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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 CANBERRA ON TUESDAY, 9 NOVEMBER 2010, AT 9.03 AM

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MR WEICKHARDT: Okay, well, good morning, ladies and gentlemen. Thank you We're now resuming the second day of the hearings of the rural research and development corporations inquiry in Canberra. We may interrupt this briefly when the court reporter arrives but for your timetable and ours it's good to get started now. So let me welcome our first participant this morning, the Sheepmeat Council of Australia. For the transcript, can you please just both give your names and the position and capacity in which you appear in today, please?

MS JOSEPH (SCA): Kate Joseph, president.

MR CULLEN (SCA): And Ron Cullen, executive director, Sheepmeat Council of Australia.

MR WEICKHARDT: Thank you very much indeed. Well, please give us a bit of a summary of what it is you want to talk about. We will then take it from there.

MR CULLEN (SCA): All right, thanks very much commissioners. We felt it was important to present on behalf of the sheepmeat industry of Australia to put forward some views on the draft report which has recently been released. We'll be making some comments on behalf of the sheepmeat industry but within the context of the cross-agriculture submission that was put together. We were part of the consortium that worked with Mick Keogh and his group to provide the funding to allow that work to be done, which we see as extremely important and perhaps able to provide a bit more depth than we can in terms of some of the facts and figures.

Can I also at the start apologise for sort of rushing this process a bit. It's very difficult to get hold of some of the politicians and we were fortunate in getting a meeting at parliament house at 10 o'clock, but we are prepared to come back if either of you wish to pursue any matters that we don't adequately cover in this first little while.

So to just recap our submission, it really had two fundamental parts to it. One was about the restructuring of the red meat industry in the late 1990s which was a fairly painful and protracted experience but provides us with some learnings about what happens when we work at structures. I will come back to that in a little bit in a minute. I also wanted to emphasise very much how the current model has worked so very well for the sheepmeat industry. In the last 15 to 20 years we've turned the sheepmeat industry from what was a domestic industry that was putting out a product of variable quality and we are now a vibrant export industry that's contributing significantly to the Australian economy and providing significant public and private benefits across society.

That success was built on a partnership which we see in the current model of a

service industry and a policy body, admittedly some individuals who really drove change, but without those individuals the industry itself would have struggled to turn itself into what it is today. So we look with some degree of fear at any recommendation that might threaten our ability to work across the supply chain to continue to make improvements to our industry's profitability. Obviously there is a vested interest there because it's about making profits for our stakeholders but also it's very much about the wider public good that we've been able to achieve.

So we work very closely with MLA and we think MLA is providing us with an excellent service in both marketing and R and D. Again, that history of the success that we've seen over the last little while is a very good example of how it can work. I guess the thing that raises some concerns is that we often look to structural change to address non-structural issues. We think that most of the RDCs' model is quite similar and the individual differences aren't about structural differences so much as they are about personalities and performance, and as such see a lot in the draft report that we tick off on. We'd certainly encourage - and Mick Keogh and the across-ag submission does all of that. Says, you know, "Yes, yes, yes," blah, blah, blah. So we'd just - there's always the problem that you leave the good stuff to one side and talk about the bad stuff, but that's the reality, I guess.

So we just wanted to mention that given our history as a red meat industry and the sort of structural change that has occurred, the issue that there are some R and D bodies that we believe aren't operating efficiently - it's not about structures, it's about performance and content. We would ask that that be taken into account in terms of the report that you go forward with. We appreciate that there are political sensitivities around that but again, it's very important for us that we don't lose the momentum and the excellent relationships that we have within the current model. MLA works very closely with AMPC, Australian Meat Processor Corporation, which is the processor R and D group, and LiveCorp, the live export group. We meet regularly with processors and with the live export industry to talk about how the companies have performed and what they will do in the future. We feel that that's a very positive and productive relationship and works extremely well for us.

It's interesting when you align the principles that are outlined in your report against MLA's performance, and I think you get a pretty good alignment already. I think you can tick most of the boxes. Now, that doesn't say that MLA is the perfect organisation, and we wouldn't like David Palmer to think that that was the case. There is always room for improvement. We are in fact addressing one particular issue at the moment about changes to the way the organisation works and we will continue to do that.

The other thing I think that's very important for us is the marketing and R and D within the one body, because it does provide us with a through-chain ability

to be able to identify the customers' needs through some of our marketing work and translate that into R and D to change the product to meet the consumers' needs. We can talk more about that if you wish but we see that being within one body as being an advantage, not a disadvantage.

There's a little bit of uncertainty, I think, across ag group about Rural Research Australia and I think you might seem some different opinions coming out. The only thing I would like to stress there is I think that if it is based on the principle that somehow or other we can embody within that organisation the public good stuff, then we'd be opposed to the creation of that body because it is extremely difficult in agriculture to separate public and private good. The landmass of Australia is - there's a fair swag of it held by private individuals called farmers, and if we want them to make change to the way our environment or our sustainability or our communities work in regional Australia, we're going to have to provide them with some private good along with the public good outcomes. To think that we can separate those two is somewhat - well, I think that's extremely difficult, if not impossible.

We see programs like Grain and Graze, for example, which MLA have developed and put out there for producers provides us with public and private good, provides the producer with the opportunity to be more efficient in the way they put product into the marketplace and it provides better outcomes for the environment in terms of, well, a whole range of things: better ground cover, shelter belts - the list goes on. You can't go to a producer and suggest that they increase the amount set aside for vegetation or biodiversity without some other outcome for them that puts some money in their pocket.

I guess lastly, a bit of significant concern that the government might see a need to reduce funding into this activity. We see a need for increased input, obviously, and we see that for a very good reason given the need for food production and sustainability and environmental outcomes into the future. The trend should be towards increased effort, not less. We'd question somewhat the assumption that Australian agriculture is somehow better supported than other areas of industry, and particularly given that we're an export industry in comparison to our competitors in the world marketplace. New Zealand and us - sorry, I'll put New Zealand to one side because I think they're similar in terms of the level of support. In fact, if we look at the producer support estimates from the OECD I think at the moment New Zealand is 4 per cent and I think we might be 5 per cent. I'm sorry if I've got those slightly incorrect but it's pretty damn low. The only reason we're greater than New Zealand at the moment is because there's been some significant increase in that contribution from the government through our drought over the last 10 years.

If we compare that with our competitors like Europe, they're at, I think, 50 or 60 per cent. The support provided to agriculture across the world is significantly

greater in other countries than it is in Australia. One of the difficulties of just taking out one small component and doing a comparison is that you lose the bigger picture, you lose some comparative support to producers. I think that's sort of the summation of where I wanted to go. Thank you, commissioners.

MR WEICKHARDT: Okay. Thank you very much indeed. Cliff?

DR SAMSON: Okay, thanks, Phil. Look, Ron, I think we're probably in violent agreement with a lot of you just said, particularly the principle-based approach acknowledging each of the commodity groups have got quite different individual issues; hence we did adopt a principle-based approach and that people operationalise those principles in ways that best suits their own circumstances. So I think we're good there.

You talked a little bit about RRA. Again on some of that we would be the first to agree that in terms of trying to separate out public versus private good there is no black and white issue here, there's a continuum and any single project will have some component, hopefully, that turns out to be private and some that's public. The balance often you don't know till you've got to the end of the thing. So we accept that.

What we have observed though in the 20-odd years that the model has been operating, we believe that it has been and continues to be highly successful when the RDCs are focused on levy producers' interests, on farm productivity, that type of thing. That is what they do best, undoubtedly. We are convinced at this point in time that what has been less successful, and if you like increasingly in the spotlight as being less successful, is when the government stakeholder has asked for a range of cross-commodity issues to be addressed. Obviously some of these are quite big ticket items like climate change, irrigation, soil degradation, whatever. To varying degrees some of the RDCs have tried to understand what government wants, and that of itself has been a problem because government has not been that particularly sharp at articulating what - we do believe that you've got two bodies of work: the commodity-based on-farm productivity, this larger scale cross-commodity set of issues.

Hence we believe that the creation of an RRA or something of that ilk would allow a focus, a concentration on some of those cross-cutting issues which we also believe probably require some different skill sets and to almost hopefully do what you want and allow the commodity groups to actually do what they do very well and do it even better. So we wouldn't see the RRA model in any way detracting from the whole range of attributes that you've come to see as existing in the existing structure. So it is that separation. So it's not simply, "Here's the private good done over here, here's the public good over there." We accept there's a large area of grey in that. It's

more the larger scale cross-cutting issues. Now, you can point to a couple of examples where the current RDCs have come together, this CCRSPI, this climate change thing. But they are the exception. We believe they have struggled to get that far and that separation of focus in RRA, we think, would be a positive thing. So that's the sort of - the logic behind it, which isn't perhaps as far away in where you want to be, I thought.

MR CULLEN (SCA): But I think you hit the nail on the head.

DR SAMSON: Sorry, it wasn't a question in there.

MR CULLEN (SCA): Well, there was, because I heard it. No, I was going to respond by saying that I think you hit the nail on the head when you talked about how government has actually transmitted the message about what they wanted, because I would then take that discussion and say we've got two things happening here. One is about funding - and let's put that to one side in terms of establishing another bureaucracy that perhaps we could do the same job within the current institutional structures without making the change necessary to where you'd need another body, or maybe doing it within RIRDC; or telling MLA or the other service bodies more clearly what the message is from government about those particular outcomes, because I don't think we find really clear messages from the government about wanting that sort of stuff done in an appropriate enough way and reinforced well enough to give the clear message.

MR WEICKHARDT: Well, of course that might be a good thing, because governments aren't always right, and the government being approximately right is probably better than being precisely wrong. The risk is, if they try to absolutely clearly articulate exactly what is required and be dogmatic about it, then it may be completely useless. The issue, as Cliff has said, is that we do not see a bright dividing line between public good and private good and indeed it's probably highly critical that some of the work that RRA may do will have private benefits because it's those private benefits, along with perhaps overwhelming public benefits, that may facilitate implementation and adoption, unless government becomes heavy handed with regulation which is probably an undesirable way of getting stuff done.

But let me thank you, by the way, for the contribution you have made to the cross-agricultural work. We had a very good session with Mick Keogh in Sydney and we're going to have some further discussions with him to try and resolve a few of the technical issues that it wasn't productive to do across the public hearing. But the issue on relative support, I think we're on heated agreement about the derivation of most of the numbers and the difference is the degree of magnitude. I think Mick said, "Well, finally I accept three times but I don't accept 11." Okay, we're not going to probably go to the stake over that particular issue; the point we were making is

agriculture is at the moment treated more generously than other sectors in Australia. I'm not suggesting it's treated more generously than agriculture is in other countries but it's treated more generously than other sectors in Australia and there are some good reasons for that. But our judgment call was that the quantum of generosity at the moment probably exceeds the quantum of what we think is necessary. But this is a judgment call and part of these public hearings is for us to try and test our judgment.

