

15 January 2006

Mr Gary Banks
Chairman
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Gary

I am writing in regard to the Draft Research Report on *Public Support for Science and Innovation* (Productivity Commission 2006).

NFF, as the peak national organisation in Australia representing farmers and more broadly the interests of agriculture and regional communities, is a key stakeholder in matters relating to rural Research and Development (R&D).

In the face of declining terms of trade, the most distorted sector of world trade and ever changing consumer tastes, preferences and expectations, NFF identifies appropriate and strong R&D models and investment as a key strategic priority impacting on the ability of Australian agriculture to remain competitive in the long-term.

NFF is not alone in this view. In 2005, a comprehensive, independent and strategic analysis of Australia's agri-food sector was undertaken by the Agriculture and Food Policy Reference Group. This report concluded that: *Continued productivity growth, driven significantly by research and development and innovation, is the most effective way to offset a continuing long-term downward trend in farmers' terms of trade.*

In regard to the Draft PC report, NFF seeks to highlight the following comments:

1. Productivity in the Australian agricultural sector grew by 3.8 per cent a year over the period 1974-75 to 2003-04, a considerably higher rate than achieved by the Australian economy as a whole (*Productivity Commission, 2005*). NFF would advocate that research and development underpinned much of this strong performance.
2. The Draft PC Research Report, while supporting the Rural Research and Development Corporation (RRDC) model, has advocated that there is a weak rationale for the present substantial co-funding of some industry-centred RRDC's. The Commission has assessed that there is little evidence to justify an argument

that industry-based RRDCs have greater additionality or spill overs than any other Australian industries. NFF strongly questions this view and is very concerned by it. Commodity markets at the producer level are characterised as having a high elasticity of demand. Under these circumstances, the benefits of agricultural R&D off farm (demand side research) are less likely to accrue to producers but are likely to have significant benefits for consumers. A reduction in Government support will lead to a reduction of producer investment and a subsequent fall in downstream and consumer benefits. In addition, supply side research leading to greater productivity and/or production provides consumers with lower prices than would otherwise be achieved.

3. Further to direct consumer benefit, while Australian agriculture directly accounts for around three per cent of Australia's Gross Domestic Product (GDP), the flow-on effects to the economy are significant. Including the value-added activities that occur to farm outputs post farm gate, and the value of all the economic activities supporting farm production in the farm-input sector, agriculture has averaged a contribution of 12.1 per cent of GDP (approximately \$103 billion in 2004-05 dollar terms) in the six years ending 2003-04 (Australian Farm Institute, March 2005). Further, in 2004-05 there were 312,000 people directly employed in Australian agriculture. However, the complete agricultural supply chain including affiliated industries accounts for over 1.6 million jobs to the Australian economy.
4. The vagaries of agriculture business incomes and profitability can make a large and on-going commitment of funds to RRDCs problematic for these businesses. The Government support for rural R&D acts as an incentive for smaller farmers to commit scarce resources to R&D. It is recognised that the Draft Research Report proposes that the reduction of Government funding to industry-centred RDCs should not take place until after the current drought. In this context, it should be recognised that droughts and volatile income and profitability have been, and will in the future continue to be, a feature of the industry.
5. NFF's strong support for the RRDC model and Government investment does not mean NFF and the agricultural industry in general does not seek ways to better prioritise rural R&D resources, ensure greater co-ordination and collaboration between RRDC's in order to maximise benefits and ensure accountability for results. Australian farmers are not in the business of sitting still and relying on existing models without always looking for improvements. This is on-going but does not detract from the need for the RRDC model to be maintained and Government support through co-funding maintained if not increased in prioritised areas.

In conclusion, Australian agriculture, and the Australian community more generally, is well served by the R&D undertaken by the RRDCs. The Rural R&D Corporation model, and critically, the support provided by the Australian Government, have underpinned the delivery of these benefits. The model and Government support must remain in place if these benefits are to continue to accrue.

A reduction in Government support to agriculture R&D would have a potentially devastating long-term impact on Australian agriculture and because of the spill over and flow-on effects to the economy and the environment (as well as direct consumer benefit in terms of safe, high quality food and fibre), on the Australian community in general.

NFF would be happy to discuss these important matters with the Productivity Commission at your convenience.

Yours sincerely

BEN FARGHER
Chief Executive Officer