



November 26, 2010

Mr. Philip Weickhardt
Presiding Commissioner
Inquiry into Rural Research and Development Corporations
Productivity Commission
Locked Bag 2, Collins St East
Melbourne VIC 8003

Dear Philip,

The Western Australian Farmers Federation (Inc.) (WAFarmers) welcomes the opportunity to provide comment on the Productivity Commission's Rural Research and Development Corporations' Draft Report (further referred to in this submission as the 'Draft Report').

WAFarmers is the State's largest and most influential rural lobby and service organisation. WAFarmers represents approximately 4,000 Western Australian farmers from a range of primary industries including grain growers, meat and wool producers, dairy farmers, pastoralists, horticulturalists, commercial egg producers and beekeepers.

Collectively our members are major contributors to the \$5.5 billion gross value of production that agriculture in its various forms contributes annually to Western Australia's economy. Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

As background to this submission, WAFarmers also made comment to the Productivity Commission's Rural Research and Development Corporations' Issues Paper (June 2010). In that, we stated:

- Our support for the continuation of the Rural Research and Development Corporations model, as an ongoing knowledge delivery partnership between government and industry.
- That Rural Research and Development Corporations funded research is delivering economic, social and environmental benefits to a wide group of stakeholders.
- The need for this Inquiry to identify and communicate to stakeholders an appropriate assessment tool for the discussed 'principles and benchmarks' to be used in assessing the operational aspects and effectiveness of Rural Research and Development Corporations.

The Draft Report's recommendations can be broadly placed into three areas of commonality, being: (1) the origin and amount of investment into rural research and development, (2) governance issues, both within the Rural Research and Development Corporations (the RDCs)

and within the levy collection and expenditure processes and (3) the establishment of funding principles for future investment. It is within these three broad areas that we provide comment in this submission, as well as making responses to specific recommendations.

1. Investment in rural research and development

The Draft Report contains a number of comments on the positive outcomes delivered by the RDC framework. It also recommends a significant number of changes to their (collective) capacity to deliver future research outcomes, their reporting structures and operational timeframes. This includes a reduction of direct federal government investment in the RDC programs (Recommendations 6.1 and 7.1).

WAFarmers is not supportive of these recommendations.

WAFarmers believes that the Draft Report has failed to provide an assessment of the likely impact of these recommendations on the ongoing functioning of the RDCs, and of the operational aspects and likely effectiveness of the proposed Rural Research Australia. As an example, WAFarmers is unclear on how the establishment of another RDC eliminates the Productivity Commission's concerns with the current RDCs?

In combination, recommendations 6.1 and 7.1 would result in the withdrawal/reallocation and reinvestment (in broad terms) of all but about \$50million of current investment into RDCs. This represents only 3.3% of the total rural R&D funding investment. At the same time, the Productivity Commission apparently believes that the other recipients of federal government funding, such as the CSIRO, universities and the various CRCs do not have the same pressing need to alter their existing financial and governance arrangements, as recommendations along these lines are lacking in the Draft Report.

WAFarmers notes that the Australian Bureau of Agricultural and Resource Economics (ABARE) report; *'Raising productivity growth in Australian agriculture'* (November 2009) notes that in addition to investment in R&D, there are four other areas where significant gains in productivity can be made in Australian agriculture, being the adoption of innovation, the removal of policy impediments, improved market access and in addressing environmental pressures. WAFarmers believes that the Productivity Commission has not addressed these in the Draft Report.

It is difficult therefore not to conclude that these Productivity Commission's recommendations do little more than champion a reduction of federal investment into an RDC program, a program which it frequently acknowledges has delivered many benefits to Australian agricultural businesses, and to the broader community in terms of social, environmental and economic outcomes as well as delivering a safe, secure source of food.

2. Governance issues

The Draft Report contains a number of references to the ongoing functioning of the RDCs and recommends a significant number of changes to their (collective) capacity to deliver research outcomes, reporting structures and timeframes. Whilst WAFarmers acknowledges the need for a greater level of understanding of the activities within, and reporting framework for, these various programs, we would need to see a costed implementation plan prior to providing support for Productivity Commission's recommendations in this area.

This is particularly so should the government wish to divert funds from RDCs to the Department of Agriculture, Fisheries and Forestry to duplicate services currently being delivered in some form, or that are currently, through weaknesses in the government's current management processes, not being delivered (Recommendations 5.2, 5.3 and 8.7). WAFarmers notes that the Productivity Commission's review occurs adjacent to the activity of the "*Rural Research and Development Council*" (established in February 2009) whose principal goal "is to provide high level advice and coordination to better target and improve the effectiveness of the government's investment in rural R&D." It could be that the Rural Research and Development Council may provide valuable insight and solutions into issues raised by the Productivity Commission.