I guess the other thing that we are going to try and bottom out with Mick is the issue on clarifying some of the data sources. He queried that. Again, we're in heated agreement that more clarification is needed on data. The other is on the productivity links of R and D and productivity. But let me come to a question: you in your submission talked about the difficult and tortuous process of establishing a statutory levy for the red meat industry and the fact that in the early sort of incarnations, the voluntary levy sort of fell away and finally there was a vote for a compulsory levy.

MR CULLEN (SCA): That was proceedings in relation to the live export industry. We've had a compulsory levy in the red meat industry since the inception.

MR WEICKHARDT: Right. Part of the thesis that we put forward in the draft report was that if you remove some of the difficulties of adjusting the levy that are implicit in the current system and you recognise that there is a lot of self-interest in primary producers continuing to drive R and D, you are likely to get in some cases another adjustment of the levy rates. You might want to talk about some of the processes that you have seen going on in the red meat industry about the size and the quantum of the levy because we're interested in the fact that some industries already are contributing significantly more than the matching government funds and some are contributing right on and some are contributing under the government matching cap. Just talk to us a bit about the process that has gone on in your industry and how unanimous or how divided the industry is about the current size of the levy and for the reasons for that.

MR CULLEN (SCA): I think Kate can perhaps give a producer's perspective on that, but I think the first comment is that we've been under the cap in terms of the sheepmeat industry and the concern for us is always that it is a very difficult process to go to our stakeholders to change the levy. We've just seen that in the cattle industry and it's a fairly tortuous and long process.

MR WEICKHARDT: The cattle industry was on the marketing levy though, wasn't it?

MR CULLEN (SCA): That certainly was, yes, but nonetheless I don't think our producers spend a lot of time differentiating between what their levy goes to.

MS JOSEPH (SCA): I actually think that producers would probably support more towards a marketing levy than they would towards the R and D levy because it's something - farmers are practical people. It's something they can actually touch. They see the results of it fairly immediately. R and D could be up to 30 years and I could be paying levy for research that I'll never see the results of.

MR WEICKHARDT: It could be up to 30 years, it could be never or it could be much faster, but on average if - and this is a big if - we accept the evaluations that MLA have done there are benefit-cost ratios of well above one after five years. They're into twos and two plus three. If people in your industry believe that then you'd think they would say, "Goodness gracious, double your money in five years." Most punters in the stock market would be really happy if they were guaranteed that, so why wouldn't farmers double their money? I suspect a few of them probably put bets on the Melbourne Cup for odds that weren't as good as that.

MS JOSEPH (SCA): I would imagine possibly the top 10 to 20 per cent possibly would do that and then you've got the other 80 per cent which take longer to adopt.

MR WEICKHARDT: And don't know about those returns at all. If you went out into the paddock and said to most farmers, "What's the return on your levy?" they would say, "Which one is the levy?" before they even recognise the flowthrough because much of the improvement that happens - and we're starting to talk about extension theory and methodology where you get the diffusion effect where, "I do what my next-door neighbour does because I see it working," so that's slow. It doesn't come from MLA, it doesn't come from R and D. "I found out from somebody else." Even in the sheepmeat industry which, as you say in your submission, has now got much, much better prospects than it did a number of years ago, and people must be smiling in the sheepmeat industry, they don't see - - -

MS JOSEPH (SCA): Can I give you an example. On my farm, our average carcass rate would have been, in the late 80s, early 90s, 15 kilos. It's now 22 kilos. Now, I've adopted the technology of genetics per pastures. I would suggest that 60 per cent of people have also had those changes but had no idea how it happened.

MR CULLEN: A farmer runs a thousand ewes, they buy 10 rams a year, that's where their genetic improvement comes from. They just go to Fred's place and buy 10 rams or whatever the number is. So the genetic improvement comes from purchases. They buy their ewes as first-cross ewes in the Narromine saleyard, so they're buying their genes, and then they have to manage that to the best of their advantage. They'll be more concerned about the changes year by year that are caused by the environment and trying to manipulate feed and reproductive cycle et cetera and marketing against a pretty constant game of guess and good management to turn

off prime land into the marketplace. So the fact that the carcass weight was 15 and is now 22 has just happened over time.

MR WEICKHARDT: If they don't value the R and D, why would they care if the government reduces support?

MS JOSEPH (SCA): I think they value the R and D. They don't recognise it, is probably fair. One of the things about farmers is, probably 80 per cent of producers are very parochial. They really can't see past their farm and past their local district. Through all the work MLA does with adoption, running workshops and field days, they will go to those if it comes to them locally, and they do absorb the changes but it's not recognised. They're very aware of the day-to-day R and D. A lot of that they're seeing and when it comes to them through - MLA runs what they call PDSs which are production sites in local areas. They see all that, but the blue sky and the further out stuff is the sort of R and D they can't relate to. They can't see that far out.

MR WEICKHARDT: I guess an industry that in physical terms is not very far away from your own industry - that is the wool industry - farmers are paying above the matching government grant. Why is it the wool producers, despite the travails of AWI, are prepared to vote, and they vote on a three-year recycle to pay more R and D than the government matches, and in your industry they're uncertain as to whether they're getting any value at all?

MR CULLEN (SCA): I think we're moving into the realms of politics now, and the ability of a small number of players in the industry to influence a vote on a specific issue. Again if you were to go and speak to an individual grazier in his shearing shed, he'd have a fair degree of difficulty in being able to enunciate his decision-making process around that levy vote and about what he thought that was going to do and how it might work. The issue for us is that our producers see government as a bit of an amorphous process and they would make judgments based on the total government support, whatever that is. Whether it's drought, or whether it's for R and D or whatever the mechanism is, and they won't segment that and go down to the level of saying, "Well, I've got the R and D stuff, that's X," and so there isn't that direct line relationship between a decision and an outcome.

MS JOSEPH (SCA): They wouldn't even know how much they pay, most producers, it's just an amount on the bottom of the - - -

MR WEICKHARDT: In the wool industry under their legislation they have to run a wool poll I think every three years. Are you compelled to go back any particular period?

MS JOSEPH (SCA): Only if requested by producers.

MR WEICKHARDT: So do you think it would be positive - - -

MR CULLEN (SCA): I'm sorry, commissioner, but there is the requirement for us to review the levy rate, and it's nonspecific.

DR SAMSON: In that review, if your organisation came to a view that the levy rate should be increased for whatever reason, I sense you might be reluctant to go out to the membership and suggest that. Would that reluctance be based on the complication of the process that you have to go through or - - -

MS JOSEPH (SCA): No.

DR SAMSON: - - - or it would just be a hard sell?

MS JOSEPH (SCA): It would just be based on the information and a hard sell, not the process.

MR CULLEN (SCA): The process could be simplified, could be fiddled with, but let's put that to one side because that's not an issue of magnitude in this discussion, I don't think.

MS JOSEPH (SCA): It's more the belief of whether we believe we need to get more money.

MR WEICKHARDT: Ironically could there be an effect that because the wool guys have got to do it every three years that the growers have become used to thinking a bit more about it, used to trying to find out whether or not the levy money is actually justified, and therefore the process of adjusting it or maintaining it is actually easier. I mean, that sounds perverse but could there be some effect like that?

MR CULLEN (SCA): If you look at the debate around the last wool poll, it wasn't about the effectiveness of R and D in terms of selling a message to the stakeholder, it was about the politics of various individuals and whether or not it was going to sell more wool into the Italian market. It was extremely difficult for the normal producer to sit down and actually say, "What's my money going to be spent on?" We seen the example in New Zealand just last year when the wool poll failed. Beef and Land New Zealand have had comments from producers saying, "I didn't understand that was what was going to happen."

MS JOSEPH (SCA): They just saw it as money coming out and they couldn't touch and feel where it was being used.

MR CULLEN (SCA): An example of the producers' understanding of the poll process. That's a criticism our industry to a large extent but that's the reality of small business holders who have got the bum hanging out of their pants trying to make a quid day by day. Someone turning up saying, "Do you want to pay 4 per cent or 3 per cent on your R and D levies," they would say, "Get off the farm, mate, I've got to go and crutch my ewes," et cetera.

MS JOSEPH (SCA): I think the fact we're saying that people don't necessarily know how much they're paying because it's just taken out of the bill, it's not because we don't tell them, and it's not because we're not informing them regularly about how their levies are being used, it's because they don't read the information or aren't interested, or they're happy to pay it because they trust the way it's being used.

MR CULLEN (SCA): They're happy with what's happening - in inverted commas - and that's part of the reason why we don't rock the boat, if you'll excuse that - I mean, that's a very poor bit of terminology but - - -

MS JOSEPH (SCA): If they weren't happy we'd definitely hear from them.

MR CULLEN (SCA): If we thought we had to spend more money on R and D, if we thought there was a crying need - and we could spend more money on R and D - but one of our issues is that we haven't got the capacity within research and development organisations now to actually expand our effort. Victoria has got six research positions vacant within DPI in agriculture and they can't find anyone because we're losing that capacity and that's a real risk for us.

MR WEICKHARDT: Talking about losing capacity, you might lose capacity - you go and do what you need to do in Parliament House - if we go on much longer. Thank you very much indeed.

MR CULLEN (SCA): We'd be quite happy to come straight back if you think that would be of use.

MR WEICKHARDT: I suspect that we've probably covered the territory that we needed to. If there are further costs you've got then send us a brief submission. It doesn't need to be a long one.

MR CULLEN (SCA): Thank you very much for the time.

MR WEICKHARDT: Thank you very much for coming. We'll adjourn briefly now until the next participant.

MR WEICKHARDT: We'll now resume the hearings, and our next participant is the Winemakers Federation of Australia. If you could give your name for the transcript and the role in which you're appearing today, please.

MR BATTAGLENE (WFA): Sure. Tony Battaglene, general manager of strategy and international affairs for Winemakers Federation of Australia.

MR WEICKHARDT: Thank you. If you would like to give us an introduction to your submission or any points you want to raise and we'll take it from there.

MR BATTAGLENE (WFA): Just a quick introduction. Most of the Productivity Commission report we thought was really good. We thought it was well argued. We thought it was succinct and quite accurate. There's clearly a couple of areas - like most of the other people who appear before you - that we don't agree with. The particular recommendation would be the reducing of the government matching of the R and D levy which will not surprise you. There's a few other issues that we thought were very sound recommendations, so there's probably 95 per cent of the report that we actually think is really good, and only about 5 per cent which has the potential for us I think to cause major damage to the industry. Part of that is, I believe, that the Productivity Commission has dealt with all industries as if they're the same. You probably have to under a generic report. When you're doing government policy you are naturally bound to do that.

