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PRODUCTIVITY COMMISSION

**INQUIRY INTO RURAL RESEARCH AND DEVELOPMENT
CORPORATIONS**

**MR P. WEICKHARDT, Commissioner
DR C. SAMSON, Associate Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON FRIDAY, 5 NOVEMBER 2011, AT 8.56 AM

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MR WEICKHARDT: I'd like to resume. This is day 2 of our Sydney hearings. Our first participant this morning is Cotton Australia. If you could just for the transcript individually give your name and the capacity in which you are appearing, please.

MR KAY (CA): Yes, Adam Kay, chief executive officer of Cotton Australia.

MR KAUTER (CA): Greg Kauter, research and stewardship manager of Cotton Australia.

MR WEICKHARDT: Thank you very much indeed. Over to you to make some introductory comments.

MR KAY (CA): Look, we just want to thank you for the opportunity to discuss your draft findings and also for your efforts in developing those and coming up and spending time in our industry, because we know that you did put a lot of time into understanding how things worked in R and D in cotton. I think that's really significant, because of the importance of this hearing. So thank you for those efforts.

I think you have got a copy of what we propose to work through this morning. I'm not sure if you'd like us to work through each of those ones quickly and then have discussion, or do we just get straight into some discussion point by point. How would you like to proceed?

MR WEICKHARDT: I think if you give us your overview and then we'll move into a dialogue, if that's okay with you.

MR KAY (CA): Yes. I might start off on the findings and just make some observations there. Then I might get Greg to cover some of our thoughts on the recommendations, if that's appropriate. Just on the findings, with the table that you've produced on page 12 of the report, the R and D funding - and I know there was some discussion about this page and this table yesterday - one of the things that struck us that may be missing from that table is royalties from intellectual property arrangements.

We certainly know that this year the Cotton R and D Corporation will be getting about \$5 million in royalties from intellectual property that it holds; and the CSIRO, because of the research that we have done and the arrangements there, it will receive this year, I'm estimating, about 20 million dollars' worth of income from that intellectual property developed through research done with the R and D Corporation. I just question if that is sort of picked up in there, because I think, as far as our industry goes, they're pretty big income streams to those R and D organisations.

MR WEICKHARDT: Perhaps I can just react to that: unless those royalties are

netted off against declared research costs. The source of income is interesting, but what we are trying to capture here is how much money is being invested annually in R and D. The source of income from the Commonwealth government or from the private levy payers is not declared here. What we are looking at here is expenditure on R and D. We recognise that royalty streams are important and are a very significant indicator of the value of the research that has gone on, but I don't think that affects the integrity of that table, unless the declared research expenditure is being netted off against the royalty income, which I suspect would not be the case.

MR KAY (CA): No, I understand that. But maybe it needs to be considered somewhere else in the report, because government is putting in - you know, this year it might be eight million or something of matching dollars, but there's \$20 million going to CSIRO. Because of investments that have been made it's really ending up potentially in a better situation because of those investments, and the R and D Corporation getting its five. So I wondered if there may need to be a section in there just to capture some of that. That's from cotton, with which we're familiar. I'm not sure what the situation in grains and some of the other - - -

DR SAMSON: I was actually going to ask you that, Adam, if you had a sense of within the other 14 corporations.

MR KAY (CA): No, I haven't. I have been trying to find out in CSIRO how much income they get in, for example plant industries from their intellectual property arrangements, but I haven't been able to tease that out of some of their reports. It might be something you might be able to find out. We can't force CSIRO to put that back into cotton research. They can use that as they see fit. But it certainly must be a good benefit; that's 20 million the government doesn't have to come with for CSIRO. That's this year, I'm using a year for cotton where it's a relatively good season. Obviously those royalty streams vary, and we have come out of a couple of lean years. But I just wanted to make that point.

The other area in that funding - and again it might not be for the table - is the in-kind. We know, for example with our Cotton Cooperative Research Centre that the grower contribution and in-kind contributions when you tally them up, which is a condition of reporting for the CRC, is about a half a million dollars for a CRC with a seven million dollar spend. I just wonder if again capturing some of this in-kind will paint a fuller picture. The CRCs certainly do it, but with RDCs it's not a condition of their reporting. It's certainly a significant amount when we add it up for that seven million dollar spend in the CRC. That was that first point.

The second point about the RDC leverage, that was really linking to that in-kind. We are seeing these state research provides and the state governments pulling back and in a way our research dollars are pretty critical to keep some of these research stations open. At the moment the amount of pull-back that we have

seen from the states, they're pretty much providing the research station, but it's the RDC dollars that are providing the researchers and the operating.

If we pull that back, it could reach a tipping point where the research station doesn't remain open. So I just make that point about the leverage of those RDC dollars being quite important through that process as we see the states withdrawing services and funding. I think the only reason that some of the research facilities are still open is because of the RDC investment, and so if we reduce that it could reach a tipping point where those stations close and we lose that in-kind in a way.

The third point is about international comparisons. I know there was some discussion yesterday about the table on page 35, your figure 2.6. Just looking at the public and private, I think the comment that we'd like to make is that Australia is just such a small market that some of this private money going in draws in the private investment, and some of the private investment wouldn't be made without our R and D dollars.

I noticed some comments yesterday about how that data is calculated, and some of the other countries. There may be some discussion. But from our point of view the Australian market, we just know that some of the research we do attracts the products from the major companies in and that, Australia being such a small market, if we didn't use those research dollars to leverage that they may not come to this market. That has certainly been the case with some of the biotechnology.

It was that forming the partnership and showing the interest and jointly investing in the enabling of the Monsanto technologies that got them over the line, because with some of their technologies we just weren't on the radar as a market. They were thinking the big markets. The 500,000 hectares in Australia wasn't really on their radar, compared to China and India and other markets. So it was through our research investments that we pulled that technology in. So I guess we just wanted to make that point in relationship to that table. I might get Greg to handle the recommendations, if he could.

MR KAUTER (CA): Just in general terms we'd like to make a few points about the recommendations. The general scope is something about which we're a little concerned, in terms of perverse or unintended consequences, and so some issues like research capacity are not straight up and down research and development, kind of don't fit comfortably necessarily within that, they may extend well beyond that. I think the country's fire security risk preparedness capacity is one of those critical issues where a researcher may well be in an RDC funded project but may be a national expert in a particular area, from a crop protection point of view, from a fire security point of view.

Some of that capacity may be a little hard to see on first glance, and again that

may be because - and I think you talk about this a little bit - that other people may have dis-invested on the back of the RDC model. Nevertheless, I think any strategic change to what we have got now needs to be viewed in that broader context, or else we may be not just risking the quantum of research in the sector, we might be actually somehow interfering with our capacity to respond to major challenges in the future. So that's just something we'd highlight.

This thing isn't linear, and there is a good example in the report of the sugar industry funding flows. There's two ways of looking at that. One is that it's a bit of a mess. On the other hand, it's potentially what the model is actually leveraging through that sector. I think the cotton example would look similar if anyone documented it, because there's the CRC and state agencies and universities and all these other people involved in it, and also private industry. In a sense, to use a cliché, the sum of that is greater than the parts, in effect. If that was documented for each commodity group, I think that would be true across the board.

There's a number of recommendations that do refer to the strategic direction of R and D across the sector and also to the level of evaluation and reporting, and they are broadly recommendations that we welcome. I guess our only concern, in terms of an action list in the draft report, is that you have articulated the targeted benefits from those recommendations but from an action point of view it might be helpful to actually go a bit further and suggest who might be responsible for some of that, it's not 100 per cent clear. I guess potentially the minister is responsible, if he adopts the recommendation.

