AUSTRALIAN EGG
CORPORATION LIMITED

29 November, 2010

Ms Yvette Goss
Administrative Co-ordinator
Productivity Commission
LB2 Collins Street East
Melbourne, Victoria, 8003

Dear Ms Goss,

Please see below and attached a response from the Australian Egg Corporation Limited (AECL) to the Rural Research and Development Corporations Productivity Commission Draft Report for your information and records.

AECL has directly addressed and provided a response to selected draft recommendations and information requests contained within the Draft Report.

Draft Recommendation 6.1

The Australian Government should retain a modified Rural Research and Development Corporation (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.*
    - *RRA's 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, RRA's 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 corporation under the Primary Industries and Energy Research and Development Act 1989 (Cwlth).*
    - *It should be funded by an annual appropriation from the Australian Government under a quadrennial funding agreement.*
    - *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 predominantly 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).*

AECL agrees with the intent of Draft Recommendation 6.1 but considers the ideals of the Draft Recommendation should be achieved without establishing another RDC titled Rural Research Australia (RRA). As a result, AECL agrees with maintaining a rural RDC model but is totally opposed to the establishment and funding of RRA. AECL understands the PC rationale for suggesting such an initiative would be to better manage or sponsor "...non-industry specific R&D intended to promote productive and sustainable resource use by Australia's rural sector..." which would include land, water and energy use. AECL also believes that RRAs remit would not extend to the "...sector-specific 'public good' research..."

AECL strongly believes that "...national rural issues..." can be managed more efficiently through the current suite of RDCs thereby negating the need for an additional RDC titled RRA (please refer to section 5.8 titled 'proposal to increase transparency of public benefits' on page 18 of the AECL submission to the PC dated June 2010).

Increasing the transparency of public benefits should be achieved by enhancing the remit of the statutory authority, RIRDC, and re-focussing its operations to manage cross-sectoral R&D programs that have a greater public good than private good benefit. This program should be conducted on behalf of the Australian Government and all other RDCs. AECL believes this would provide greater benefit and less cost than the PC suggested model of establishing a new RDC known as RRA. Greater benefits would accrue such as the targeted use of funds to greater public good outcomes that can, upon achievement, be adopted by industry via the extension activities of all RDCs with their respective stakeholders. This will ensure the delivery of programs aimed at generating non-industry specific R&D through a transparent, reportable, identifiable and segregated approach or process unlike the current situation. Additional costs would be negated through administrative savings that would otherwise be foregone through the establishment of RRA. It is the assessment of AECL that if RRA were to be established, the additional costs would outweigh what marginal benefits such as structure would add over and above RDC management.

RIRDC should re-focus its mandate to include non-industry specific R&D. Given the resources available, this may mean larger or more 'mature' industries, whose R&D programs are currently under the management or purview of RIRDC, to either merge with other RDCs or establish an R&D management 'platform' within their current industry structures allowing RIRDC to re-focus its efforts. AECL believes systems of oversight and governance could easily be established to ensure the current RIRDC R&D programs for 'mature' industries could be managed by their respective industry bodies and structures if they were not to merge with RDCs serving like industries.

AECL does not agree with appropriations for this new program area being sourced directly from the Australian Government but rather via the current suite of RDCs through a committed grant each year. This grant would represent a percentage of the matching contributions received from the Australian Government. This will provide clear, tangible and recognized commitment of the RDCs to agreed non-industry specific R&D programs administered and managed by RIRDC. Supplementary funds could be provided by RDCs from additional matching contributions or R&D levy funds on a voluntary basis. A RIRDC Investment Committee should also be formed containing representatives from the Australian Government and all contributing RDCs to oversee the agreed program and its implementation. This would ensure that RDCs are able to contribute to the planning and management of all non-industry specific R&D and assist ensure adoption of outcomes within their respective industry.

Following the establishment of the new program areas within RIRDC, AECL agrees that all sector-specific RDCs should be able to focus predominantly on "...sponsoring R&D of direct benefit to their levy payers..." where R&D programs will have a greater private good than public good benefit.

AECL does not agree with the reduction of matching funds from the Australian Government under the AECL suggested grant mechanism from RDCs to RIRDC.

Draft Recommendation 7.1

> *The Australian Government should contribute to the cost of rural R&D sponsored by the Rural Research and Development Corporations (RDCs) on the following basis:*
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> - *There should be direct appropriations for the proposed new RDC, Rural Research Australia (RRA); 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 five 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 0.50 per cent to 0.25 per cent of an industry's gross value of production (GVP). This reduction should be phased in over ten 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.*

AECL strongly agrees with the Australian Government continuing to provide matching contributions to the current suite of RDCs. However, AECL disagrees with direct appropriations from the Australian Government being made to RRA or a re-focussed RIRDC, as suggested above.

AECL supports an increase in funding of RIRDC to undertake non-industry specific R&D from a grant program through the participation of all RDCs in line with an agreed business or operating plan and the re-instatement of those funds that would have otherwise been provided prior to the demise of Land & Water Australia (LWA).

AECL does not agree with the Draft Recommendation to reduce the cap on matching contributions over time as this will not allow such a grant program to function appropriately through the disbursement of Australian Government matched contributions via the RDC network to an agreed, integrated program managed and coordinated by RIRDC. AECL believes it is essential that current funding levels are maintained but a grant program to RIRDC established as described above. This will involve rural industries directly in the development of non-industry specific R&D with the Australian Government through a RIRDC managed process thereby assisting adoption of outcomes within farming businesses as AECL believes individual RDCs are best at determining the most appropriate adoption mechanism for their respective industries.