We are not a commodity like wheat or wool or beef, so it's dealt with slightly differently, I believe. Certainly if we talk about the levy a bit, I went through the process of increasing the R and D levy on wine in about 2004. I still bear the scars of that activity. It's a very difficult process, and I know you've talked about process. The process isn't the main problem; the problem is that it's hard for a diverse industry with 3000 producers to actually understand the benefits they get from R and D. We've got about a thousand exporters, 3000 producers in Australia, a lot of small enterprises. But 95 per cent of exports and probably production for that matter, or about 80 per cent of production, comes from the top 50 or 60. There's a reasonably small group of people who have both the interest and inclination to understand the benefits of R and D.

The good thing in our industry is that we are very united. The peak body that I'm in represents small, medium and large very well. We make decisions based on 80 per cent agreements, so it's very hard. One sector does not dominate and the industry has been very good in the past with making decisions that are best for industry. R and D is one of those things that we think has been very valuable for the industry in creating the innovation that we need to not necessarily go ahead but maintain our position.

You would probably be aware that our industry has struggled for a few years with the oversupply issues. We've had a lot of new entrants in the industry and there's a lot of demand for the product we're they're discounting. We've had problems with concentrated retail and distribution networks, both nationally and internationally. That's created a problem. We're moving out of that problem area. We're now in a position where, despite the dollar, we've started to recover. So we think that times are about to get better for the sector as a whole.

I guess the other thing that's really different for us, we're a major rural employer. We are very strong for rural Australia. We do create a lot of employment in towns. There's towns like Rutherglen, there's towns like Griffith that have gone ahead because of the wine sector. Without our influence those towns, those communities, would be in real trouble. I don't believe that has been taken into account when you're looking at the benefits of R and D. We are helping those rural communities. It's not just about making the industry bigger and better because that brings rural Australia with us. I think we've done that very well in the past and I think we will in the future. I think that needs to be taken into account when you're talking about public funding because that's, if you like, a type of public good aspect.

One of the things that we fear that if you go down the route of reducing the levy that the private sector may well increase their investment in R and D, that they will lock up the IP and lock it up in their companies and they'll spend it more in marketing and not on the things that benefit the wider community. We do a lot of sustainability work now, we do a lot of work on water efficiency. A lot of that work won't be done and a lot of that money will be diverted to marketing and a lot of that will be locked up within the companies. We won't get the spread of that information.

The other significant issue that we've done is we've built capability and that has largely been due to the surety of the levy that goes through the GWRDC and funds a large part of our research. We've formed a group called the Wine Innovation Cluster in South Australia which is a centre of excellence which contains the CSIRO with their viticulture expertise; contains the Australian Wine Research Institute which is an industry-owned company, a world leader of oenology; SARDI is also in that, and Adelaide Uni. This is a centre of expertise that we are concerned that unless we can keep the funding up to it, we'll lose the core capability. The advantage of having centres of excellence is that not only do you manage to do your own grape research but you'll attract the benefits of research from overseas, because everyone wants to play with you in your pond. We're a pretty small producer of research in the wine sector. We probably produce 6, 7 per cent of the world's research.

MR WEICKHARDT: That's punching above our weight.

MR BATTAGLENE (WFA): It is but we get a hell of a lot from overseas and because of those collaborations. If we can't keep up the core capability - and I heard the guys before, they're worried about capability dropping, it's happening with us too. It's okay in oenology because we managed to have block funding for the AWRI from GWRDC for a few years but that has obviously reduced our discretionary funding from that body. What's concerned me is that that has actually diverted funding away from CSIRO, a very good research agency but the problem is that they're actually trying to get best leverage for their funds. If we can't keep providing enough basic funds they'll give straight out viticulture.

We've seen the closure of Merbein, where there's a diversion of activities already. We know we're the next cab off the rank to be discarded and all the money will go into wheat to broadacre and stuff like that where they see it as more co-investment and more bang for the buck. We can't match that, we never will. We need to be in a position to get the core capacity to maintain what's probably the best viticultural research in the world in my view. That's a real danger for us. Of course if all that goes away and private industry steps into the breach, like it suggests in the report, but that won't happen. Every time we try and increase the levy it's very hard, even when times are better than this. In my view that just will not happen for a number of reasons and the benefit will be captured by these big companies who will do it privately, so it won't go to the whole industry. Those little guys, they're not inefficient, they're just small-scale operators. They have a worthy place in the industry. We're not just about the big producers, we're about getting everyone more efficient, more sustainable and more profitable, not necessarily in that order. That's just a brief summary. I'm happy to talk about any of the issues in the paper, but that's where we coming from.

DR SAMSON: You talk, as others have, about what you perceive of the negative consequences if there were to be a reduction in the government's matching dollar, but is there not potentially another side of that coin? I mean, take some of the issues in which all parts of the rural sector would be interested: mitigating climate change, water efficiency, etcetera, if it's done on a sectoral basis, take research into water usage and efficiency for example, if it's researched that your industry is funding, by definition it's going to be relatively small-scale.

In the model that we're proposing, where you have a body focused singularly on those large-scale cross-cutting issues funded through what is currently part of your levy, that research will be on a much larger scale and have the potential there to employ as many, if not more, researchers and actually produce results which would be in a different sort of space than if there's just a lot of industry-specific research going on. So whilst we can understand your concerns, your arguments, we would also propose that the model in the draft report does create the potential for those large cross-industry issues to produce a better result for you than is currently the case.

MR BATTAGLENE (WFA): I agree in part with you. I think what we don't do well is collaborative research in these areas at the moment and I think it could be done better. It's a moot point whether creating a super body with a whole new bureaucracy is the best way to do it, but I actually agree with the Productivity Commission that we don't spend enough money on these things and we should be increasing the government spend, it's just that I don't agree where it should come from.

A couple of problems with creating the cross-cutting R and D Corp. One is that it leaves itself open to political influence. It leaves itself open to spending money on what government sees is a good thing at the time for votes. You have to have very good corporate governance on that and get it well away from the government. That political influence does not happen necessarily in a direct manner, it can happen through how the board is appointed, how the chair is appointed and how the selection committee is currently chosen.

Currently, a problem we have is that we are not confident in the strength of our boards, because of the corporate governance. We have a presiding member appointed by the government who has to meet all sorts of requirements to do with gender, equity and the like and we find ourselves in a position where we often have an almost dysfunctional board, because it doesn't have the expertise that we would appoint to spend our money. The government might be happy to have people without expertise, but we would prefer to have people with expertise and knowledge. That's a real problem, and I think that's a problem you'll face across all the RDCs in this situation.

As I say, I do believe there are a lot of benefits from doing the cross-cutting. One of the things though, if it goes from the levies into the super bodies there will be pressure for, if you like, the case study approach. If you do research in water you're not necessarily doing esoteric stuff on water, you'd be doing it on grains or grapevines or something, and they're not the same; it's different research you need, for a start. But you will find that it will go to those people who are paying more levies into that body.

With industry contributions, if CSIRO are going to do research and they're putting all their effort into grains research, you've got the cross-cutting body saying, "We want to do water research," they're not going to do it with grapevines, they're going to do it leverage more funding the other way. See, what you're doing is creating a situation which can, and probably will be, manipulated, because every research body has an imperative to increase their footprint and get more levies. So I think there's some real potential problems in using that model.

RIRDC has I guess been able to do cross-cutting stuff because it doesn't have that political influence, because it has been able just to use the government money by and large, so I think that has kept it out of it. I'm not necessarily advocating you make RIRDC bigger, because I'm not. I certainly see some problems with them all. But, look, I do believe that we under-invest in rural research, and to do more in cross-cutting would be a great thing from government; just don't take it from industry and divert it from the others though.

MR WEICKHARDT: So how do you judge the correct amount? If you were suddenly projected into the lodge, you're saying more is better, do you double it, triple it, quadruple it? When would you stop? Given the fact that it's not technically your money, it's your money, it's taxpayers' money, when is this sort of generosity to industry or to the wine sector enough?

MR BATTAGLENE (WFA): Yes, it's a tricky thing. I tend to agree with the Productivity Commission, that there is no right or wrong value and you can't determine it. Determining what is the appropriate public level, I just don't think it's possible to do, it's a judgment call. I worked for years in the fishing industry, where it was all public-good money, and there was a moot point about whether that was right or wrong as well. So I have experience there. For us, we have made estimates. We think we are substantially under-invested in R and D in the wine industry, so for our sector alone we do have a figure, I can't think what it is offhand, but we have worked out based on what we think we need for our sector. Now, we don't think government should pick that up, because it is our money and our responsibility, but we have calculated figures based on investment overseas.

How you calculate public-good research, that's not my area and I don't want to enter into it. But I think what you need to do when you are calculating that is you need to estimate the value of the industries to rural and regional communities. If you believe they are important in the country, then I think that has to be taken into account, how the money is allocated. We are not just about making a single figure, I would have thought, we are about having a viable population throughout the country, and I just don't think that has been taken into account in those estimations.

DR SAMSON: One of our starting points was to look at the ratio of public to private investment in the R and D model and then compare it to the ratio public-private benefit that's current coming out of the model. As Philip said before, quite rightly, at the end of the day these things are judgment calls, you don't get the answer as a result of some arithmetic, algebraic formula.

But it does seem to us that with the way the model is configured at the moment there is an imbalance between the share of the investment and the share of the output. Hence, our view that if we were to wish to turn the model into something that

produced a more balanced equitable result you would consider reducing the government contribution; as was the original intent 20-odd when John Kerin launched this, it was always conceived of that once the system matured then the government would withdraw. Now, for various reasons, people forget that.

MR WEICKHARDT: A lot of people have said to us that what we're recommending is a reduction in the amount of R and D spent. That's not what we are recommending at all. What we are trying to say is, "Look, government should spend money where it's clear that other people won't." Given the strong linkages of productivity to R and D spent and the high benefit-cost ratios, we're saying in a lot of cases it is sound judgment, and it is a judgment, that industry could and should spend more in some of the areas that are productivity enhancing.

But there are other areas where it's unlikely industry will spend money, and therefore the government should focus on doing that bit that industry certainly wouldn't do, and industry will hopefully - over time, it won't happen immediately - recognise that it needs to do some of the stuff that helps itself. It is a judgment call. It's a projection into the future. Do we have perfect wisdom and insight in the reaction of people, the answer is no. But that is what we're on about.