But in general terms if we're not to be sitting here in 10 years' time with another review, as you have kind of recommended, sort of wondering why things haven't gone the way you envisage, then putting some of those responsibilities more clearly in the final report might be a welcome stand, and potentially some target achievement dates and milestone dates as well, given that you have kind of put a bit of a plan in for the introduction of RRA and a reduction in the matched funding. The matched funding level now that we have in the current situation is a particular strength in the model. I guess there's probably nothing surprising about a commodity group with an RDC saying that.

But just to highlight that, that matched funding has a reach through to the way the corporation does business and plans its business. So droughts and fluctuations in commodity prices can have a big impact on the income of the RDC and that can play out in the business plan; the accumulation of reserves for example, to kind of risk manage those future scenarios, given that they're funding three and five years in some cases in advance. So the continuity of the business case has developed around the current level of the matched funding. We think it's probably not clear that the gap created will be completely filled by increased grower levies, and potentially the value proposition - at least, say, in the cotton case - has been the dollar for dollar

matching.

In a cultural sense, that has become the proposition over a long period of time for cotton growers. Cotton growers were contributing to R and D before the PIERD act, and in fact before the councils. There is a strong industry culture that the matched funding is a kind of value proposition. To go back to the industry and actually argue that that's no longer the case and that they should put in more - I know it might be an argument that they have the capacity to pay, from an economic point of view, but we will be left with the problem of overcoming that long-term value proposition of the matched funding. The other thing in cotton is we have had nearly 15 years of CRCs now and we have been particularly successful in bidding for CRCs. That is probably not going to continue, in reality.

So we will, in our case, be faced with a bit of a double whammy. The levy has potentially not had to increase, because of a decade and a half of CRC funding in addition to the RDC. So, yes, we will have a job to do if the recommendation about the levy is picked up by the minister. In that same vein then, decreasing the Commonwealth's contribution to the RDC - at least in the cotton case, which will amount to about a quarter of the income of the RDC - and then applying a greater reporting and evaluation framework over all the RDCs - to which cotton will have to contribute - is kind of a bit incongruous to us; that government funding will decline and that additional industry funding might be put in will be going to justify the RDC even beyond what is the current ask for justification. To some degree this area is - we appreciate and understand that there is a little bit of dysfunction here in terms of what the RDCs have been asked to do and people have found, what yourselves have found as maybe potentially the whole group falling a bit short in terms of its ability to justify the value of the Commonwealth's, the taxpayers', investment.

So it's fair enough to ask for a better framework and a more transparent and rigorous framework, but at the same time to reduce the Commonwealth's contribution to that, it just seems to us to be a bit incongruous. Over time, depending on the consequences for administration and overheads within each RDC it may be, at least in the cotton case, that the Commonwealth's contribution is going reasonably close to covering the overheads of the RDC. So that's a bit of a risky statement from our point of view but it would be a perverse outcome to basically chew up the Commonwealth's contribution in additional overheads. So there may be - again, getting back to the responsibilities for this, we will put in our submission some suggestions about that. We do believe DAFF could play a greater role over the top but we don't necessarily see that coming from the draft report in a clear way. So that in other words the pass-on there - the pass-down, if you like - could be quite immediate in DAFF not sensing that that is what you've said. They could well just pass that on to the RDCs.

In terms of Rural Research Australia, people have variously described it as

Land and Water on steroids and fully-funded Land and Water Australia. We appreciate that that's probably something that a lot of people would refer to as something that worked well in the past and that could easily be reinstituted or just picked up again and put back. I guess we'd broadly welcome that but not a hundred per cent sure whether a new CAC Act RDC is the way to go there. I guess culturally we'd have some concerns about how it might work and fit with the other RDCs. We do have a genuine concern about how it might engage with stakeholders more broadly across the sector, given the remit of the research and what you'd be asking them to do on behalf of stakeholders.

So our understanding, or my understanding, with Land and Water Australia traditionally is that they highly leverage their Commonwealth funding and that that often included other RDC money; or certainly funds from partners that had some kind of connection to the sector, to the stakeholders in the sector. Unless you envisage that RRA is going to - and to some degree the board of a new RDC will determine, ultimately in the future determine this, the extent to which they leverage their 50 million; or what's left of it after the overheads, their 30 million, in the marketplace. That will basically determine the connectedness back to the sector. If they don't leverage too much then - or they just focus on major research providers like CSIRO there will be a lack of connectedness potentially back to the sector; or the only way, maybe, will be through the board, which will be just luck, in a way.

I know you've purposely asked for suggestions about how RRA may work. You haven't gone to detail a process. I guess we see that that in itself in a way is problematic in terms of potentially what you're setting up. So we're not experts in government policy or government structure or portfolio - you know, agencies and how all of that may work but we'd probably like you to think more broadly than just a CAC Act RDC for the RRA remit. We're not saying we're against it. We're just hoping that maybe in the final report you could take a broader view of some options that may be available.

From my point of view I'd tie in that the research remit for RRA that you've described in terms of land, water and energy and then the more broader recommendations around developing strategy and the evaluation and reporting requirements or framework for the RDCs at least - but I think you have actually gone further in some ways and talked about the sector more broadly than just the RDCs, especially in terms of strategy. It may be that another form of agency has the ability to lead in sector terms, so an agency within DAFF, for example, may have the capacity to lead in the way that I think you're kind of saying there is a need for; that a new CAC Act RDC probably may not be able to do.

So in practical terms the chair and ED will turn up at the council and they will be just one voice in the council. I guess on the other hand DAFF have managed the RDCs for 20 years now within the PIERD Act structure and respectfully suggest that

you wouldn't be making these recommendations about strategy and stuff if that was being done well at a high level. So for whatever reason there is some problem within the current structure, which I think you've identified, which you've articulated a need for, but maybe again potentially go further and look at some other ideas. We don't know but Innovation Australia, for example, in another department, might be one place that you could look. Our understanding is that - and I think you might have referred to it in the report about the ability for other funds, other government funds in the sector, to flow through something like RRA. But again, that may be problematic under a CAC Act structure. I don't know, whereas some other agency model might work better for the delivery of other programs.

So just as a general comment the two key kind of recommendations of introducing RRA and reducing the government's contribution, to us seem highly dependent for success on their implementation. So the reduction in the levy depends on how levy payers respond; potentially, at least in the case of cotton, because it's a small RDC. RRA is highly dependent on how it's implemented and how it engages and interacts with the rest of the sector to how successful that will be. We think that there's some risk there that in the future we will be sitting around with a weakened model. I guess we can talk about some of that.

MR WEICKHARDT: All right. Thank you very much indeed for those comments and thank you for your active participation in this inquiry. Your input is much appreciated. Perhaps I can start on the topic of money. I think your submission to the inquiry early on and your comments indicated that in total cotton is probably investing the order of \$60 million in R and D money, of which, as you say, the RDC is a pretty small component. It would be helpful, without going through the complexities of the money-go-round diagram, for you to give us an intuitive feel of who's funding the other \$50 million-odd of that R and D outside the RDC structure.

MR KAUTER (CA): I guess apart from the usual suspects the state agencies, CSIRO and our CRC which, I guess, further leverages the RDC's involvement so in terms of that example the RDC's three and a half mill investment per annum in the CRC helps to produce and the DISR - the four mill from the department kind of ends up with a seven mill cash spend approximately per annum and then leverages a reasonable amount of in kind on top of that as well, so that's just one example. I guess in cotton terms there are a number of technology providers to the sector who invest for the implementation and adoption and location adoption of their technologies and there is a high level of involvement of independent consultants in the sector, so virtually all cotton growers use a private consultant. Those consultants get the opportunity to work with the implementation of new technology as well as our RDC-funded research and CRD-funded research.

