant concerns when the decision was made to abolish this important institution.

The Productivity Commission's recommendation to establish Rural Research Australia recognizes and seeks to address an obvious gap in an area of research investment which has significant benefits for the Australian public, as well as Australian farmers. However, the lessons that come from Land & Water Australia's operation and its closure need to be recognised in seeking to fill this gap. Significant challenges lie in maintaining investment in research with public good outcomes during periods where the Government is seeking to make budgetary savings. Mechanisms need to be put in place to ensure the budget for public good research increases over time to keep track with inflation and increasing information demands, as well as ensuring that the investment program has longevity. The NFF also observes that strong links must also exist with other agricultural research programs and industry, to ensure that where possible there is a focus on 'win-win' outcomes to ensure the research undertaken does not 'sit on the shelf' but is acted upon.

The NFF has concerns at the cost of establishing Rural Research Australia, and obvious concerns exist at the waste of having dismantled Land & Water Australia, only to reinstate a similar organization in its place. The establishment of a new research and development investor, focused wholly research with 'additionality' should be considered as part of a broader strategy for rural research and development, and only after a national strategy for food & fibre industries has been put in place which bring together all the investors in rural research. As an alternative, the Productivity Commission should consider options and mechanisms to ensure this research is undertaken within the industry based Rural Research and Development Corporations, rather than Rural Research Australia.

The NFF supports the Productivity Commission's suggestions that it is appropriate for Rural Research and Development Corporations to manage and coordinate government programs which invest in research or extension activities relevant to rural Australia. The NFF believes that this would provide significant benefits through improved efficiency of program delivery, but also ensuring that the outcomes of the programs are relevant to industry and complimentary with existing research investments. The opportunity to deliver regional R&D research programs currently administered through the Australian Government's Environment as well as the Climate Change portfolios, where they are relevant to Agricultural industries, should also be considered.

Specific changes and levy arrangements

In its draft report the Productivity Commission has outlined a number of recommendations which relate to the operations of the Rural Research and Development Corporations. As it is not a commodity stakeholder in individual Rural Research and Development Corporations the NFF suggests that the Productivity Commission discusses these operational matters directly with the respective industry stakeholders to ensure that its recommendations are relevant and appropriate. However, we would like to make the following general observations and comments.

The appointment of government directors to Rural Research and Development Corporations with the consent of the individual Rural Research and Development Corporations is supported, with the view that this would assist in linking strategic decision making within the Rural Research and Development Corporations to government policy and direction. This recommendation also provides a significant benefit in that it provides a mechanism to improve corporate knowledge within Government on the operation of the Rural Research and Development Corporations and how their roles, functions and capability can be leveraged by government programs. The recommendation that the Government Director to industry-owned Rural Research and Development Corporations not be a current Commonwealth public servant would appear to significantly diminish the value of the Government Director position to industry-owned Rural Research and Development Corporations and the Government.

In principle the NFF agrees with the need for regular reviews of the performance of Rural Research and Development Corporations. However, there are significant concerns that this would place additional loads of administration on the Rural Research and Development Corporations. Opportunities to reduce reporting burdens and improve the efficiency of the reporting frameworks for the Rural Research and Development Corporations should be examined, including how the new performance reporting requirements may replace existing reporting frameworks. It is also important that performance reporting be focussed on areas for which the Rural Research and Development Corporations are responsible, recognising that a range of organisations contribute to rural innovation.

The recommendation that DAFF prepare a consolidated report of Rural Research and Development Corporation outcomes highlights the lack of attention that Government has placed on the operation of the Rural Research and Development Corporations, and rural innovation more broadly. It is important that this shortfall in understanding and engagement be addressed. The Government needs to be clear in its expectations of the Rural Research and Development Corporations and how they should report to ensure there is a consistent approach. The NFF notes that this recommendation has the potential to increase administrative costs for the Rural Research and

Development Corporation if DAFF seeks to pass the onus of this reporting back onto the Rural Research and Development Corporations.

The NFF has not had direct experience with levy arrangements and processes to change levy contributions, and we note that the individual industries that work with Rural Research and Development Corporations may vary in their response. In principle the NFF supports changes to levy arrangements if this allows farmers to choose to increase their investment in research and development. Government processes and policy should not restrict a decision by farmers within an industry to increase their investment in research and development.