MR BATTAGLENE (WFA): The logic is impeccable. I think the logic is right. It's just that the market is very sticky and imperfect and I don't think it will happen in a real world situation. If I was creating a model, I think I'd probably come up with exactly the same result you have in that people divert back when they understand. Unfortunately, my knowledge of this sector is over 10 years. I've been involved in increasing one levy, trying to increase the grape levy unsuccessfully and playing around with our Plant Health Australia levy, again unsuccessfully.

MR WEICKHARDT: Can you talk to us a little bit about that because I note in your original submission you say that the total annual investment in recurrent wine RD and E was 59 million and there was some capital - this was in 2007-08 - of 25 million, not insignificant. But just talk about the recurrent amount, the RDC component of that, and I think from our numbers is about 26 million.

MR BATTAGLENE (WFA): Yes, 26, 28.

MR WEICKHARDT: Of that 13 was ex-industry and 12 ex-government but of the remainder of the 59 million how much of that is coming from governments of various sorts and how much is coming from private sources, do you know?

MR BATTAGLENE (WFA): I remember we did the estimates and you're right, the leverage from the CSIROs and the universities which is essentially government money, just in a different form, is high but probably I would probably think and I'd

have to go back to the estimates, we did this in the context of RD and E view for - I think it's about two-thirds is industry but a lot of that money is money that goes into marketing research and is actually locked up within a company, it's not spread out and it will always be locked up because it's a market advantage. That diffuses our - because it's an imperfect world and people move around, but it takes time and for us - and our policy has always been, "You do not block up IP and our RDC stuff, it's quickness and dissemination that matters." So I think two-thirds is the figure but, as I say, a lot of that's locked up IP.

MR WEICKHARDT: So that suggests that private individuals and private companies believe or at least larger ones believe in the value of the R and D and prepared to spend themselves, but they're not prepared to increase the size of the levy. Is that the real issue?

MR BATTAGLENE (WFA): It's actually a really good question. The wine sector increased the levy back in 2004, 2005. We essentially went from three to five dollars, I think it was, a tonne of wine grapes processed into wine and we set ourselves a ceiling of \$10. It was very difficult to get that process through. So they were prepared to increase that levy. They were also prepared to do it because of the leverage though. I think if we remove the extent of leverage they will withdraw those funds from the GWRDC because they will want to have direct control over how they're spent. At the moment they see that they can do this money and it will go to the whole industry and they're very genuine about that as a sector, I have found. But I think if you remove the leverage they won't withdraw their funding from R and D but they will just spend it on their own company.

DR SAMSON: One of the things we intend in our recommendations is by separating out the larger scale cross-cutting issues, as we've said many times, we're acknowledging that the great strengths of the current model and the RDCs is this connection with producers, with levy payers so that the research agenda and portfolio is as relevant as can be to the people who pay the levies? Now, we're maintaining the proposition that take that difficult, somewhat energy sapping exercise of trying to work out what the government wants and do it in those large crops and leave the current 15 corporations to focus even more on what they do so well. So we intend that there be some very benefits out of this in keeping the levy payers happier because the RDC will be singularly focused on what they need.

MR BATTAGLENE (WFA): I think your intention is noble, I really do, and the model has a lot to respect about it. The problem is I see there will be disconnect between our levy payers and what happens within that cross-cutting party. There is a connection with GWRDC, we're trying to amalgamate our organisations into an industry services body at the moment to get efficiencies in a strategic direction and integrating R and D better into the rest of our activities. So there are some real

benefits there but there is real connection between our RDC at the moment and the industry where the research set in process, which is run by industry, so for or portion of that non-government funding we actually know where we want to spend the money and we have a regular process that works that out.

So we've taken control of that agenda and principle back from the researchers and we think we're getting there. But we think we'll lose that connection if you just have the large R and D body because we won't have the time to connect our industry with that and they'll just see that as money that's been spent on someone else, low priority. The difficult thing is that when you go back to our regions, everyone is concerned - you heard me mention downy mildew, they're just concerned what's happening in their backyard and they just want to duplicate research that someone else is doing. We've now got a process that stops that but they're not worried about the broader cross-cutting issues, but they do accept the fact that we've set up a process and that there are things there that are important for them and we won't be in control of the process and the central R and D whereas we are now for the GWRDC and it works well.

MR WEICKHARDT: We had Andrew Campbell here who used to be the manager of LWA. He was here yesterday at the hearings. He cited the example of irrigation as being one where the industry is involved and, if you like, directly concerned with that industry, had traditionally been pretty reluctant to invest R and D money in it. Indeed, he said in his experience the dairy industry, who are the largest user of irrigation water, have never been willing to invest in R and D in irrigation or irrigation efficiency. Very happy to use the outcomes of the research that LWA did, but not prepared to invest in it. So I guess you can see situations and examples in history where some of that cross-cutting work has just not been funded by the very RDCs that you'd think should have been concerned and interested in it and that's one of the reasons why we've the current structure just doesn't seem to work.

But going back to your issue and experience with raising a levy, if your prediction that if the government matching cap were reduced that some in the industry would take their bat and ball and go and do their own R and D, spend it privately and lock up, as you said, the outcomes of the research, does that suggest that if there was - there's a sort of split in the industry, if there were a vote tomorrow on increasing the levy, that the bigger guys would be opposed to that but the smaller guys would vote in favour of it? The smaller guys couldn't possibly, I assume, do their own R and D. It must be the big guys who are saying, "Well, we'd prefer to fund this ourselves and lock the outcome up ourselves."

MR BATTAGLENE (WFA): They can't lock up the outcomes when you do funding through GRDC so there is no way to lock it up.

MR WEICKHARDT: Sure.

MR BATTAGLENE (WFA): It would go a bit of both ways, two of the big four would vote to increase the levy, two would vote against it. Of the mid-size companies it would be the size. The small guys, no-one would vote to increase it.

MR WEICKHARDT: Yet they're the people you're suggesting who would suffer the most if the levy disappeared or if the R and D disappeared.

MR BATTAGLENE (WFA): It's like everything, some would suffer and some they wouldn't know because they don't use it anyway. When you look at any R and D activity, there's probably only about 10 per cent of people who are actually going to adopt anyway, any R and D field. I mean, it's like that, there are adopters and there are people who are either too small, or not interested, especially in small business. We have got 2900 SMEs and 100 bigger companies. So there's a lot of those guys who won't. There's some who will, some are good adopters. One of the problems you have is that if they don't adopt and there's things like sustainability, that's going to lock up our prospects of getting in some markets, and there's reasons for that, but you need to have a sustainable footprint that the retailers overseas will lock into and you need the whole industry behind it. We're doing that through R and D dollars now, and it's working.

MR WEICKHARDT: From what you've said, I just wonder, if some of the people aren't interested in the R and D and won't adopt it, or don't adopt it anyway, would it be such a terrible loss if the big guys did their own research, adopted it themselves and committed to it themselves? As you say, eventually stuff diffuses out anyway, you can't lock the stuff up forever, and people can observe what you're doing.

MR BATTAGLENE (WFA): I think it would. I think we'd lose part of our competitive advantage. I mean, we have always been very quick adopters, not necessarily of our own research, and I think that will stop the culture of cooperation, the culture of adoption.

MR WEICKHARDT: How do I reconcile quick adopters when only 10 per cent adopt?

MR BATTAGLENE: Quick adopters of the 10 per cent who do adopt. Everybody doesn't have to adopt for you to have successful research. It's the people who adopt quickly that matter.

MR WEICKHARDT: I'm a bit confused. 10 per cent adopt quickly, you say?

MR BATTAGLENE: Yes, but 60 companies produce 80 per cent of our

production. So you've got to look at the whole structure of the industry. One of the things that we are seriously looking at and we would like to see - and we'd like to test your proposition, if you like - and we have been talking about it for a couple of years now is getting RDCs to be able to take unmatched funding and spend it under more direct control. If you like, we're interested in testing your proposition on a number of aspects.

We have tried to set up an industry company in the past to undertake R and D, a collaborative company under our control, with a board by those interested parties, because there's obviously synergies if you work with someone else, your dollar buys more. It hasn't worked. We tried to get 10 per cent interested to form an industry company to do that activity. We haven't been able to get it up and running. That is one of the reasons that I have real concerns that we could - - -

DR SAMSON: Tony, when we made the draft recommendation that over time the government matching reduce, surprisingly we anticipated that there might be a bit of push-back on that. We acknowledged that there are unique aspects of the rural sector. We did quite explicitly acknowledge that there had been some difficult times in some industries, and the drought in general. Hence, we have not said that the government will halve its contribution overnight. We are talking about phasing this in over a 10-year period. The push-back we get though implicitly, if not explicitly, sort of takes the doom and gloom scenario as if this is all just going to happen in one hit. Do you think that a 10-year phase-in period would ameliorate some of your perceived negative impacts of this, or not really?

MR BATTAGLENE (WFA): I think we'd lose some of the capability essentially overnight. I think people like CSIRO would make a judgment of where the money is going to be and they would withdraw their activities. Well, they already have withdrawn from a lot of horticulture. From a national perspective, you might say that's great. From a wine industry perspective, I'd say that's really bad, because we know that we're under pressure for them to keep their funding up, and there's great leverage with CSIRO and they have got great capability - their viticulturists are brilliant - and I think they would make that judgment call very soon, and I think with the 10-year phase-in they would start building their capability in the area if they see the funding will be cut. So we smaller sectors would I think lose access to those funds very, very quickly, which would certainly focus our minds.

MR WEICKHARDT: If you get leverage from the CSIRO money and your perception will be that unless you stepped up to the mark and, if you like, made up the difference that the government had gradually withdrawn, that would seem to me to be providing huge incentive to fill that gap.

MR BATTAGLENE (WFA): At the moment no grape-grower in Australia "gives

a rat's". They're just trying to survive. But they're not going to step up over the next two, three years, because they're against the wall, they're not going to even think about that. They will see this as just a blow to anything they have ever had. You're right, it's not just a time issue, but now is not the right time for us and I think we'd lose out.

I am actively working at trying to build that gap with CSIRO in particular, so that we can provide them more certainty in funding, because once we lose the capability we won't get it back. Plant pathologists, they're all dying. The viticulturists, they're getting old and they're dying. We are losing that, and there's no-one coming through, because there's no jobs, there's no money. They can't even PhD students in viticulture, because of the problems with the wine sector. This will only exacerbate that. You can't just import these things from overseas, not straightaway, it takes time. It's a problem.

MR WEICKHARDT: Can I go back to an observation you made about the board selection process on the grape and wine RDC?

MR BATTAGLENE (WFA): A generic term, "generic RDCs".

