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Fodder R&D Funding

A Subsequent Submission to the Productivity Commission's

Review into Rural Research and Development Corporations

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Subsequent to our earlier submission and following the release of the Draft Report, AFIA would like to provide the following comments for consideration by the Commission.

Summary

The Australian fodder industry has a substantial value of farm gate production (\$1.4 to \$2.8 billion per year) yet has a 'bottom rate' investment into R&D (0.045 per cent). Fodder has a unique production and consumption base being mainly on farms that consume what they produce, is traded to other farmers or sold to exporters. A key strength of the industry is its exporters that market approximately 10% of the national production into an expanding although highly competitive global marketplace.

Fodder production and consumption supports many agricultural industries and by inference the broader community. Fodder is a key requirement for animal production (commercial and recreational) and is often a critical supply requirement in times of weather/climate extremes (drought and flood).

AFIA has the view that the current RDC model has been particularly successful at achieving key industry and community objectives. The continued investment by the Commonwealth Government is warranted and well justified.

An area where the current RDC model fails is with supporting R&D for cross industry issues such as fodder.

To this end, AFIA proposes that the Commonwealth Government assists the fodder industry to bring about a sustainable program with stakeholder engagement capable of investing an annual amount of \$4 to \$5.5 million. This funding should as a preference, be managed through the existing RIRDC organisation which has demonstrated excellent support, efficiency and expertise and could undertake to role proposed for Rural Research Australia.

Scale of production

Australian produces around 7 to 8 million dry matter tonnes of fodder (hay and silage) each year. The total gross value of Australian fodder production was estimated by the ABS to be \$2.8 billion dollars in season 2007-08. The total value of fodder production is estimated to have averaged \$1.4 billion over the five years to 2006-07. The value fodder produced is similar to the barley (\$1.6 billion), sugar (\$1.5 billion) and poultry (\$1.5 billion) sectors.

Unlike other agricultural industries, most fodder production is used on the farm it is produced or is traded 'over the fence' to neighbours. It is also typified by having many small producers for whom fodder production is a relatively small, albeit an important, part of their business.

History of funding dedicated fodder R&D

The fodder industry relies on funding from a voluntary levy on export hay, core funds from RIRDC and occasional funding of some projects from existing RDCs. After a failed attempt at establishing a mandatory levy in 1998, the fodder industry continues to seek secure funding of R&D through all options yet struggles with some of the 12 principles to establish a new levy.

The concept for a fodder levy has been to collect funds from a levy on the crop packaging inputs of twine and netwrap that vary in proportion with fodder production. Fundamentally, the opposition for the introduction of this levy has come from the existing peak industry bodies that fear a threat to their own industry specific levy. Despite the fact that a fodder levy would be a relatively small cost to farmers, the fact that the fodder industry has considered approaching "their farmers with another levy" was enough for some peak industry bodies to discourage our efforts.

As there are approximately 20,000 fodder producers in Australia, the high communication costs for a small organisation such as AFIA dictate that we need to continue to communicate through other peak industry bodies.

Further attempts at resolving funding

In 2000, Senator Judith Troeth, the former Parliamentary Secretary to the Federal Minister for Agriculture, became involved in this issue. She attempted to gain funding from each of the RDCs with levy payers involved with fodder and sought some joint funding from collected existing levies. The RDCs were not supportive preferring to spend funds on their own industry-specific issues rather than invest in the cross industry issue of fodder.

Current sources of funding for fodder R&D

An analysis of funding was commissioned by RIRDC and undertaken by John Black and Lynda Scott in 2009. The report very effectively provides a comprehensive quantitative collation of the 231 projects and publications related to fodder R, D & E between 1998 and 2008.

The RIRDC Fodder program that is dedicated to hay and silage research invests between \$400-500k a year. The total funding from all sources invested directly into fodder R&D was just under \$900,000 per year. This represents about .045 per cent of the gross value of production that is clearly way short of the industry-considered norm of 1 per cent.

As acknowledged by the authors a key weakness of the current analysis is the difficulty found in obtaining financial data at the project level. Despite these limitations the review does present

information that provides an effective public sector compositional “snap shot” of the investment in fodder industry R, D & E for 2007.