MR WEICKHARDT: Would you like to hazard a guess of how much of that 60 million ultimately is funded by government as opposed to funded by private

sources, including levy payers?

MR KAUTER (CA): Good question. I guess, we will be encouraging - when we saw the sugar diagram we thought that was a particularly good way of trying to draw out that issue.

MR WEICKHARDT: It will be interesting in your further submission if you could comment on some of that. You talked about the fact that cotton grew up initially with voluntary contributions by growers and indeed, given the profitability of the industry and its success in terms of R and D, those contributions R and D make eminent sense. In the submission that you made earlier on on page 27 you attempted to answer a question that we asked which was very much on this topic. The question went to the line of: given the fact that across the board it would appear to us that the Commonwealth government and the state governments fund about 75 per cent of the R and D that goes into this area and private organisations fund about 25 per cent but a large amount of the benefits seem to go to the private individuals, is that ratio about right?

You say in your answer, "Cotton Australia rejects the premise of this question," and you go on to say rural is different. But you say, "This is not to say that agricultural production should be subsidised ... people in regional Australia don't want handouts." We would still like a crisp answer to that question because it seems unusual to us that here's an industry that's highly successful, I know it's drought dependent and it's cyclical but nonetheless of all the industries that I visited, quite frankly if I was going to put some of my money into agriculture, I'd probably put some of my money into cotton. It seems you have commercially-minded farmers, well organised, a well organised RDC. Here's a successful industry and it's a successful industry that's capturing a lot of benefits of its success. Now, it seems unusual that this RDC is receiving only a matching contribution to the government contribution. Some of the RDCs like grains, like fisheries, like sugar, like wool are contributing over and above the matching dollars.

Here is one of the most profitable, most successful industries which in total is receiving 60 million and the RDC is only a small component. Why is cotton only contributing up to the count and why is it that you sense such resistance of the levy payers to pay some more if the Commonwealth backed off its funding?

MR KAY (CA): I guess it's because we've been successful with the CRCs and I think Greg was making that point before that we've been able to keep this high level of funding in there and leverage those RDC dollars and I guess that's negated the need for the growers to make those additional contributions.

MR WEICKHARDT: I understand, if you can get the Commonwealth or somebody else to pay, lucky you, that's great, and it sounds like you've had an

extremely good run with the CRCs there as well and maybe because CSIRO have received lots of royalties they've been pretty generous in continuing to fund this area as well. But ultimately why shouldn't the beneficiaries of this research cop some of the extra cost? I understand you say it's cultural. Well, cultural is custom and practice and what people have been used to.

MR KAY (CA): I guess we'd also question to an extent some of your figure 1 on the spillover and some of the investments that we make, we'd use, for example, the investment the industry has made in the BT Technologies. We're pretty sure that unless we come in there and partner with Monsanto on some of that research we did together, they were not going to come to this country and get that. In doing that work we started off with a mind-set that it would be like the third party of your diagram there with the tick, that we would be making this investment for - it might even cost our growers dollars but we would be getting a huge public benefit because there was a huge outcry about pesticides and cotton in the community. So we made some pretty massive investments over the years of the dollars to get that benefit.

In the end it turned out more like figure 2. If we had had to carve it up when we started that research we would have been pretty sure it was going to be number 1. It ended up as figure 2 there with still a huge external benefit and public benefit from an 85, 90 per cent reduction in pesticide use but the growers did get more than we expected, but that then drew in that extra funding from private organisations. If the R and D corporation wasn't there that might not have happened, we might not have been sitting with that technology and the industry today. So I understand what you're saying but sometimes when we carve up these things we're trying to do these public good exercises and it comes out slightly different.

MR WEICKHARDT: We had some of that conversation yesterday and I understand the outcomes of research are not guaranteed certainties and sometime they turn out to be different than you expected in advance. But in that particular case I suspect the cotton industry had to make that investment to exist. The community right to operate would have been withdrawn if you had continued to use the levels of insecticides and pesticides that you were using.

MR KAY (CA): It was about social licence but I guess the point I'm making is it's questionable if it may have happened, if we could have got organised. If it wasn't for our strong RDC model and the investments - they were pretty massive investments at the time. People were saying how can we put this proportion of our spend into something that we didn't think at the time was really about productivity. We're still seeing that with partnering in biotech. We've got to use those dollars to draw these large companies in because we're such a small market.

MR WEICKHARDT: We're not arguing with that premise. What we're really debating is how do the Commonwealth and our money and our taxes, how is that

most wisely spent? Our premise is the Commonwealth should only spend our money where it's getting a return for all taxpayers. If it's simply costing money by raising taxes which cost money to raise and then giving it to an industry that could afford to and has ample justification to invest in R and D, it's not doing all of us a service. That's the underlying premise.

MR KAUTER (CA): Over the years when we've discussed the levy issue one of the things and this what our growers said, but they have invested in research that's improved their productivity and that's had a pull through in terms of the quantum of their levy, so increased yields increased how much they paid, so it may not be a strong argument but a lot of growers would identify that their contribution has gone up. Now, it hasn't gone up per bale, it's gone up per hectare.

MR WEICKHARDT: It hasn't gone up as a percentage of the GVP.

MR KAUTER (CA): No. We don't always hit that trigger. I guess the other thing is that when we receive progress reports, when we receive reports from the CRDC on their progress and their performance and their financial performance, for a long time now we've seen the royalty income as a component of the total spend. So a lot of growers would identify that investment of the Commonwealth and the levy payers through the RDC has produced this additional income from royalty arrangements around the research investments. So I guess in terms of a reinvestment model, given that that's what the RDC does, reinvest the royalties in research every year, that the growers see that as a kind of dividend within the model. I guess along with the matched funding, the dollar for dollar thing which has become, as I say, entrenched thinking in the industry that those things as a whole present the proposition that everyone is happy to sign up to in terms of the way we do research. I concede that you made the point about the capacity to pay.

MR WEICKHARDT: The capacity and the financial incentive to pay. I want to leave some time for other points because you've raised a lot of points. But if in your further submission you could try to get some crisp answers here, less of the hand waving, "In the bush we're owed this," and more of - Commonwealth money is not free, it's our money and there has to be a good reason why it's paid. You've already made the point that the state governments have pulled out from doing some of the stuff they've done and the cotton industry has accepted that it should pay private agronomists to do work. That makes eminent sense to me. Sure, if you ask them would they prefer the state government to still be paying, I'm sure they'd say yes but they have adjusted to that change. Our suspicion is that they would, over time, adjust to the change that we're recommending.

We're certainly not saying R and D should be cut back. Probably in this industry, of all industries, R and D should be continued our wound up. It's really only a question of who should pay and I know you are representing your industry and

your industry would say, "We'd rather somebody else paid." But our point is, is that justified?

DR SAMSON: Just to reiterate Philip's comments, thanks very much for your very thoughtful contribution to the inquiry. I'm not as wealthy as Philip, so I don't have spare money to invest in any industry but if I had, it might be cotton. You say in your summary of your comments today, I think quite rightly, that the two main tenets of the inquiry's draft recommendations really go to this issue of who should be paying for R and D, given who benefits from it and our position clearly at this point in time is we feel there is an imbalance in there and we have just had a discussion about that.

The other tenet was this issue of RRA and how that would run. I guess throughout all this what we've tried to do is work on a principle based approach and make quite clear to people where we're coming from and what our thinking is and the basis for it. So there may well be many ways to implement a particular position. But certainly at a principle level the genesis of RRA, in our thinking, was this notion that up till now the commodity based RDCs are really being asked to do two things: one is to focus very much on your levy payers and their interests which tends to lead on-farm productivity based research. The other stakeholder, the government, increasingly has asked that broader cross-sectoral, larger scale, national interest work be considered.