MR WEICKHARDT: The generic RDC. But I assume that you were talking from your particular experience.

MR BATTAGLENE (WFA): Yes.

MR WEICKHARDT: I think you were saying that in your view it's not producing an optimal result. I'll ask you to step back a little bit and recognise that at the moment the government is putting in half the dough. But what would you change if you were the minister or the prime minister, in order to get a balanced outcome? And recognise that we have said that we think it would be good if there were the option for government directors to be reintroduced. So how would you like to see the process modified to get a better result?

MR BATTAGLENE (WFA): I reckon there's a couple of good corporate governance things we don't do. One is, I believe, that, like many boards, you should get the chair appointed by the board, we shouldn't have a government appointee for the chair - we have two statutory authorities that we deal with quite frequently, but we find that's a political appointment, to appoint an ex-politician, and that has caused real concerns for us. Having a presiding member appointed by the government is not a great thing, because that gives them the position of power, they have directions, the minister meets certain requirements. It is much better if you can just do what is best for the company.

At the end of the day, they are a board of directors, they should act like act like a board of directors. I don't think most of our boards in the RDCs actually know they're a board. I don't think they know the rights and responsibility of a board of directors, and I think that's something in which we fall down. The selection committee, in the past we had a selection committee that was ready to resign because their recommendations weren't taken on board and it was overruled. That's a problem. It's not a transparent process. It's not based on ability. You have got legislative requirements. But it's a politicised process.

MR WEICKHARDT: So are you suggesting, despite the presiding member being appointed by the government, that the recommendation from that committee, including from the presiding member, was being overturned?

MR BATTAGLENE (WFA): I'm saying it's not getting to the government. I'm saying that the presiding member is suggesting that there's no point in appointing these people, because they don't meet that.

MR WEICKHARDT: Okay.

MR BATTAGLENE (WFA): That's probably libellous.

MR WEICKHARDT: Well, if it's accurate, we need to understand it.

MR BATTAGLENE (WFA): But it's a fact, and we have been disappointed. Incidentally, I do like the idea of someone with government experience being appropriate for the board. I think that's a good, solid recommendation. I think one of the problems has been in some boards that they don't understand the interaction between the government, because they have never worked in government and never watched this from their view. But certainly, yes, I worry about the skill-set, with our money.

MR WEICKHARDT: Is this a recent development, or has this been a concern with the GWRDC for a long while?

MR BATTAGLENE: Look, it has been a concern with statutory authority boards with which I have dealt over a number of years. Sometimes it's better and sometimes it's worse; depends on the political interference or will, whichever you prefer.

MR WEICKHARDT: Clearly getting a good board is important. You've got to be sympathetic to the desire and I suspect the PIERD Act probably says all the right things so we're probably talking about the execution of that process as opposed to the process itself. But I'm interested in how you would, if you like, codify a process that didn't run the risk of going to the opposite extreme of a board that was totally

preoccupied only with the selfish interests of the industry and not prepared to put a dollar into doing things that were good for the country.

MR BATTAGLENE (WFA): I think having a chair who's appointed by the board would be a great first step. That to me would make a big difference because that would be someone who worked with the board rather than imposed upon them which immediately creates tension and it's not great of government to do that, so I think that would actually get rid of a lot. Again, you could have a presiding member who's there to make them aware of what the PIERD Act requirements are. But I think if there was - and I don't know how you codify that one - but if there is some way that they stick to that, rather than other points then - that's our real problem. We just want the best balanced board of people with the right skills to be appointed and it doesn't matter if they're an old male or a young female, if they're the right person, then you need them.

MR WEICKHARDT: The irony is that with the industry-owned corporations where the boards are elected directly by the members without the government having any right, there is at least one of those organisations where there's been lots of noise and unhappiness so that doesn't always produce perfect results by the looks of it.

MR BATTAGLENE (WFA): I wouldn't want to do it that way. I think a selection panel to get the right skill set is the way to go and it can be done. Plant Health Australia actually works reasonably well for an industry-government - it's got both interests, it's got industry, it's government. I've been on the selection committee for that board. It works very well. It has people apply for the position of board members and chair. They don't elect it but they apply for both of them, so that's better than just getting a chair appointed. That selection process isn't a bad one. It can work.

DR SAMSON: You're perhaps not the best person to ask this question of, but the role of industry representative bodies in the current model, particularly the statutory, is a bit of a mixed bag some would say and there was a debate about whether going forward we should have a model that still identifies, nominates specific industry representative bodies or perhaps broaden the issue out and just make it a responsibility of the RDCs to be able to demonstrate that they have liaised with the levy payers. Again, like so much in this model, you can point to some good examples, you can point to some commodity groups that have had a pretty rough time. Do you have any thoughts as to how that industry representative bodies interact and work with the RDCs.

MR BATTAGLENE (WFA): It's a really tricky one and you're right in that I haven't actually got a position on it because we are a representative body. There are two representative bodies for the GWRDC: there is a grape grower organisation and

there is ourselves. We do represent 85 per cent, 90 of production not producers. So not of levy payers, so there's an argument there that we're not representative. The grape growers have been in and out of viability as an organisation for years so there's an argument that they don't either. The simple fact is that representative bodies are normally the best people to communicate to their members through. We do have members we can communicate with and we have corporate governance in that we're funded by voluntary levies, we represent all sectors. So from my perspective we're a pretty good one, but that might differ, but then we don't represent two and half thousand levy payers, albeit the small ones.

So there is real argument that those people who are paying a small levy are not represented by it. I don't think there's a right or wrong answer and I can see when you have more than one body representing a sector and there are a number of those, there's always tension about who should be the right body.

DR SAMSON: Or perhaps you only have one body and it's not effective which is equally problematic.

MR BATTAGLENE (WFA): Yes. For us, because we take R and D pretty seriously, we have an R and D committee that meets four times a year that has expertise based from the sector big and small, but expertise based and we look at policy developments and interaction. So we're fairly, I think for an industry body, reasonably sophisticated, interested and understanding of R and D and where we're going and I think that's powerful and I think that's something only a representative body can do. I guess the other thing is that because of that we got involved in the PIMC process about the framework and we were one of the three people who drove that committee and you have to be representative body really to do that because you need to get the ownership back of the people around you. But we're a good body.

MR WEICKHARDT: On that note we should probably adjourn the session and let you get back to your downy mildew challenge. Thank you very much indeed for appearing. We will adjourn now until 11 o'clock unless the National Farmers Federation are happy to start before then, but we'll assess that around quarter to. Thanks very much.

MR WEICKHARDT: We will now resume the hearing. Our next participant is the National Farmers Federation. For the transcript if you could just give your name and the capacity in which you're appearing today, please.

MR FARGHER (NFF): Ben Fargher is my name, I'm the chief executive of the National Farmers Federation.

MR NELSON (NFF): I'm Sam Nelson, I'm the manager of rural affairs at NFF.

MR WEICKHARDT: Thank you. If you can give us a bit of a summary of the issues that you would like to raise.

MR FARGHER (NFF): Thanks for the time here. Good to be here talking about research and development rather than national water policy for a change, which is greatly appreciated. Just briefly a couple of key points from us in regard to our initial submission and then in regard to the draft. I want to start by saying though that we're coming at this from a positive point of view about the opportunities to make the system stronger. I think that there are people looking at this inquiry, to be frank with you, through the prism of a threat and we don't want to see it like this at NFF. We think it's a good system.. We want to make it stronger and we'd like to work with the Productivity Commission to do that.

So one thing that we articulated, gentlemen, early in our submission was that we do see this - and I understand that you've got terms of reference and you're confined by that and you want to focus on that. But we do see this as being much broader than the RDCs and we in fact don't see how you can get a good outcome in regard to making the RDC system stronger if you're only focusing on the RDCs themselves and not how the whole research and development system, an Australian innovation system fits together. So that's something that we're going to be raising with you in response to your draft report but also raising with government and other stakeholders as to how we make the strategic decisions around the system much more broadly, including what the states are doing and other agencies.

I would say again, although I know you know this, that we are extremely supportive of RDC system from NFF's point of view. We've always said we're happy to look at ways to make it stronger. But we want to build on the strong system we've got rather than tear it down. We think that the government and industry both - so therefore when I say government, community, taxpayers and industry - significantly benefit from it. We would like to also say that we're hoping that from this we can also not only look for ways to strengthen the RDC system and their operation, make the system stronger, but also gain a lot of clarity from government about their expectations from the RDCs and we hope that a lot of

performance-related issues and evaluation issues, if we can get clear expectations we can be clarified in that regard.

In terms of your draft report, we welcomed it. We welcomed it publicly. We've got some concerns which I'll articulate, but for us in general we thought that - and you'll tell me if I'm wrong - you thought there was a lot more strength in the system than there was weakness and therefore there is an opportunity to build on that and we share that view. We do find it again a challenge that it's only focused on RDCs and not the broader system because we want to look at what the outcome of R and D is, ie, what are the objectives we want for our industry and then how R and D meets those objectives, not an end in itself, if you know what I mean.

So if you look at where RDCs are going and what our objectives are and then how R and D feeds into that, you can't just look at the RDCs. You've got to look at what the CSIRO, the states, the Department of Innovation, the agriculture department, private investment is doing in the space and how we make that stronger. I know that might seem somewhat esoteric, but again we're not an R and D provider, we're a national lobby group. So we do come at this from the point of view of having a vision about the system and we did say in response to your report that we think that we should aspire to be the global hub of agricultural R and D in Australia, the Silicon Valley, if you like, of agricultural R and D. So how do we do that? Let's look at it through that prism rather than X dollars in X budget year. That's how we view your report.

So in that regard we welcome the fact that you saw strength in the system. We welcome the fact, as we read it, that you saw that there had been strength in the collaboration and the industry feedback in regard to the system. We were more than happy to support greater collaboration, coordination between the RDCs. I think it's Rural Research Australia that is the acronym or the word you use. Our question about that would be we've already had an issue with the government when they closed down other collaborative agencies like Land and Water Australia. So if there's a view to set up another one, when we've already got other RDCs in place now, is there a way that we can already drive collaboration rather than all additional cost, governance requirement. I don't know, that's not something we're coming here to pitch hard at you.

We're just saying, with greater coordination, collaboration - fantastic. We know the RDCs have already been trying to do that. If there can be more of it, we've always said we'd support it. If you're going to set up a new one, well, the question is, can you already use that through an existing source for efficiency and secondly, where is the money going to come from? I will come to money in a minute. So more strength than weakness, coordination, Rural Research Australia - that's all fine.