WAFarmers notes that several responses to the Inquiry's Issues Paper list concerns with the RDCs, principally related to the value gained from their research outputs, the structure and function of RDC governance, with expenditure of RDC funds, coordination of research programs and in the costs of their administration. The broad range of comments in these submissions demonstrates the need for the ongoing review of RDCs, to ensure that they are delivering benefits to stakeholders. WAFarmers supports that intent, provided the RDCs are given clear evaluation frameworks and an understanding of the expectation of its funding providers.

In that consideration, it also should be recognised that the benefit received from RDC funded research, be it real or perceived, can be one or multiple factors. These include, the capacity of RDC funded research to influence on-farm outcomes, the alignment of research outcomes and with an individuals, groups or industry's priorities and with the location and management of the funded research projects. It is this diverse range of expectations which leads itself to many of the criticisms that were raised.

It appears that some of these concerns are largely operational issues and as such, should be responded to in that manner. Whilst the onus to demonstrate ongoing continuous improvement in levels of service should rest within each RDC, the significant variation in funding and capacity between the various RDCs does introduce operational efficiency issues. As an example, an individual farmer or business may be contributing to several levy funds, and as such be the recipient of several streams of research outputs and communications from RDCs. This variation in activity delivered to that stakeholder should not be confused with the broader benefit of the RDCs model.

WAFarmers has previously commented that the RDC processes are delivering a coordinated, cooperative, strategic approach to research, development and extension activities. They do however occur in an environment where a range of state, federal and private research funding providers operating in similar funding environments. In this environment, credible reporting on the adoption of research outputs and an assessment of the return on investment achieved is essential in ensuring ongoing support from stakeholders,

WAFarmers notes that a small number of submissions to the Issues Paper raise concerns with the current RDCs functioning. It's worth noting that of these, none offer a costed, viable, manageable alternative to the current RDC system, and in some cases they champion little more than lower investment in R&D, or its withdrawal completely. Clearly, these sentiments are not supported by WAFarmers.

3. The establishment of funding principles for future investment

The Productivity Commission recognises that the current industry-government co-investment model has a number of benefits including facilitating greater and faster uptake of research outputs whilst ensuring that public money is not spent on research of little practical value.

It also identifies that there are legislative, governance and operational issues which may lead to a reduction in the broader understanding of 'spending flows across the totality of the rural R&D framework'.

Whilst WAFarmers is supportive of the need for high level strategic thinking on investment decisions for rural R&D, we again raise the issue of the appropriate 'principles and benchmarks' used to assess these. WAFarmers notes that the Draft Report refers to the need for 'a balanced project portfolio that includes longer term, riskier and potentially higher-reward research' and the need to invest in 'larger, potentially 'game-changing' projects.' Whilst these are ideologically sound, WAFarmers seeks a greater level of information on what the Productivity Commission considers may be a 'game-changing' project may be.

WAFarmers does not believe that the current public funding principles (Recommendation 5.1) encompass these requirements. This is certainly true, given the significant amount of the Draft Report dedicated to quantifying the 'return' from the RDCs. Obviously, investment in a higher risk strategy is associated with a commensurate risk of failure, and this needs to be built into any future evaluation model.

If this recommendation were to progress, WAFarmers believes that it needs to incorporate a focus on farming 'profitability' and ensuring that its assessment and reporting criteria have a greater focus on delivering quantifiable financial benefits.

4. Response to the Draft Recommendations

Public Funding Principles

- WAFarmers does not support the recommendation for Government's funding contribution gradually reduced to half its current level over 10 years.
- WAFarmers believes that the current R&D programs are delivering benefits to the wider community.
- WAFarmers agrees that there are administrative and operational changes that may be needed to improve the transparency of project evaluation. Future evaluation must be undertaken in association with the specific industry involved.

Framework Data Collection and Program Co-ordination

- WAFarmers believes that funding for framework data collection and program co-ordination should be derived from the Federal Government and not a portion of the allocated amount towards industry specific funding.
- WAFarmers agrees that the Australian Government should establish a mechanism to better inform and co-ordinate the totality of its funding for rural R&D in alignment with the industry strategic and research plans.
- WAFarmers believes that each R&D institution should have a peer review group made up of levy payers who would review the R&D projects to ascertain their suitability and benefit to industry for funding.

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

- The Productivity Commission has not provided sufficient information on the establishment, functioning and operational aspects of RRA. Should this recommendation be supported by government, WAFarmers believes that another round of consultation is required, prior the establishment of RRA, on the proposed (1) process for setting and delivering on future research priorities, (2) management and capacity linkages with existing RDC programs and (3) its governance related to engagement with industry.
- WAFarmers is strongly opposed to the proposed reduction in the cap (0.50% to 0.25% of GVP) on matching contributions for all statutory levies.