Draft Recommendation 8.1

As a condition of receiving government funding, Rural Research and Development Corporations (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 purposes 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 ongoing 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 oversight*
- *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.*

AECL agrees with Draft Recommendation 8.1 regarding the conditions for RDCs receiving government funds. While AECL agrees with the need to undertake project evaluations to assess its own investment performance in such activities, the regularity or coverage over the R&D portfolio should be commensurate with the size of the R&D program. In other words, an RDC with an annual R&D investment of less than $10 million should not be subjected to undertaking the same frequency or coverage of analysis as an RDC with a budget of over $50 million for example.

Also, any perceived or real concerns as it relates to the governance of any RDC should be addressed by the stakeholders either in private briefings or at the Annual General Meeting of the RDC involved. Each RDCs performance is best judged by stakeholders upon reporting annually or more regularly via informal reporting mechanisms. In terms of industry-owned companies, members have the right under Section 249F of the Corporations Act 2001 to call a general meeting if they consider their investments are not being well managed. AECL is also supportive of the current mechanism where the Minister reserves the right to re-direct levy funds to another service provider if the nominated RDC is not performing. AECL considers that sufficient governance mechanisms are currently in place to ensure effective oversight and accouintability.

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 Research and Development Corporations (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 formal Ministerial involvement in priority setting and approving RDCs' plans should be removed, except for the Fisheries RDC and Rural Research Australia.*
>
> *The Primary Industries and Energy Research and Development Act 1989 (Cwlth) should be amended so that the statutory Rural Research and Development Corporations (RDCs) can add marketing to their functions, where this is supported by the majority of levy payers and approved by the Minister for Agriculture, Fisheries and Forestry. The amendments should ensure that government contributions to any RDC that takes on marketing functions are only used to fund research and development, as defined in the Act.*
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> *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.*

On the understanding that a re-focused RIRDC is established, AECL agrees with the Draft Recommendation to remove "...ministerial involvement in priority setting and approving RDCs' plans..." as it is the RDCs who are best able to judge, formulate and execute agreed industry plans to generate outcomes that have a greater private good than public good benefit.

AECL does not support the generic principle of removing the industry representation function from those RDCs that contain this function. AECL is currently the industry service provider of marketing and R&D programs in line with the industry and government agreed Strategic Plan and Annual Operating Plan (AOP). AECL also provides the industry representation role under the auspices of the Australian Egg Industry Association (AEIA). Our corporate governance procedures and Board oversight enables AECL and AEIA to operate as different functions within the one organization. Internal management processes established by AECL ensure financial reporting, issues management and collaboration with state farmer representatives through the AEIA activities is segregated to the service provision functions of AECL in delivering approved R&D and marketing programs as per the SFA with the Australian Government.

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 Research and Development Corporation (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 Primary Industries and Energy Research and Development Act 1989 (Cwlth) 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 RDC's board outside of the usual nomination process. Such a director could be, though need not be, a current Commonwealth public servant.*

AECL agrees with Draft Recommendation 8.4 but would oppose the Australian Government mandating the appointment of a director. Industry-owned RDCs should, within the confines and direction of their respective Statutory Funding Agreement (SFA) and Constitution, be able to appoint directors with the necessary skills, knowledge and expertise required to ensure appropriate and ongoing oversight of company operations. Due process would ensure compliance with the Corporations Act in members voting for the nominated directors standing for election at an RDC General Meeting.

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).*

AECL agrees with Draft Recommendation 9.1 as such limitation can impede the timely changes industries may wish to make to their levy rate in response to an approved business case or complying proposal. As outlined in the Draft Report, the Australian egg industry sought to increase the Laying Chicken (R&D) levy rate above the legislated maximum and a change to the Act was required as the requested level was above the cap contained within the legislation.

This 'extra step' slowed the government adopting the industry-approved change to the levy rate and as a result, impeded the timely introduction of the new rate. As of November 2010, the new Laying Chicken (R&D) levy rate was yet to be approved by the Australian Government.

Information Request

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

AECL considers it appropriate to combine both marketing and R&D levies into a single industry levy. The relative mix of marketing and R&D levy within the single industry levy should be up to the discretion of RDC boards who will make this careful assessment based on the industry imperatives and program mix contained within the RDC strategic plans approved by stakeholders, levy payers and the Australian Government.

The single industry levy would provide greater flexibility for each RDC in being able to react to market and industry conditions more promptly than currently is the case. This ability is critical at times of industry crisis or unforeseen events. AECL suggests that changes to the R&D and marketing levy mix within the single industry levy should only take place after due consideration of the RDC board in fulfilling their fiduciary duties and after consultation with the Australian Government.

Draft Recommendation 9.2

> *The Australian Government's Department of Agriculture, Fisheries and Forestry 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.

AECL agrees with Draft Recommendation 9.2 which will ensure that changes made to levy rates are done so in an efficient and timely manner, without negating the need for due process and consideration, through the provision of a robust business case or complying proposal from industry or the RDC for stakeholder consideration.

Draft Recommendation 9.3

An indicative time limit of six months should be introduced for the implementation of new levies, and changes to the rates of existing levies, following the 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's Department of Agriculture, Fisheries and Forestry should report on its performance against this requirement, and where the requirement has not been met, indicate the reasons for this.

AECL agrees with Draft Recommendation 9.3 to introduce a six month time limit "...for the implementation of new levies, and changes to the rates of existing levies, following the receipt of a complying proposal." Upon initiation from AECL, the Australian egg industry recently voted to increase the Laying Chicken (R&D) levy rate from 7.2 cents per chick purchased to 13.5 cents in two stages. Upon receipt of a complying proposal or business case, the Australian Government progressed the proposal relatively quickly but a time limit of six months would ensure increased revenue streams to address identified areas of research can be invested in a more timely fashion.

Please do not hesitate to contact the undersigned if any further information or clarity is required.

Yours sincerely,

James Kellaway
Managing Director