We are very concerned about the proposal to cut money. You're not going to fall off your chair in surprise about that, I guess. But we think that we should be investing more in research and development, not only in the RDCs but in the broader systems, as I mentioned before, not cutting it. We just see that our industry - and we believe the community derives so much benefit from it that we should be building up our investment and that again goes to the broader strategic frame about food and fibre production globally, where Australia fits in that food and fibre production, what our international competitors are doing spending money on R and D, not only in terms of productivity but what the global situation is in terms of the millennium development goals and hunger and the whole system globally around R and D and the fact that we're spending a lot of money globally.

We did note in response publicly in your submission, and not a matter for you, but we are going to spend 1.8 billion in food security between now and 2015 as a nation. We think that's fantastic. But the same week that the foreign minister announced that \$1.8 billion investment internationally was the same week that this report came out and talked about funding cuts. We are not saying there shouldn't be less money for international development around food security, we're saying, "Make our system stronger and we can make more of a contribution to that, internationally," because the innovation, techniques, skills, technology, transfer has got to come from somewhere. We think it should come from here. That is obviously a matter that we will take up with the government, have and will, but I just want to be transparent with you about that. That's the general overview.

Again, we see it as positive. We appreciate the work you have done. We know you have consulted widely. We know you have spoken to a lot of our stakeholders, in terms of the R and D corporations. We don't get into the operational detail of how the specific RDCs work. We're not a peak body status organisation. We're not saying whether program A or B should have X million more or less. You can ask us about that, but I'm not going to give you clarity around answers. We're talking about the strategic positioning of the system. We're talking about how to make it stronger. We're talking about how it fits into a broader innovation system in Australia, and then how we fund it. Any way we can work with you to achieve that, we appreciate. So Sam has probably a lot more technical detail. I don't know if you just want to raise a couple of points.

MR NELSON (NFF): No, I think Ben has covered the key overall issues that we have tried to address through our initial submission and that we have been talking about when we have been talking to fellow stakeholders in this and also that we will be reiterating in our response to the draft report. We can go into some more detail, as Ben suggested. The level of detail into which we can actually go in any informed way is probably not at the same level as other organisations, but I think we have probably given you a good overview of where we are at and we are very happy to

talk to you further about some of those issues we have raised.

DR SAMSON: Thanks very much, and indeed thanks for your participation in the process to date, it's much appreciated, and your original submission. It would perhaps be useful just to take a couple of the things that you've said and explore just a little bit more our rationale for some of the draft recommendations so hopefully at the very least you can understand what is driving us - whether you agree or disagree - and then you might be able to help us get a feel for some of those things.

Perhaps I'll start with the RRA, the draft proposal, which will create a new entity. It won't surprise you, I'm sure to hear, that a number of people have questioned that, "Well, we have got 15 R and D corporations. Why do we go to the trouble, the expense, the administrative overhead of creating a 16th?" So I think it is important that people at least understand where we're coming from. You mentioned quite a few times, Ben, greater collaboration in respect of RRA, and that is certainly an element, but it's not really the main driver in our minds for that recommendation.

In very simple terms, having looked at the operation of the model over 20 some years, we think what the RDCs have done extremely well over that period is to connect with their producer-grower stakeholders, the levy payers, and put systems in place that ensure that the R and D portfolio that they generate and they pursue are really grounded in the real world of primary producers, and we think they do that extremely well and it is the real strength of the model. Increasingly though, what seems to have put strain on the current manifestation of the model is where the government stakeholder has wanted the RDCs to focus more on some sort of cross-commodity issues, broader-scale issues, things of national importance: climate change, water efficiency, you know the list better than I.

We don't think the current model works as effectively, looking at that set of issues, as with the on-farm production issues. That is not by any means solely the fault or the responsibility of the RDCs. Again, I think you alluded to the fact you would be very interested in getting some clarity on the government's agenda and expectations. We have seen increasingly that the effort the RDCs have put in to try and address that second issue and try and get government to articulate has been considerable, and is almost starting to be little bit dysfunctional in diverting attention from what they do very well.

None of these things are rocket science, at the end of the day, a lot of them are value judgments. We have currently formed the view that the best way to deal with that unresolved tension is to create a body that would have primary responsibility for looking at those big national cross-cutting issues. Part of their mandate must be to liaise very closely with the other 15 bodies, such as yourself and other groups. So that was the real driver of that. People have come back and, quite reasonably,

argued, "Well, you may be able to get the same result by extending the remit of an existing body or asking the existing bodies to collaborate more." Again, our judgment, we have seen them try and not be spectacular in the success over 20-odd years of that collaboration. There are some examples, but they're the exception, and a lot of hard work has been put in to get to that point.

So that really is the core of why we are currently recommending the creation of a new body. We see that body quite active working with industries and the government, because at the moment I think you could characterise most of the efforts of the current 15, when it comes to implementing the government's wishes, as a bit reactive, a bit passive; they sit there hoping the government is actually going to tell them what they want, and it has not really happened. So part of the remit of this new agency, if it came into being, would be to actively work with all the stakeholders to try and generate that agenda. I hope that makes sense.

MR FARGHER (NFF): Could we deal with that issue?

DR SAMSON: Yes.

MR FARGHER: Sam, I know you probably want a say here. Just a couple of comments. You're making a lot of sense there about that, and I appreciate the clarification. Just a couple of comments. Firstly, we agree with the link, in terms of the industry link, that you talked about, and the RDC is doing very well at that, great. The second point I would make there though is that probably not today, but sometime we need to talk about extension on that framework as well, not just R and D, because that is a big issue, actually getting that tool on the ground and how we use these work that we're doing. The third issue is, yes, these cost-cutting issues, and we have seen that, climate change is a classic example.

I don't really know how to explain this properly, but I'll just say it anyway. We did feel a bit that agendas come up and you try and fit into the government agenda because you're not exactly sure, so you sort of feel that you've got to put climate change into every funding proposal, you cut and paste the word, because that's where you're going, rather than sitting down and saying, "What are we trying to achieve here?" But that's not a criticism, and that's successive governments, and we have all got a responsibility there.

Another thing I would say though is that we were supporting the work that CCRSPI was doing, we were supporting the work that the RD and E project, that the states are involved in as well, to try and get collaboration and resources. From our point of view, it is the same with other roads that we have been down - in fact we have been in this room before about drought reform, if it is about reforming the system and making it stronger, we're happy to be engaged; if it's under the guise of a cost-cutting

measure from governments, then that's where people have got a problem with our organisation. So that's that we say about that.

Also, the other comment about needing to liaise if you set up another entity or restructure an existing one, and again we don't have any predetermined views about that, we'd like to come on that journey with you. But in the terms of their need to liaise and engage with the existing RDCs obviously they will need to, because a lot of the work that we're involved with at the moment, carbon price, carbon mitigation, there's ruminant nutrition issues here - and I'm not an expert in this - beef might be different from the dairy issues and then you've got the sugar with - so these RDCs are working on these issues and they obviously need to all fit together.**

My substantive point there though would be, if we're making a decision to set up a new entity or restructure an entity to get this better - not collaborative but better work around these other priorities, then how can you make a decision about that when you don't know what other entities in the space, not the RDC space, are doing? Like, how does that fit in? To use climate or water as the example, but when I then go to a CSIRO meeting on climate and then I get invited to university meeting on their climate change work program and then we go to a new RDA or whatever it's called, RRA meeting because they've got to look at it and then we go and talk to the individual RDCs about it and then, you know, we note that food processing has been taken out of DAFF and moved across to Innovation, so they'll want to talk about the Innovation chain around climate change and a carbon price and the impact on the food processing sector, so we'll go and talk to them. The ALP in the election set up a food strategy and R and D is going to be one of those issues in the terms of reference, so we'll go and talk to them and that's why I come back to the point about the bigger picture, not just the RDCs because otherwise not only are we not going to get a good outcome, we just can't go to all the meetings.

DR SAMSON: We absolutely understand what you say about that bigger picture but, as you flagged right at the start, we are somewhat constrained by terms of reference. But as much as we can within those terms of reference we want to acknowledge exactly the points that you've raised. We think, if you just look at the rural R and D, it is almost impossible for any of the existing RDCs really individually or collectively to do what you've said needs to be done.

MR FARGHER (NFF): Yes.

DR SAMSON: We're not suggesting that setting up RRA is in any way a magic bullet to do that.

MR FARGHER (NFF): Yes, okay.

DR SAMSON: But it would be an organisation with the remit, with the resources and with the skills base to at least try and focus on doing that for the rural R and D sector and to engage with those other bodies. So you do have a focus within the rural R and D community that has some chance of understanding what's going on, even some chance, as we're suggesting, of being the broker for some of those external agencies. But we absolutely agree with you, we're part of a very big picture and how you get a hold of government coordination of that - how you get hold get a hold of government coordination of anything has been a great mystery of my life and this is no different. But we think this is potentially a vehicle for having a better shot at that than the way we're currently configured.

MR FARGHER (NFF): I don't know if anyone in our system has been - as I say, we're supportive of continuing conversation with you. We don't come here with any particular view on that part of the report. Have we had a criticism of it, Sam, or - - -

MR NELSON (NFF): There are a few issues that have been raised and Ben has spoken about that whole issue around how do you avoid duplication and putting more research activities into that context of the broader innovation around agriculture. When Land and Water Australia was closed we recognised that it meant that there was a bunch of very valuable work around water, around soil, around climate, around a whole bunch of things around biodiversity and were valuing environmental service, things that aren't likely to occur as a consequence. In 2007 I think the PC recognised the value of Land and Water Australia.

I think what we struggle with is, given what has happened or what happened with Land and Water Australia, how do we take those lessons forward? How would you set up an organisation that would have persistence that could actually weather changes in government and successive changes in priorities? How do you actually set up an organisation that would have funding that could actually grow with the cost of inflation and the increasing cost of research. Land and Water Australia struggled with a relatively flat and budget throughout its life, throughout its 20-year history and so there are fundamental aspects too around how do you set up an organisation to undertake those activities that could actually work into the future. That's another aspect that we would certainly like to see explored in the final report.

MR WEICKHARDT: Can we talk about the subject of money. You've raised the issue of funding and indeed in your original submission you said, "There's no rationale for reduced investment by government and a strong argument for increased investment." It is somewhat ironic that you raised the analogy that you would like to see the farming sector R and D become like the Silicon Valley of the farm and rural sector.

MR FARGHER (NFF): What do you think of that one, Phil? I don't think it was

my work but one of my people came up with it.