We came to a view that as the models have evolved the RDCs, as they currently stand, are very good at first dealing with levy payers and their issues. For a whole range of reasons, not all of which are the fault of the RDCs, we acknowledge that, that second area is underdone as far as we can tell, certainly underdone in terms of whether the government is satisfied or not. Hence we came to the conclusion: let's have a separation of those two activities, let you guys continue to do what we think you do very well, exceptionally well in the case of cotton, and we need a separate, consolidated focus to work on this other area. So that is the basic premise, so I'd like to hear from you whether you accept the basic premises as being valid. Then there's a secondary issue: if we all do think that is a valid premise, there are many ways to skin a cat from that point.

MR KAY (CA): I think that in what Greg said before, we do accept that. I guess we were really just getting to try and think more broadly about the structure and how it's going to fit across the sector. We hear clearly what you're saying there. It's the implementation that will be key and that's why we were throwing up some alternate ideas, especially anything that can get better integration with the current RDCs and anything that can keep the overhead costs down so that we see the maximum amount of that 50 million you proposed into the research and not into the overhead. They're the things that are on mind, integration and low overhead to get maximum result; that's what we keep coming round to. But as Greg said, we just don't know where

the best places are, is it over here in government, in DAF, is it over in RIRDC, is it a whole new organisation and Greg put up some other ideas this morning.

DR SAMSON: Interestingly you have broadened it, perhaps certainly beyond my thinking. Obviously we settled on, "Let's create a new statutory RDC, Rural Research Australia," other people have suggested to us that perhaps another way of getting the same result would be to revise RIRDC's remit. You've now come up with another agency, which is interesting. One of the issues - and we sought information from people in the draft report - was in respect of the precise remit of whatever this other entity is. We don't pretend at all to be the repository of all wisdom in this regard. But one of the important things we also thought - and we appreciate your comments on this - that at the moment in respect of that government sponsored, broadly public good work inasmuch as the current RDC system deals with that, and from my observation at least it tends to be quite reactive, that the majority of the corporations sit back waiting to be told by government what government wants them to do and if and when they're told, to varying degrees, they go and try and achieve that.

Part of the problem, we think, is that in some ways the government is not sure what it wants. So we see this new body, whatever it is, has not just been reactive to the edicts of government, but actively working with government, actively working with the other RDCs, industry organisations, whatever to collectively decide that what that sort of public good agenda should be. So however we structure this entity that will do this, that's a very important component of the work and crucial to that is the point you raised, it can't lose connectivity with the growers.

MR KAUTER (CA): One of the best ways that you could create that integration would be to actually take some of the moneys off the RDCs and give it to the new agency because money will - involvement will follow the money. So I guess another potential weakness from my perspective is that RRA currently, as described in the draft report, has money coming directly from the budget with no involvement from anyone else. So honestly in terms of sitting around the council, they will just be another RDC and to be completely honest, they may not be able to drive that - you will not, in a way, be able to ultimately dictate the extent to which RRA can drive that agenda because it will end up as an independent CAC Act body with a board that will make up their own mind essentially unless somehow there is a major amendment to the PIERD Act that actually says what RRA has to do and how the other RDCs have to behave towards it.

An easier way would be to take some of the current matched funding and you won't have to make any amendments to the PIERD Act, everyone will be involved.

DR SAMSON: Would your levy payers - - -

MR KAUTER (CA): Just in respect to another point, Cliff, that you made. In cotton industry terms we've been involved at least in two five-year strategic plans developed by the RDC, signed off by the minister, that have almost at their centre the government rural research priorities and addressing those through the five-year strategic plan. So this is a period of 10 years now that I believe personally the cotton industry, through the RDC, has been very responsive to the government's agenda. If that's not happening across the whole model, then I don't personally see how that is going to change much through giving RRA 50 million of direct government funding because there won't necessarily be a buy-in to the level that you think. In five years or 10 years' time it won't be perceived as RDC money, it will be like Land and Water Australia, in a way they'll be valued potentially because it's extra money for the sector, but I don't know that it will have the impact that you are seeking.

To some degree what happens now is individual RDCs are more or less responsive, that's what I hear you say, and I think that is true. In cotton's case we've been funding essentially through the RDC those types of projects in climate change and water use efficiency and that kind of thing from the RDC as cotton projects in that space. What do we think about RRA? I don't think we'll have cotton projects in RRA potentially, they'll be megaprograms in water use efficiency or what have you. Right now, just as an example in the water use efficiency, there's the NIPSI program which I'm sure you know about which is probably in other people's submissions. Essentially NIPSI is a bunch of RDC projects put into NIPSI. So there's a cotton project in NIPSI. I don't necessarily see that happening in RRA.

What you are actually saying is there is a way to actually get some better bang for the buck in terms of that program where the NIPSI broad acre irrigation program probably to some degree would be seamless across irrigated grains and cotton, maybe even sugar, and that that would be a better outcome. But what would guarantee you, I reckon, a better outcome is if there was industry money somehow in that program.

DR SAMSON: I think part of it is that this NIPSI and CCRSPI are really about, to my limited knowledge, the two examples of RDCs doing what the government is looking for. The birth of both of those, certainly the CCRSPI, was a long and tortuous and painful process. I would certainly hope that some entity like an RRA would ensure that there were more of those sorts of programs in place and that the RRA or whatever were playing the coordinating role in that exercise.

Greg, if I could just ask you to flip the link between this conversation and the one you had with Philip. Do you think psychologically to your levy payers it would be of significance difference for them to perceive that you kept the Cotton CRC kept its government matching to the level it now is, but some of that money was then passed on to an RRA, that would be a significant - - -

MR KAUTER (CA): I think that would be okay.

MR WEICKHARDT: In a compulsory giving sense.

MR KAUTER (CA): Yes.

MR WEICKHARDT: Like, "This is not optional."

MR KAUTER (CA): Yes.

MR WEICKHARDT: Because mathematically that's no different from what we were recommending but you think that emotionally it would be different.

MR KAUTER (CA): Yes. If it was based on an LVP-type - if it was based on a fair arrangement across the sector, GVP, so I think it would be very - if what you're asking me is if we were to go back to the cotton industry and ask for 50 mill of the 500 mill that's currently - I'm just rounding here - that went to this other remit of cross-sector research, I think that would be reasonably acceptable.

MR WEICKHARDT: Right.

MR KAUTER (CA): I think we would need to explain it and why, but from our point of view - this is not to be terribly critical of anyone or anything - but we only know what the council is up to through our own RDC, which is fair enough, but I suspect that across the ROs generally, there isn't a kind of coordinated involvement in NIPSI or CCRSPI, and are currently I think developing a capacity building program across the model through the council. I'm not sure what it's called but I bet it's got a - - -

DR SAMSON: CAPSI or something - - -

MR KAUTER (CA): But we can't describe it because we haven't come up with one yet. But they are doing that and again we'll put in our submission that we think the remit of RRA needs to be broader than just land, water and energy because I think capacity - as an example, everyone has got a rural leadership course, scholarship; everyone has got something to do with education; everyone has got a VET, an educational training project. Those things, from a sector point of view, could be handled very well in a strategic sense, setting up the strategy for the sector, and then in the implementation sense through something like you're describing. That would be far better than everyone just putting in their project to be managed by someone else under some loose umbrella at the moment.