The data provided is very complex in terms of identifying the various sectors within the supply chain that have provided direct and in-direct (i.e. in-kind) funding for fodder research. The table fails to clearly separate private sector, industry and service provider sources of funding.

Industry Sector	Fodder Specific	
	Direct (\$ K)	In Kind (\$ K)
Federal Govt. (DAFF)	112.23	10.73
State Govt. Agencies	37	1830.89
Private Companies	100.69	144.74
Industry Organizations	95.8	10.0
CRC's	0	0
RIRDC	523.28	0
Universities	0	16.16
Total (\$ K)	869.00	2012.52

It would appear that based on a review of the projects much of the information relating to the objectives and outcomes appears to reside within silo's with little correlation or coordination between research bodies nor the funding bodies. While some valuable coordination of plant breeding (National Oat Breeding SARDI) is undertaken by the work co funded by RIRDC and GRDC funded, the authors noted a lack of coordinated fodder industry investment in R, D & E. This has led to disaggregation and some duplication of research that ultimately leads to reduced efficiencies and effectiveness of investment from a limited resource base.

A key part of the analysis that was absent was any prioritisation of investment against pre-determined criteria as set by industry. This is critical as it would provide the platform on which to assess the value of the projects contribution to the industry and if the projects undertaken are focused on the key needs of the industry based on priority.

A key weakness, acknowledged by the authors, was the absence of analysis relating to private sector investment in fodder-related R, D & E.

Where should a fodder R&D program be housed?

RIRDC currently provide the administration and core funding to support the fodder program. It has been suggested that this role could just as easily be met through a sub program of GRDC. While there are many areas that do overlap with the grains program, there are some key needs for a properly managed fodder R&D program which include:

- Full representation of industry engaged in prioritising projects and allocating funding

- Active representation from representatives of the dairy industry including ruminant nutritionists
- Stability and sustainability of funding

The R&D for fodder is often related to the consumptive end of the supply chain. It is inappropriate to rest the responsibility of fodder R&D on a program focused on the interests of grain growers. We believe that to incorporate a fodder program into GRDC would require substantial change from the existing structures of GRDC.

AFIA's views on these issues are addressed within the respective chapters of the Draft Report.

Chapter 6

Retaining the existing RDC model

In terms of industry specific R&D and unlike the findings of the Draft Report (DR), AFIA believes that productivity gains from agricultural R&D should not be wholly funded by commercial entities.

Whilst PC report refers to the favourable international standing of the current Australian RDC model, the report fails to make any decent benchmarking analysis that would show the standout position for the current RDC model. Although there are shortcomings, the Australian model is envied by competitor nations.

If public funding is removed the incentive to cooperate with industry is removed and the general or national productivity gains will diminish. Also productivity gains made on the whole by R&D will not be able to be funded by commercial entities due to the resource strain on funds. The small amount of cross industry research that is co funded at present will diminish as the supply of funds reduces under the PC recommendations.

We have some concerns about the claim on page XXVI of the draft report that the current level of funding support for rural R&D via the matching contribution arrangements is three to eleven times the rate of assistance provided for other industries by the generally available R&D tax concession.

This ignores the biological basis for agriculture and the fact that agriculture as an industry operates within the environment and within rural and regional communities with an increasing influence of urban biased policies. The Agricultural industry does not receive other areas of support that other industries receive - car industry, banking & finance, tourism, public transport, etc. We are a self-sustaining industry that is not extractive or necessarily resource and energy intensive (mining or minerals processing).

For example, the current R&D investment in breeding new oat varieties is inequitable as few commercial hay exporters are investing yet domestic consumers are gaining significant benefits. If there was not the "general good" argument then closed loop production of varieties that have specific benefits for plant breeders would be produced and would be sold at a premium to the domestic market (because without general good public funding the objective will be for commercial return for the breeder rather than maximising the profit for farmers).

In Australia this season, there is a widespread and severe infection of foliar diseases on commercial oat fodder crops – a significant source of such disease inoculum is from wild weeds on public lands

whereby commercial farmers are no longer able to control or manage such disease sources as the community does not view roadside and public forest land burning favourably.