MR WEICKHARDT: It's a nice picture but I don't think there's a levy on the entrepreneurs in Silicon valley. I guess the tax man comes along but I don't think there's an RDC in Silicon Valley. I come to the point that what we were trying to do was say the government should be spending money basically where nobody else will on valuable research and they shouldn't be spending money, our money, where other people have a strong motivation to do that work themselves. My question to you is, if you were the all powerful, benevolent dictator of Australia, how much government money would you spend, recognising that it costs you 40 cents in every dollar of taxes and then the bizarre phenomena of saying to a farmer, "Give me a \$1.40 of tax and I'll give you a \$1 back," probably wouldn't be a good equation. So how much government money, and how would you judge how much government money should go into this area, and when is it enough?

MR FARGHER (NFF): It's a very good question and I don't know the answer as to the quantum. I think it's a fair point about Silicon Valley too but I assume that there are a couple of large companies that spend a lot of money on research and development in Silicon Valley, a huge amount of large companies and I guess if there was 140,000 small companies in Silicon Valley I guess maybe they would never have reached the level of prominence they did. Perhaps there is a lot of benefits in Silicon Valley those large companies derive back to their shareholders that they don't necessarily derive into public benefit into the community, not just in Silicon Valley but the United States and the whole area, not only just in terms of environment but water and nutrition and everything else.

MR WEICKHARDT: He couldn't have his iPad if it weren't for Silicon Valley.

MR FARGHER (NFF): That's exactly right. I'm up with your Silicon Valley point and saying it's a fair point. But I think you talked about it and we talked about and people have talked about it for years, this whole free rider, disparate group. We're not going to go over that again. You'll know more about the economic theory around that than I ever will. Then coming back here to Australia, how I would model it economically, I don't know, you'll have to help me with that. But what I would do is I would look at the objective of what we wanted to achieve in Australia in terms of where we were going globally with food and fibre demand and where we were positioned. I would then look at the industry in that and what we need to do to deliver that and I would look at the structure of the industry and say, "The only way we're going to do that is by providing farmers with tools to be able to do more with less, adapt, keep our productivity high." I'd look at then the productivity rates, the green revolution, the falling in rates, the investment flows. I'd then be putting pressure on the RDCs to demonstrate to me their returns on their projects. I'd put all that together with the industry collaboration and I'd say, "This is a very good

investment," and then I would obviously look at my other priorities in terms of health and education and other things I need to spend taxpayer money on and I'd come up with a number.

MR WEICKHARDT: Do you accept that there would be no mathematical formula that would give you the number, it would ultimately be a judgment call?

MR FARGHER (NFF): Yes, that's right. It's a judgment call, all these things. I mean, I deal with politicians every day, it's all in the national interest judgment call between competing priorities. They understand how it works. Everyone will come to this table with an argument about their systems being under pressure. Look, I'm not coming to this table with a metric, a model, the RDCs have them. I'm not pretending that we've got them; I'm not trying to pretend that we've got them. We're coming to this table as a policy organisation looking at what we're trying to achieve and how we're going to get there and all I'm saying to you is everything, the studies, the anecdotal evidence, what the members tells us, what we've already demonstrated over time, what our international trading partners tell us about our own system, the fact that they come here to try and learn about it.

Everything would tell us that one of the strengths we've got in Australian agriculture and one of the reasons we have been able to achieve what we've been able to achieve is on the back of research and development extension. Now, can I quantify that into a model to say we should pay X next financial year? No, I can't but just the logic of it, the fact of where we're positioned globally, the fact if we look at the distorted nature of world trade and we all knew the PSE numbers and I'm saying whether R and D should be in the PSE or not go to the subsidy equivalents, but we all know the PSE numbers in Australian agriculture and New Zealand compared to the rest of the world. We know how self-reliant we are. We're trying to reform drought policy and then we've got this strength that is the research and development system. We've got a choice the way we see it, we either build it to make it stronger and take an onus of responsibility as industry or we let it just crack and in 20 years' time wonder why we've lost something we once had.

I can't model that for you. You'll know how to do it, I don't. But all I know is it's damn important, our people think it's important, we know we've delivered results, we know we've got huge global food and fibre demand, we know where our productivity rates are going, we know what's happening to our natural resource base, we know we're going to need to do more with less. How the hell are we going to do it? That's where we're coming from. Now, does that quantify all the private benefit and I've seen the charts in your report. No, it doesn't. I can't give you that model, Phil. I'm not saying your R and D system can't, but I can't. That's how we would come up with a number and we think that if you look at the funding rates over time and where we're currently sitting, it's going backwards not forwards.

MR WEICKHARDT: Don't you think some of the arguments you've just raised would be powerful arguments with your members as to why it would be beneficial if they actually also spent more? Put government money to one side. We're certainly not recommending the government retreat entirely from this space.

MR FARGHER (NFF): Entirely. No, I know you're not.

MR WEICKHARDT: You raise the issue about the fact that we've focused on the RDCs, we have, because looking at the totality of this would be a very big task because a lot of the money that's spent comes from portfolios that are completely outside agriculture. It's very relevant to agriculture and that's why it makes it complicated. So there is a lot of other money that is being spent, indeed our best guess is that the federal government is probably spending about \$700 million and we're focused on about \$200 million of that, so there's a small component that we've looked at here. But we are saying, "Gosh, there's lot of evidence to suggest that spending more R and D dollars could give big benefits," they're fantastic results. Simon Hearn was here yesterday and talking about the money spent by ACIAR. You've raised the \$1.6 billion that's been committed to be spent on food.

He raised the point that you have, that this is synergistic with Australia's own R and D, if we had no R and D and we had no expertise here, then we couldn't help the rest of the world. But the great news story from what he said is not only have they had huge benefit cost ratios in helping people outside Australia, 54 to 1 was a number I seem to remember, but they've also when they've evaluated the results, had big benefits even within Australia. So there is real synergy there, so some of that \$1.8 billion spent on overseas assistance will also flow back in benefits to Australia provided we continue to do the right thing. But I guess that comes back to my issue of you've mounted powerful arguments as to why R and D commitments should go up, surely some of that should resonate with a large number of your members and farmers themselves.

MR FARGHER (NFF): I understand the point you're making and it's a valid one. My response would be that: think it does resonate. I think I might have shared with you when we first met the survey that we did of our leadership group about our current issues and particularly because I'm addressing commissioners of the PC I'm not going to claim it was the perfect survey, it was just a snapshot of our leadership. At the time we were talking about carbon price and water reform and I was sure that they were going to be issues, biosecurity, loss of young farmers, retail dominance, there are 20 things, you know the issues. R and D was rating as the second-most important issue. Our people are very focused on it. So you're right it does resonate and they are spending money. They are farmers putting their hand in their pocket. As small businesses - you'll know better than I but who else in the community - I

mean, how many other small businesses, when we look around town, put their hand in their pocket to do collaborative, collective R and D work? Who does it? I don't know.

The guy next door in the coffee shop, the coffee shop guy is not doing it. That's why I say we've got something good here with producers actually putting money in terms of transactions levy or other things in their pocket on the table. Now, could they do more? What's their capacity to do more given the nature of the business and the nature of the business? I don't know. I think they are already contributing. I think it does resonate with them. I think there is public benefit. You're going to question about where that level is. I think the community is getting a return as well and the government is putting in an investment. The money is being leveraged up and we've done something good that we need to make stronger. That would be my response.

Secondly, we've acknowledged in our initial submission that we need to look at our private sector investment as the nature of Australian agriculture changes and it's not just the small family farm unit and we've got other agribusiness links in our sector and you've seen what's happening now in terms of the multinational companies and where they spend money and where they don't and issues around IP and all those types of things. We want to look at what barriers there are to the private sector spending more money. So we're not closed to that. We're not saying, "We've done everything, Wayne Swan, Penny Wong, find more money." We want to find a better system. We're saying government investment is an important part of it and we do think we've delivered returns and we think we could deliver more and against a strategic frame it's important.

MR WEICKHARDT: I think we're in heated agreement on almost all those issues and it comes down to that judgment issue of how do we make it stronger and better. The issue, as I said before, is if it was the government simply taking a dollar and giving a dollar to farmers and farmers were investing that wisely, my economist colleagues would probably say, "Well, that's probably not such a bad thing, that's a transfer." But it costs the government money to raise that dollar and so there is an efficiency cost in them giving more money, so they've got to spend it wisely. So that's what we're really on about, how do we make the system stronger with the government spending its share wisely and farmers spending their share wisely. We're suggesting there's a strong base in the RDCs, it's a good model, much better than any other alternatives that we saw during the review so far, so how do we make it stronger.

MR FARGHER (NFF): I agree. Sam, I'll let you come in, you've been closer to it than me. I understand what you're saying, you make a lot of sense. We take the challenge again you've given us around the money, but I'm just telling you straight -

you know this but I'm just telling you again - because of where we see this sitting strategically and the importance of our people, we are going to be fighting for more money, not less.

MR WEICKHARDT: I understand that. My dogs don't like it when I take the bone away from them either.

MR FARGHER (NFF): Exactly. We think we've got a good case and it makes a lot of strategic sense to us to make the system stronger. We will talk to anyone any time, and not through you good people but through the normal course of events to try to fight that. There's no point even prolonging the conversation, you know where we're coming from. But on the basis of a broader system, where everyone else is spending their money, what the private sector is doing as well, multinationals, other government departments, not just DAFF, what our own people are doing, meeting government priorities, getting better collaboration, put all that together and make the system stronger. At the end of the day, it requires money.

MR WEICKHARDT: When you put a further submission in, you might like to talk about that coordinating mechanism because you will note in our report we did ask for further input on that. We were mindful of this idea, that it would be great to have some sort of coordination where the left hand knew what the right hand was doing. On the other hand, we didn't want a bureaucratic nightmare that somebody yesterday described could look like United Nations if we weren't careful. So again, if you've got some good ideas in that area, please put those in your submission.

MR NELSON (NFF): Ben has covered a lot of ground in his response. The issue around Silicon Valley, for us, it's really about how do we understand the decisions being made by some of the private investors in agricultural R and D. What's driving their decisions and how do we actually get more investment in Australia? I think when we look at numbers, the internationally published numbers around private investment in ag R and D in Australia versus elsewhere, some of the comparisons are not quite apples with apples because of the level of involvement that multinational companies have, and their interest in investing in R and D. We don't have that same base here in Australia. My thought is how do you actually develop an R and D ecosystem that encourages all of those investors to operate in Australia, so that we do have some stability in what's going on. We also have opportunities and we develop a sound basis that supports itself, that there is broad private investment, not just from individual farmers but from large companies. It's about building that bigger picture and I think that's where we've come from consistently in the way that we've spoken and presented on this issue.