If the industry funds were in there as well, then I believe the kind of integration that Adam and I think that you're really wanting to happen would happen because the

ROs would suddenly have a stake in RRA and they would be very interested in - not in driving the research generally, the board would be there and the program managers would be there for that, but in picking up the outputs of that research and broadly having it adopted back in the industry. I think the difference between Land and Water Australia and what you're trying to - you know, in the past - envisage for the future is the role of the organisation within the sector. Land and Water Australia did not have that role really. They brokered pots of money to do particular research or extensions with and I think why everyone kind of probably put Land and Water Australia in their submissions originally is because it kind of worked for everyone who was involved. But I think you're trying to overlay a greater role for this thing than what Land and Water ever had and the danger is if you just redefine it as Land and Water, they will get a little bit of individual buy-in where they've got a project but not beyond that.

MR WEICKHARDT: I'm very conscious of time - and I'm sorry, we're going to have to move on shortly - but can I ask you to quickly respond to one of the recommendations we made in the draft report that you've not specifically spoken about and that relates to allowing, if the industry so wished, the RDCs to take on a marketing responsibility. You've talked about concern on overheads in your industry. You've obviously got an industry association that works very closely and I suspect pretty seamlessly with the RDC. How do you think the cotton industry would see that? How do you see it?

MR KAY (CA): We're seeing more investments in the industry down the value chain where our RDC is making investments in the value chain but they're getting to a point in that research now where they have to just stop and it can't go further because of the current limitations. So to open it up so they could better partner with Cotton Shippers and Cotton Australia and other organisations in the industry and to follow that work through would be pretty valuable. So, yes, just talking from the current experience and where we're heading, I think they are at the moment a little hamstrung and that would let them follow these projects right the way through. We're looking to do more work in the value chain for Australian cotton and extract more value from it but it gets to a point where you're potentially crossing the line and they're very mindful of the current situation. So I think we would look favourably on it.

MR WEICKHARDT: Okay. Again, maybe in your further submission you can make some comments about that. The only other question I'd like to ask you relates again to page 29 of your original submission around the issue of appointments to boards of statutory corporations. You give, if I could be crude and describe this as a politician's answer or an economist's answer on the one hand; on the other hand, you suggest that Cotton Australia has a high level of involvement in the nomination of CRDC directors; it sounds good news. The process is very intense; the objective has delivered a good range of skills. You then go on to say:

The process is very response to ministerial direction through the selection criteria.

That might be a bit of a sting in the tail. You say:

Cotton Australia would submit this is now well reflected in the diversity and skills of CRDC directors even to the detriment of industry expertise on the board.

Are you saying you think the process works well now or you think the process doesn't work well now? Again, maybe you want to take that on notice, but I ended up a little confused as to what I should read into that message.

MR KAY (CA): I think we might respond to that in our submission.

MR WEICKHARDT: All right. Thank you very much indeed. We appreciate you coming along and the effort you've put into responding to us and we'll look forward to a further submission. Thank you very much indeed.

MR KAY (CA): Thanks for your time.

MR KAUTER (CA): Thanks very much.

MR WEICKHARDT: Our next participant is the Australian Mushroom Growers Association. If you'd just give your name and capacity in which you're appearing, please.

MR SEYMOUR (AMGA): Greg Seymour, general manager of the Australian Mushroom Growers Association.

MR WEICKHARDT: Thank you very much. If you would like to make some introductory comments that would be helpful.

MR SEYMOUR (AMGA): Okay. What I'd like to say is that I'm very happy just to delve down into those key issues you discussed with the cotton industry, because I've certainly got some comments in relation to those. I think that will probably be the best value for the commission in getting what they want to get out of it.

MR WEICKHARDT: Okay. Thank you.

MR SEYMOUR (AMGA): There were some general things that I wanted to make and they generally relate to small industries. I mean we've had cotton, a \$2 billion industry. I come from an RDC that has, I think, 37 different industries, 44 members ranging from, you know, the size of a pip of an apple up to, well, I guess the fresh grapes. But certainly collectively it's an \$80 million RDC, but when you break it down we're all individuals. It's a bit like saying, "Let's have the dead meat RDC." It's not - you know, I mean we have beef, we have all that.

So I wanted to talk really about the downside or the risk of some of the, if you like, economic theory that has been put forward in the draft report and delve into those areas that you touched on before, which is why isn't industry going to step up to the plate? There's issues of - and I use the term "critical mass" because if we have a failure in some of these areas I fear that the baby may go out with the bath water. We just need to be a little bit careful in if we haven't got this right, what happens? Because the big picture that we're in there for, which is actually about delivering benefits for a whole range of stakeholders, could go up in smoke; we don't know, but it's an issue that we want to play with.

So thank you for being able to put up with the mushroom code, which were my notes for driving my presentation today. But I also put some additional ones from yesterday's discussion, which I thought was pretty good with Mick. I will just touch on them. You pick out the ones that are of most interest to you and I'll go there. I guess the important thing for me was is that we invest in these things to deliver outcomes, and very often we get wound up in process and theory and argument and we take our eye off the ball; because for me and for most of our constituents, it's a value game. It's what we put in to what we get out. If we play around with that and we don't get out from - no matter whether we got the process supposedly right in

here, then we've actually lost the game. So in taking a big holistic picture of all of this we keep that in mind at all times.

R and D is good for the community, it's good for the economy, wherever the data comes from, the process comes from. If we're going to be more than a quarry then we have to develop these things. If the bush is going to be more than a quarry, you know, a site office, then we need to have these other skill sets and things to develop the economy. Just coming from the mushroom industry it has made a significant difference to our business to have a really well-coordinated, highly integrated R and D and marketing focus. I will come back to some of those points that I know that you want to talk about.

We would argue that agriculture gets more than the rest of the economy and we really defer to Keogh's work yesterday. You had that discussion, so I don't think there's anything more to say about that. The important thing is perception. There's reality, and we also have to have what the objective numbers say, but my concern is that there is no answer, and I think everyone is agreed that the data is a little soft. It can give us guidance but there's no absolute in this. So then perception comes into play. If you ask any farmer I mean Australia would die unless they grew food for it. We all know that that's not true, but that's the perception and that's the underpinning basis that kind of derives from what we're going to talk about a little bit later.

I was very pleased to see that the commission recognised the value of this RDC system. Honestly, I mean I've been in this all my life and it is the best thing on a global scale that has the input of all of the parties and it can deliver. The better you get at it, the longer the delivery chain comes from - in implementing what the outcomes are, and you just ratchet up the outcomes. So I just want to put that on the record, because there was a fear at the start of this that the RDC model was going to be discredited, and we knew that it was absolutely - I've got to tell you, it is first class.

My counterparts - you might notice in my bio I happen to be the president of the International Society for Mushroom Science, which is the overarching mushroom industry in the world, which has a very strong science base; I mean our business is a science business. They look at our system and they see the results we have been able to achieve as an industry - we're 22 million people and very soon we'll be in the top probably four or five producers in the world, from a 22 million base. They look at that and they say, "I wish we had this sort of system." So on a global scale we're trying to implement this RDC-type concept to industry around the world, so you can actually have a global approach to this stuff, but it's all based on the system we have here.

I think it's important to understand that not one size fits all, I think you've acknowledged that, and it's often hard to manage and there's this temptation at all

times, for administrators, to make it all the same because it makes life easier for us. I say, look, can we always stand back and say: is this going to deliver the outcome rather than make life easier for people in the middle, because in horticulture, you have just this massive diversity of maturity of a whole range of things that if you don't take account of, you're not going to get the outcomes. I've got to take my hat off to the guys who run HAL. I mean, it is just a nightmare to manage, in the sense that everyone thinks that their way is the most important and is the only way. So they have done a great job and to their credit, those people who have taken responsibility for the way that they wanted delivery outcomes in their business through their R and D and marketing programs have been able to achieve that. So I want to put that on the record as well because being able to cope with diversity is absolutely paramount in the system. If we have one system for everyone, I think it's going to fail over time.