Implications for non- industry specific sectors

The fodder industry is an example of market failure in agricultural R&D. Cross industry issues relating to hay and silage are not the sole responsibility of any specific industry and yet it is critical for the success of livestock (beef, dairy, sheep and horse), an important enterprise for grain growers and supports the social and cultural activities of the rural lifestyle and hobby farmer sectors. The fodder industry has many stakeholders and significant environmental, biosecurity and social implications and responsibilities.

A more secure source of funding is required to address the broad R&D requirements.

Funds for existing RDCs will shrink under the proposed plan of the PC. The ability of the fodder industry to gain project funding (or non specific project funding) from the RDCs will become even tougher in the future.

Fodder R&D can promote the production of high quality hay providing more efficient milk production and faster turn off rates for beef cattle. Through this efficiency higher quality hay will drive lower methane emissions. Fodder can also provide socio economic benefits through drought preparedness for farmers and stability of rural communities.

While these social benefits are important, the agronomic benefits for farmers are significant. The successful conservation of forage is critical for farmer's sustainability during drought and during periods of feed gaps in non-drought years.

In an ideal world, AFIA's first priority would be to support and manage an industry levy for fodder R. D. & E.. The world is not ideal and the possibility of implementing a fodder industry levy is particularly difficult. It is the view of AFIA that this is one of the few failings of the current RDC model.

Therefore, given the cross-sectoral and broader community relevance and benefits of fodder R&D, AFIA advocates that the Australian Government should sponsor a non-industry specific R&D program such as fodder within the proposed RRA. Given the success and efficiency of the industry linkages between the many fodder Industry stakeholders and RIRDC and the presence of high-level efficient infrastructure and expertise within RIRDC, AFIA advocates that RIRDC be retained and adopt the roles proposed for RRA.

Continuing matching public funds for voluntary levy contributions

AFIA agrees with the existing RDC model of shared investment between public and private sources. To this end AFIA has been facilitating the collection of voluntary funds from hay exporters. These voluntary funds are then partnered with funds from RIRDC's core funding sources.

AFIA rejects any suggestion that taxpayer contributions be reduced from the current co-funding arrangements within the feeble RIRDC Fodder R&D program.

Chapter 9

How levies are collected

In the case of fodder the collection of a voluntary levy has been undertaken as a stepping-stone to a mandatory levy. It has been relatively simple sourcing this levy from 16 exporters who collect from 10% of fodder produced. However it has proven very difficult to collect voluntary funds from the remaining 20,000 producers who represent the other 90% of fodder produced. Accordingly funding for fodder R&D has developed with a major inequity as the export sector has assumed the financial responsibility, while the domestic sector contributes little.

While some fodder R&D has been undertaken in the past by the dairy industry, the reduction in public funding for RDCs as recommended by the draft report will not favour this continued funding. Funding of fodder R&D will become more tenuous in the future and AFIA is eager to secure improved funding.

Creating a New Levy

A key challenge for the fodder industry has been to prove industry support for a new levy. As hay and silage is produced on a diverse range of around 20,000 farms across Australia, the communication costs with stakeholders are massive.

Accordingly we have been advised to deal through the peak bodies that represent the livestock and cropping sectors. Due to the existing levies paid by farmers, and the small cost of the proposed fodder levy (\$250 per year per average dairy or beef farmer) the cross industry issues of fodder are seen as a nuisance by some peak bodies. The possibility of yet another levy on “their” producers could threaten their key industry levy.

In an attempt to prove industry support for a new levy, the costs of undertaking a poll with an electoral commission are also substantial. While these costs can be managed by existing RDCs, they are prohibitive for industries such as ours.

AFIA would advocate that once certain criteria are established to avoid frivolous levies, that the Australian Government pay the costs for these polls.

Improving the levy system

AFIA believes there is a need to streamline the application of the levy principles.

Similar to the pragmatism of Draft Recommendation 9.2, there is a need for some allowance within the levy principles to account for a refund of levies collected incidentally from individuals who purchase twine and netwrap yet do not produce fodder (eg tomato growers who stake their plants with twine). This has been raised as a major barrier for the Levies Revenue Service to undertake a fodder levy.

While commodity specific levies have a high chance of achieving a mandatory levy, cross industry levies such as fodder struggle to achieve success.