Principles to guide the future operation of the RDC Program

- WAFarmers agrees that the RDC's should have in place effective processes to ensure timely adoption of research results and also for results for completed projects to be widely available. This is currently being impacted by a decrease in state-agency extension services and with ongoing uncertainty with the role of RDC-funded development officers.
- WAFarmers agrees in that the implementation of board selection process that result in boards with an appropriate balance of relevant skills and expertise, rather than a balance of representative interests.
- WAFarmers agrees that RDC's should participate in regular transparent independent performance reviews however those must include industry organisations and levy payers.
- WAFarmers agrees that the Australian Government should engage openly and constructively with RDCs and their industry stakeholders.

Specific changes to help give effect to the principles

- WAFarmers does not agree that the ultimate objective of the public funding the RDC's receive is to induce socially-worthy rural R&D that would not otherwise be undertaken.
- WAFarmers supports the recommendation that the Primary Industries and Energy Research and Development Act should be amended so that the statutory RDCs can add marketing to their functions, where this is supported by the majority of levy payers and approved by the Minister for Agriculture.
- WAFarmers believes that any bodies that already have an industry-representation role should be allowed to maintain this function.
- The Federal Government should have the capacity to appoint a director to an RDC Board.
- WAFarmers believes that the decision on the consideration of R&D and marketing levies as either separate or combined will need to be addressed through consultation with the individual industries (as appropriate). As an example, the WAFarmers Wool Council does not support the splitting of marketing and R&D levies however there are other industries where these are identified and paid separately. Consultation with impacted industries will allow levy payers to a more direction on their preference for levy funds.

- WAFarmers strongly believes that RDCs should seek formal approval of levy payers to vary the allocation of funds between R&D and marketing.

5. Other Issues

R, D – what about E?

WAFarmers has concern that in the ongoing discussions about the effectiveness of research and development, an important aspect is being overlooked, in the transference of research outcomes to growers. In our submission to the Rural Research and Development Council earlier this year, WAFarmers commented:

Collectively, the three background reports to this review acknowledge that there is a need for rural R&D investment to continue however they raise concerns that state government investment continues to decline across Australia. This decline is most visibly expressed in the erosion of farm extension services. Industry's response, in some cases is to directly employ 'industry development officers' via matched R&D levy-funding or through the formation of geographically defined 'production groups' which self-fund through membership fees and a range of research project funds.

These industry-managed options provide the benefit of fostering a greater level of grower input into the direction and delivery of research, and can also engage the state agencies in R&D service delivery. Aside from the decrease in the total amount of R&D funds, the obvious downside to the reduced investment by State agencies is a decline in their research and extension capacity through a loss of staff on 'on-ground' activity. Only through an increased funding commitment to the R&D and extension network, can these be reversed.

We would urge the productivity Commission to consider the totality of the RDC network in being able to develop and deliver information to stakeholders, in this review.

Mixed messages?

WAFarmers notes frequent references in the Draft Report to industry specific research and the need to achieve a wider, public benefit on the Federal Government's investment. WAFarmers believes that the Productivity Commission may have undervalued the benefits currently being delivered through the RDCs, and as a recent example of this, note comments by the Minister for Agriculture, Fisheries and Forestry, Joe Ludwig (on 15 October 2010).

In announcing the reappointment of Keith Perrett for a second term as Chair to the Grains Research and Development Corporation (GRDC) board, the Minister stated; "the GRDC has a strong record of achievement in research and development (R&D) in areas such as improved farming practices, varietal development and environmental performance that have led to productivity increases" and further "this has been critical in securing the competitiveness and profitability of Australia's grains industries and will be just as important in addressing new challenges such as climate change."

WAFarmers contends that much of the research currently being considered by the Productivity Commission as 'industry specific' has and will continue to have a wider community benefit.

Capacity to pay

One issue that appears to have been overlooked by the Productivity Commission is the capacity for industry to pay for privatised research, particularly in an environment where the direct cost of research in the proposed environment would increase.

Australia is a small but important part of global agricultural production and therefore product development, as opposed to evaluation, may not be specific to our production conditions. It is therefore essential that we have the level of evaluation, such as the Productivity Commission notes as occurring through the RDC systems. It could be argued that without these, the net effect would be to limit or slow the availability of new products to farm businesses, limiting our international competitiveness and the sustainability of our businesses and landscape. In addition to the potential loss of new technology, it should be recognised that ongoing and increasing costs by private research providers seeking higher rates of return on investment cannot be continually applied to the producer, and future withdrawal of funding into the RDCs has the potential to do just that.

As a final point, WAFarmers has registered to participate in the Perth round of public hearings in November 2010, and will table a draft version of this submission at that time. As such, we look forward to discussing these issues further and subsequent to that request that future communication on this Inquiry be directed through either myself or WAFarmers Director of Policy, Alan Hill on 9486 2100.

Yours sincerely

Mike Norton
President