Just coming to the benefits for the ag sector, I just wanted to highlight there that although the theory might say - and we're probably not all that much different from cotton, being a relatively successful business - that if the government pulls its money out, I just know that industry isn't going to step up. Certainly it isn't going to step up tomorrow, it may over time, so your point is right, we need a long adjustment period with this, and we need very clear signals and very clear messages. It needs to be not done in the darkness or in the shadows. It needs to be up-front and it needs to be really clear to people what the expectations are, so that they can make a clear choice about stepping up to the plate or not.

But my fear is that if they don't, and particularly in these small industries, we're going to have this hiatus in which the whole thing might fall over, so I just ask you to keep in your mind economic theory is fine, but when you apply it to these small industries where there may only be one or two researchers in the whole of Australia and suddenly the industry doesn't step up and the whole thing winds down, and it's really easy for, if you like, a state government, to just cross that off because the industry isn't in there doing anything. Then one day when we wake up and we really want to go there - I mean, the opportunities for horticulture on a global scale are huge - it's hard to wind it all back up again, not impossible, but it's hard. So I just talk about that in terms of critical mass and that's not just dollars for projects, it's about the systems that are involved.

I think Cotton talked about the withdrawal; unfortunately for the mushroom industry, state governments withdrew a decade ago. The interesting impact of that has been a lot of the money that we would have traditionally spent on research into new areas has really had to be diverted into this maintenance thing. So when government pulls away and you have to take up the bit, they're the things that get taken up because if the bugs are eating the plant, or in our case if the mushroom is dying tomorrow, no-one has got a chance to think 20 years down the road and they tend to put all the money in here. We've been relatively good in that we've been able

to have a mix in the portfolio, but I've got to tell you, if they're going to go out of business tomorrow, that's where they're going to put their dough. So I think that's an important thing to understand about the withdrawal of services. We've had to do absolutely everything for ourselves but it's a big, big chunk of our statutory levies fund, just to maintain the services that keep the business going around in a technical sense.

MR WEICKHARDT: I saw in your bio that when you headed up the horticultural R and D operations in New South Wales, it said there were 235 staff members then. This is, what, 20 years ago or so?

MR SEYMOUR (AMGA): Yes, 15 years ago.

MR WEICKHARDT: How many would be in horticulture in New South Wales now?

MR SEYMOUR (AMGA): I would not have a clue. They had no relevant to us.

MR WEICKHARDT: But not 235?

MR SEYMOUR (AMGA): I'm sure not. I think there were 74 PhDs working at that time. That counted a whole lot of ancillary staff and TOs and things like that, but certainly the level of input would be massively reduced.

MR WEICKHARDT: So the industry over time, maybe not happily, has adjusted to that change?

MR SEYMOUR (AMGA): Yes, we've had to. We've had no choice. I guess an unkind remark might be that if the government wants the money, why didn't they just go and take it, rather than go through a process of seemingly trying to justify it? In those days, they did. I mean, they just walked up and closed things down. There's no choice, sink or swim. We do get there, but memories are long.

The other part is - and it really comes down to this spillover thing - it's an inherently difficult thing to model and to get right. I would say that from the producers' point of view, they see it as they're basically a CSO, a community service organisation providing food for the masses. Again, I don't understand economic theory that well, but I've got to say that when you look at some of the things that come out of these permutations, you just think to yourself, "Gee, did we need to go through all of that to work out where it really was," because part of the problem I see is that we kind of miss things that seem obvious to me.

I'm just going to give an example here. So we've got a project going now, it's on vitamin D, so we're able to generate huge levels of vitamin D in mushrooms,

through a project we did with our American counterparts. Vitamin D insufficiency affects 50 per cent of the world's population and Garland says that if we got the right levels of vitamin D circulating in our body, we'd save between 25 and 50 per cent of the world's health budget. I don't care if only 1 per cent of his story is right, it's a huge amount of dough, and would more than justify the RDCs for the next 50 years. This work wouldn't be done if it wasn't for the RDC system. I don't see the guys at Sydney University looking at mushrooms or anything like that. They're in farmer business because that's where the money is. So these sorts of things are important and ours is just one small area, but I am representing the mushroom industry today. The vast majority of our R and D investment is virtually public good. We're at the back end of the beneficiaries, in that we get to increase our business and grow more and grow the business, but at the end of the day, the greatest benefits are the general public. We have a much stronger marketing focus, as you would see in the way we apportion the dough, but it certainly drives our R and D program.

I just wanted to talk a little about the RAA and really it's to reinforce and I guess put some clarity around what Greg had talked about previously, that you talked about this concept of separating the thing, and I think you have to in a project sense, in the way that you structure your investment. I totally agree. What I am concerned about is that it's autonomous, and I think you need to have a link back to those organisations that are actually going to help implement what this body comes up with. So we've got, if you like, a little bit of blue sky and I think it should be applied, but meet some larger stakeholder numbers. But unless you actually turn that to something that actually happens in the paddock, we've really got nothing. We've gained nothing. So for me, the model - and some of my colleagues will shoot me for this - would be that we should, if you like, find the 50 - so don't change the 50 from 50 cents in the dollar, keep it there, but get the money out of - and I forget the word you used before, Phillip, but certainly to ensure that each RDC funds the cost of the organisation of RRA on a pro rata business out of its existing budgets. I say that to you, having been a member on the HAL SFA negotiations committee; also I'm on the members' representative committee, and we're dealing with these issues all the time.

So we now in our SFA have to allocate 5 per cent of income into the organisation to, if you like, what we call "across-industry projects". Now, there will be a range of "across horticulture", "across agriculture". But the government stipulated that the 5 per cent come off. They still haven't stipulated what it's to be spent on, and I think you're absolutely right. The government needs some hand holding, with appropriately qualified people, to clearly put what it is that they want on the table. I've got to tell you, this dealing in the shadows and the innuendo in the soup of unknowingness, it just pisses you off unbelievably because you do something and, "That's not good enough," or, "No, that wasn't what we needed." Every time you get this - get rid of the uncertainty out of this. This is business. Farming is for finance, not for romance. Let's make it clear what we want and let's make it clear how we're going to fund it. If you have an appropriation that comes off, and let's say

everyone has to put in 5 per cent across their RDCs - I don't know what that would come to in the mathematics - and that goes to RRA, there's a link then that the board of RRA, not the research officers, not the programs, then need to be able to have some reporting and relationship. You need this direct relationship. So in a principle basis, yes, give them some autonomy about the way they think and carry out their projects, but have this link back into the system in the real world through money. There's no better connection that you have from that.

What that level might be is on there because it takes out of play - honestly, it's the worse thing that can possibly happen is taking away the 50 cents in the dollar. I know there's good reason to do it, but politically if you can do that and achieve that by routing the money another way, I just think you're going to be far better off, it's going to be just so much easier to swallow and it will bring all of those things in that principal model as, "Don't disconnect the scientist from the real world, if you've got some connection there, then you've really got it into play." I haven't given it much more deeper than that but on a principal basis, I know if you don't have these didactic systems, they run away and they have a licence to run away because you haven't given them enough instructions.

DR SAMSON: Can I just say at that point whilst we haven't dotted every i and crossed every t, our thinking has always been if an RRA were to be created, whether it be through the composition of the board or some HAL or RIRDC-type advisory committee system, there would never be that disengaged of that organisation from the rest of the commodity groups.

MR SEYMOUR (AMGA): The only problem with that is that when you serve on a board, you serve in the best interests of the company or the organisation or whatever it is, and you really shouldn't be taking your representative hat to the board table. You've made that statement in here that the boards of RDCs should divest themselves of this representation and I'll give you a comment at the end, if you like, about that. But my view is that if there's a connection, it's a bit shareholders and the operation of the company because at the end of the day the board is beholden to the shareholders. They don't tell the board how to run the company, but if they don't get it right, they get a kick and it's very public and transparent of how they need to report.

In doing that it brings those links that Greg and Adam talked about which was ensuring that the people there are linking with the people here at an operational level as well. They're not dictated to what they do, but to deliver the outcome, they have to do that. It's just commonsense. I'll leave that there. The other thing that I thought was important there is that in our view if we could find an existing structure and RIRDC was the one that came to my mind, is that you can set something up on the edge there that is part of RIRDC but is almost autonomous except that it comes back through into the board there and in that way you try and limit the amount of

overheads. We just don't need some more overheads. We're all running around trying to skim every bit of cost out of the system we all can. To have another one kind of flies in the face of what we're trying to do. I will leave those there.

The other area that I wanted to talk about and I think it's section 9.5 in the report and it doesn't capture a big amount of time but it's this voluntary contribution. The question you asked is should government be matching funds for non-statutory levies. I just wanted to make sure that you understood what that meant certainly for horticulture and for the mushroom industry in particular, in that VCs we find are probably the greatest thing that we've got in the levy system because it provides us with a level of flexibility. It's where we do invest all of the extra dough. Sure it's 50 cents in the dollar, it's a wonderful, wonderful incentive to get money out of people's pockets, I can tell you. If you've got to - and we'll come to this a bit later - use economic argument to get money out of farmers, I've got to tell you it's not a real powerful tool. 50 cents in the dollar is a magnificent tool.

Let me go further and say - and I'm not sure if I gave this in our submission, I was overseas when this was put together - we put about a million in from the stat levy to our R and D and we put about 1.5 in the VC system and that's simply because if we were to ask the growers to allocate, if you like, \$2.5 million of statutory levy money that's signed up as taken off them every year, it's kind of compulsory stuff and I don't think they're going to go for that. Whereas the VC system, if we've got a specific need, a strategic need to do things, we pass the hat and it gets filled up. The other thing that's important about it is that it allows us to expend down the supply chain and that doesn't apply. I mean, in our system it's the growers who pay but everyone else in the system gets a benefit and they don't pay in directly and if they do pay in often, they just take it off the chit that goes back to the grower anyway.

So we prefer then to have it on a project basis and we go along and we pass the hat and we collect the money off all the others in the supply chain and we bring that back into the VC system.

MR WEICKHARDT: What sort of a percentage sign-up do you get to these voluntary contributions?

MR SEYMOUR (AMGA): Do you say when we go and knock on a door how many times do we get turned away?

MR WEICKHARDT: One of the reasons for having a compulsory levy is there is a risk of people free-riding on their neighbour. Are you saying you've got a greater chance of a bigger bucket of money by only a modest compulsory levy and the rest of it being voluntary? I'm just wondering how many people don't actually chip into the hat when you pass it around for the voluntary contribution.

MR SEYMOUR (AMGA): Not too many, but I want to come back and clarify what I said. If we had a statutory levy and we got that extra money, so it would be an extra 750,000, and we asked for that every year to be put in as a statutory levy payment, they are unlikely to agree to have it go up to that level, simply because we may not need it. Whereas if we can turn around and we can show - it comes back to your point about being able to communicate with your investors and put a compelling case for them to put in. The other side to the coin is that we have, if you like, a compulsory voluntary levy for the AMGA. 76 of the 77 growers are members and to be a member you have to pay a levy, which is exactly the same as the statutory levy, except it's a voluntary levy.

So if we had to go round and knock on the door and collect every time, I don't think so. It's when we go to knock on the doors of Woollies and Coles, what's our strike rate there? It's not good but if the project is good enough, it will get up and if there's enough in their interest. The wholesalers? Yes, if we can get the right project. It's really about put no-brainers in front of them as opposed to speculative - - -

MR WEICKHARDT: Those voluntary contributions you're talking about are further up the supply chain, are they?

MR SEYMOUR (AMGA): No, the bulk of it will come out of the AMGA itself from what it has been able to collect voluntarily from its growers, so it's making a voluntary contribution here. But we then use that as the leverage, so we might say, "Look, the growers are going to put 75 per cent into this project, how about you blokes pick up 10 per cent, you pick up 10, you pick up 5." So again, that's why I say the 50 per cent is a leverage because we do it every day with our own money. The assumption is that you wouldn't come knocking if you didn't think the project was any good or it had anything in them, it's just how much they have to pay. That's the level that the thinking is at, "How much do I have to pay?" rather than, "Gee, this is fantastic, I put a cent in and I get a dollar back."

Timely, if we've got a problem we can respond to that pretty quickly. As I said the flexibility, and it does draw it in. The other thing that I think is important, and it was particularly about this 9.5 that I want to put some clarity around, is that in our industry and I think several other horticultural industries, we come as a industry with our VCs rather than Jenny Bloggs, the mushroom grower, fronts up with a VC to pick up. Now, I don't know how we will be able to give the detail of what the percentage is between what we call industry-endorsed VCs which are where the industry comes with its money and puts in on the table and says, "We've done the collecting before," and we bring it up and put it on the table, versus those individuals. I can understand the argument in an, if you like, appropriation sense of, "Why should a private farmer get some benefit against a private shoemaker of getting 50 cents in the dollar as opposed going through the R and D system?" I think there is some

validity in that argument.

The other side to that coin is that sometimes the benefits to those people will spill over eventually into the sector. So it may be that it's a larger player comes and takes advantage of that that may not have happened. But to come back to the other one, is that I would hope the commission would see an industry-endorsed or an industry-bought VC which is a collective, see that in the same light as a statutory, certainly in horticulture as opposed to private individuals. The other thing is that if we were looking for the R and D rebate system, and I'm not sure if that's the right term, as an incentive for individuals to invest certainly in the mushroom industry and I would guess in horticulture per se, it's not likely to happen because they're relatively small in size and it just won't happen. Whereas if they give the money to the PIB and the PIB invest on their behalf, then that has a much, much easier way of getting the dough together. I think our record of contributing way above what our statutory levy is, is evidence that if you get the system right, then you can do it.

MR WEICKHARDT: If you can wind up reasonably soon please, Greg, and allow us a bit of time for questions.

MR SEYMOUR (AMGA): Yes, I will. The strategic planning, five years. I came to the business thinking a three-year strategic plan commercially is kind of what you do. I think five years now I'm an advocate for and there's a number of reasons for that. But one of them is that we take an annual review of it anyway so it's almost a 12-monthly strategic plan: has the world changed? Do we need to change anything in there because our operational investments are on an annual basis, although the projects might run for three years, we'll have a rolling sequence of them. The second part is that the resources and time and effort to go in to do the reviews, particularly when you've got a small value project or a small value investment portfolio sometimes outweighs the benefits. If you had have got it wrong, you'd reckon it would be cheaper than going through the process. I think they have just taken 70,000 bucks off us to do some post-project benefits.

We don't have a problem with the concept, it's just the cost needs to be in relationship to the benefit. Certainly at HAL we have these three-year reviews, they only just start to get to the end of the implementation and there's a review on again. I think they need to be a bit longer and the review process needs to be commensurate with the value of the outcome. Let's leave that there and if there's anything else you'd like to ask me, please do.

MR WEICKHARDT: Thank you very much indeed.

DR SAMSON: It's an interesting point you raise about looking at small industries as well as the larger groups and I guess the smaller industries are served in two ways: the majority through membership of HAL and the sort of new and emerging

industries in RIRDC, so it's difficult to see where - sometimes they don't emerge for quite a while. If, as some people have suggested, instead of creating a new entity, RRA or whatever, if RIRDC - some people have suggested we'll modify the existing structure in RIRDC - one of the issues we have always been very keen in on this principal basis is to separate out the work that an RDC does with producers on a commodity base and this broader public good thing and we're very conscious of not perpetuating that confusion, if you like.

So if we were inclined to pursue some of thinking in terms of RIRDC taking on this role, at the moment it does have responsibility for a number of commodity industries, rice, honey bees, you name it they're there. Do you have any thoughts on how, in a revised RIRDC model you might treat those commodity based industries?

MR SEYMOUR (AMGA): Yes, without having a great deal of thought - I will give it some more after we finish today - but certainly to make it clear that those things exist, these things are a very important part of business. HAL operates in that way. It's got 37 of them and RIRDC is like a hospital now, as soon you start to look half-healthy you get pushed out the door over to HAL. This VC thing is important - just moving aside for a bit - that you come from RIRDC, you've started on a VC, you go statutory, you get bigger. That's the general run that we have with those things. But to come back to your point, ideally those things would find a home within the RDC system over time.

DR SAMSON: It's interesting, Greg, you say that there's that journey that an industry takes from emerging et cetera but maybe the theory doesn't seem necessarily to be applied in practice. I mean, you look at RIRDC now and rice, for example, which I have had quite a bit to do with and would consider a very mature industry and quite a successful one when they get water, is still in RIRDC. So there seems to be a bit of a difference between what in theory you'd like to happen and what does.

MR SEYMOUR (AMGA): Yes, and I guess my view to that is does the practice of the past need to interfere with the way we think about setting up in the future? Maybe it's time to give rice a tap on the shoulder. HAL doesn't need another job, I can assure you. They've got 37 individual industries that operate within there. Horticulture is a time-dependent concept. It doesn't exist, most of the time it's apples, oranges.

DR SAMSON: I think we've just got to be careful, in perhaps changing one bit of the system which might make sense, we've got to be conscious there are then some consequential issues that would also have to be embraced.

MR SEYMOUR (AMGA): That's true and I guess it turns around and says, "Well, how much is it going to cost to run RRA? Is it going to cost 10 million bucks?" Is it a \$10 million question, or is it an eight million dollar question.

MR WEICKHARDT: Greg, can I address an issue that we raised in the draft report and that is that even with the reduction that we were suggesting in the cap and that would be payable, I think even Mick Keogh's maths would agree - I think he said he could buy the fact that RDCs were maybe three times more generously funded than the general concessions under the tax concession. He didn't buy the 11 time ratio, but if you cut three in half, you've got one and a half, so it's still a more generous funding than the general mechanism and we're suggesting if that's the case, then there still is an obligation on the RDCs to justify public funding, relatively generous public funding, and for that reason one of the criteria we suggested was that there should be a balanced portfolio within the RDC between shorter-term adaptive-type research and longer-term blue sky type research.

Now, the one RDC that probably, from our superficial look across the spectrum, raised a bit of concern in that area would be HAL which seems to have a huge number of fairly small projects and not much in terms of longer-term, blue sky, deal changing type projects. How do you see that in the mushroom area? Do you think you've got a balanced portfolio or is it all very short-term, tactical work?

MR SEYMOUR (AMGA): In a word it's market-driven and to that extent our global portfolio certainly looks at that area and we, if you like, reduce our risk by all having a small chunk of that blue sky. So that if we're looking at biotechnology in our breeding, then that's done at Wageningen in Holland, Anton Sonnenfeld is the whiz kid there, and we will all take a chunk of that project and we will increasingly, on a more formal basis take a chunk of that project. We're looking at the use of biotechnology in disease identification, so we have scientists all dotted around the world that participate in these projects. Sometimes we run them and they participate in those and sometimes we're actually contributing to other projects.

In answer to your question, that's how we get around it. In Australia we just don't have the resources, we don't have the people, we don't have the money and we don't have the size of business. This is a 22 million country. We just couldn't support that. That would go, I would think, for the vast - well, an increasing number of those smaller industries. We just have to take a global approach to it.

MR WEICKHARDT: But some of your money is going towards that longer-term research centrally carried out by the global mushroom industry.

MR SEYMOUR (AMGA): Correct.

MR WEICKHARDT: All right. That's quite a good answer. Thank you very much indeed.

MR SEYMOUR (AMGA): Could I just touch on one last thing, and I said I would

come back to it, and that is marketing and representation in the one organisation. I have some fairly firm views about that because I don't think agri-political activity should enter into what I call industry development. It needs to be in a separate thing because it just gets too muddy. My view is that it is essentially to have marketing within the organisation because quite frankly marketing should drive your R and D portfolio. R and D is just a subset of where you want to go. For us, our whole portfolio is just market-driven. We would only have probably less than 10 per cent in production-type stuff. All the rest of it is R and D and it relates to driving market outcomes. So I think that's a great thing and to have them side by side and just intertwined is an absolute benefit.

The part where the agri-political is is that I think it's a role, I think it's an important role - and I want to get something extra in on the table here - is that for the larger industries they have the capacity and I think you've seen today, we just don't have the capacity to be able to have policy officers and people with those skills and the issues for mushrooms are different to those for apples and oranges and all those sorts of things. So I just sense that in having the statutory funding arrangements it will be very important for smaller industries to be able to have or for industries to be able levy itself and say, "Look, we're going to put \$10 on the table, we want \$5 of that to go to marketing, we want \$3.50 of that to go to R and D and we would like \$1.50 of that to go to the peak industry body," to be able to provide the capability and participate in the system.

I've got to say to you the success - certainly ours and others who are starting to see it - is this entwined involvement and you've seen it in cotton and it's just beautiful. It's one entity all taking their industry on. There is not all this stuff going on and when you have that seamless relationship in which everyone is clear about their role, then I think it's fantastic. For RDCs and those sorts of things to be able to provide the data and the skill sets so we have the numbers - because you've talked about the paucity of data. Well, someone has to do it and we find it's better if it's done within the camp. Mick has just done something for horticulture which was really good. That's how you get the numbers together because you - it takes a lot of dough and it takes a lot of skill and time and energy and if we can do those things in there and then the agri-political body can go off and do their business with Canberra. But for industry development, you get more bang for your buck out of dealing within these RDC systems and it's lovely because it can move here and move there and do what's got to be done.

MR WEICKHARDT: All right. Thank you for that. One comment by the way I should have made earlier. You've raised the issue about five-year strategic planning cycles and I suspect that you are alluding to our recommendation that related to three-yearly reviews. Other participants have raised that same issue. We'll think about that cycle. I guess we had not seen this as intended to be an entirely onerous responsibility on an RDC, in fact good quality reviews with external oversight of

quality of science and taking account of some external eyes on what's going on inside the RDC ought to be very helpful for the RDC. It shouldn't been seen simply to be a requirement imposed by government. There is a measure to which this should improve the performance to the RDC itself. But the exact length of it will take some further thought.

Gentleman, that concludes today's scheduled proceedings. For the record, is there anyone else who wants to appear before the commission? In that case I adjourn these proceedings and the commission will resume the public hearings in Canberra, next Monday, 8 November. Thank you very much indeed for your participation.

AT 10.45 AM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 8 NOVEMBER 2010