MR FARGHER (NFF): I think that's right, and that does go, Sam, to the point as well, when I mentioned to Cliff about the meetings we go into. There's other

meetings we go into as well, like with young graduates and the deans and the colleges and that's another link that we won't go into today, but it goes to not only the extension but the broader system about how we encourage people in the industry in research and development science and where that stability and opportunity and vision around the issue is. Now, I don't know how you articulate that in a report like this and I'm sorry if I'm sort of talking at cross-purposes to you by coming back to that, but I think it's important to put it in that context.

I think on the coordination issue, it is something that we will think about and we'll try and respond to. There's a range of work going on. As you recognise, the national R, D and E framework that's been developed out of PISC, I think the challenge is actually for someone to take a leadership role and to draw that together. We just haven't seen anyone take on that leadership role. That's a challenge for us and it's something we've been talking about recently and we were very happy to see the government announce the development of a national food strategy. There are those sorts of opportunities that could actually really act as a building block.

To take us back, the RDCs were established 20 years ago. We need to get ourselves back into that mind-set about where we're going with R and D at a national level and actually develop a picture of R and D that suits us in this era, which is now 20 years on from when the RDCs were originally established. There's a lot more going on now than what happened back then.

DR SAMSON: Could we talk briefly about unintended consequences because when we started this exercise very early in the piece, I think we came to a view that it would be very easy to make recommendations that would make this system worse, so we've been very conscious of trying to avoid doing that and indeed our focus on a principle based approach is largely about that.

A previous participant was perceptive enough to describe our logic as impeccable but said, "Yes, agree totally with your logic in terms of the balance between private and public investment and private and public benefit," which leads us to conclude that the government is doing perhaps more of the lifting than logic would dictate. So a number of people have said, "Yes, we don't fault the logic but the real world politic," knowing their industries as they do, is that if the government were to be seen to be reducing its contribution to the system, notwithstanding economic logic or any other logic, in the real world, the net consequence of that would be, in crude terms, a lot of producers would spit the dummy and say, "If the government is pulling back on this, we're going to do the same," and the net impact in the real world on the system would be a serious reduction in money in the system, then you would get a whole series of flow-on effects, that the capacity base of the scientific community would diminish and it would sort of spiral down.

I know, amongst other things, you're a lobby group and we don't expect you to deviate from your perspective that more money needs to go into the system, but it would be helpful for us to get views from well-placed rational people like yourselves as to if we were to turn the existing draft recommendations into final recommendations and if the government were to accept those recommendations and therefore if there was a reduction in the government funding, we would be genuinely interested in your take of what the real world reaction to that would be.

MR FARGHER (NFF): I mean, I can give you a flavour of the reaction now, but if you want us to actually go through it and talk to people, then we're happy to. But if the government comes out with a response to a final report that's talking about a reduction in R and D, what will every individual producer associated with the different levy funding to the different RDCs do? I don't know, but I know what we'll do, but that's just a glib statement. I'm happy to talk about the politics of it. If you want - - -

MR WEICKHARDT: I'm less interested in the politics of it than I'm interested in I guess the motivation and psychology issues here. See, at the moment, if we observe the different RDCs, we see some of the levies contributing significantly above the government matched contribution, some contributing debt on the government contribution and others undercontributing. What message should we draw from that about what motivational factor the government contribution is actually having on the setting of the levy, because if you say it's having no effect at all, raising it will have no effect on how much farmers contribute, and if the corollary of that is true, then you would say lowering it would have no effect either. I'm just interested in what you think is actually the motivational factor of the government's co-contribution.

MR FARGHER (NFF): We'll have to get back to you on that. In terms of the different rates and different industries, I'd have to look at it. You'd probably know - I'd have to get someone to look at it.

MR NELSON (NFF): Yes.

MR FARGHER (NFF): If you identified your outcome which is X and everyone agrees with X, and then you agree that X is going to cost you 1, and the government is putting in 50 cents and the producer is putting in 50 cents, so the government reduces it to 40 and the producer, he or her, says, "Well, because I've agreed with X and I've agreed that X is going to cost me 1, I'm more than happy to put in 60 cents, not 50, because I agree with X and 1."

MR WEICKHARDT: "More than happy" might be an exaggeration.

MR FARGHER (NFF): Yes.

MR WEICKHARDT: Not many people willingly say, "Goody - - -"

MR FARGHER (NFF): Probably because they'll say that, "Given the taxpayer base, it's about time we gave these people some relief anyway" - that's a joke, Phil - so, you know, it's going to this point, or whether they say, "Bugger this, given we've agreed with X and 1, we've agreed with X and 1 in the broader strategic context and now you're not putting in 50, you're putting in 40, well, not only am I not putting in 50 any more, you can take your 50." I don't know. I'll have to look at the - is that your question?

DR SAMSON: Yes. There's not a sort of formulaic arithmetic answer to this thing but I'm trying to understand the psychology, the motivation. We're genuinely trying to get a feel - and all these things are going to value judgments at the end of the day - of the consequences in the real world of doing certain things. As I say, we don't want to shoot the system in the foot but we do believe there is a strong logical base for the policy shifts that we're currently proposing. Of course most people immediately put the doom and gloom situation on the table, that if there is that reduction, that it will be, "We're taking our balls home and we're just not going to play." I don't know whether I believe the total doom and gloom. We're proposing changes not to happen overnight. We're proposing over 10 years. As you would know better than most, it's a shift in the balance of funding that was envisaged originally when John Kerin introduced this system - conveniently, people have chosen to forget that or ignore it or whatever - and that was 20 years ago. Okay, circumstances have changed. So it is a genuine attempt on our part to try and understand, at the end of the day conscious that we're going to make a value judgment.

MR NELSON (NFF): You've obviously thought through it and you have your own views around it and it's very difficult to make a blanket statement about how people would respond. We can't ring Joe Average farmer and get him to represent all industries across regions. It's highly likely that industries will vary in the way that they respond because different industries are differently exposed to risk, to drought, to trade, to input costs, the cost of the Aussie dollar, the level of reliance on the domestic versus international market. All of those sort of factors are going to shape their ability to pay and to chip in additional funding if government funding were to be withdrawn. So really what we're saying and what I'd suggest is that to make those decisions in an informed way, you would really have to engage with industry and you'd have to understand the way those different industries operate at a level that's probably a little bit below the headline sort of recommendations that you might be making in the report.

MR WEICKHARDT: The nub of the matter, Sam, I don't think anyone will be

able to, with the wisdom of Nostradamus, predict exactly how any of these will actually behave. I was saying in the coffee break there's a certain irony in me sitting here and you sitting there because 20 years ago or so in the industry I came from, the chemical industry, we were having similar sorts of debates about the perils to the industry of tariffs being withdrawn, which ironically the National Farmers Federation thought was a great thing but - - -

MR FARGHER (NFF): There was good rationale for doing that. Of course as you - - -

MR WEICKHARDT: Well, the industry went through great pain in the process but I was saying our prediction of exactly what would happen was completely wrong. Some things failed much faster than we thought and other things actually were much better than we thought, so it's a tough call, predicting how people react to the challenge of, if you like, having to stand on their own two feet as opposed to continuing to get government money. But the government money is not a limitless sort of pot either and, as you mentioned, there are other priorities of health and education. So what we're trying to do is figure out how the industry can I guess do its best and how the government can do its best, so we get a better bang for the combined buck.

MR FARGHER (NFF): I think that's fine, that's good, but if you want to go back - this is a broad - I don't know what you're doing with this transcript - - -

MR WEICKHARDT: They're writing down every word.

MR FARGHER (NFF): Yes, but it's a broader discussion around how you actually achieve and perform in Australia, whether it's the RDC system or anything else, and you know I'm sure how supportive we've been of the PC's place in that story, right back to the tariff board. I mean, we were there in the 1980s with all that microeconomic reform debate, you know that, and there were some hard decisions taken and then adjustment needed to happen and sometimes we did that really well and sometimes we did a very poor job on it. Now we of course are travelling around the world explaining to our counterparts in the United States and Europe about our reform experience and our Industries Assistance Commission and PC and transparency and cost-benefit analysis and how this can really underpin good policy, but I would say that it goes to Sam's point about engagement with the industry rather than just putting out headline numbers about funding cuts.

So I link your point about reform in the 80s with your point, Cliff, about the psychology of it. If you just put out headline numbers about funding cuts, then you don't get the reform outcome. You do not get the reform outcome. You get people just fighting and also you get the psychology going through of young people and

scientists and the research and development community and industry groups saying, "The strategic imperative is there but all the government wants to do is cut costs and they're just going to wind the system out over time."

What does that do to the psychology of the industry groups, the scientists, the R and D community? It smashes them. That's the psychology. Now, you'd have to study it and survey it, but that's what it does to them. But then you relate that back to your tariff point about why people may change. They may change because they can see the bigger picture. They were taken on the journey. They realised what the effective rate of assistance in agriculture was compared to the rest of the community. They had a plan to do it, and the leaders were engaged in the process. So you've got to combine those two things somewhat. But if you just come out with the headline Funding Cuts, you're not going to deliver the reform. We've seen that, I would suggest also, lately with several other reform proposals like the mining tax and other things that have been put out there without, I would say, doing as good a job as we did in the 1980s, around the exchange rate and tariffs and other industrial reforms.

MR WEICKHARDT: I think as Warren Buffett says, you know, everyone recognises the value of the tractor but it was pretty tough for the blacksmith at the time. Being at the epicentre of reform doesn't necessarily ever feel very comfortable.

MR NELSON (NFF): Just on that, just one observation is that R and D has been one of the fundamental elements that's enabled the industry to deal with some of those reforms. It's the tractor and it's also - I mean, when we look on the horizon, there are issues around carbon, energy and water, there's food to a greater and lesser extent around different issues. These are all challenges that we can see emerging. One of the reasons why we hold R and D in such importance is it does provide us with the tools, with the tractors, to deal with those reforms and the issues that are coming up on the horizon. We can't value them now. We don't understand what the cost will be, but it's that understanding delivered through R and D that helps industry to adjust and to accommodate reforms and to deliver against the expectations of the public, the Australian public.

MR WEICKHARDT: Sure. I recognise too that we haven't just suggested reducing the government-matched contributions to the RDCs. We've tried to suggest ways in which the RDCs themselves could become more efficient and effective in the work that they do for the industry concerned, so take away the requirement to have the minister sign off on their R and D plans, take away the impediments to raising the levy, try to make the RDCs more streamlined. So we're not just trying to suggest how to make things tougher, we're trying to make it more streamline.

MR FARGHER (NFF): Look, I acknowledge that. My only point again, and without wanting to labour it and you've already recognised it but I'm going to say it

again anyway, is if you look at the RDCs, and there's 15 of them, and you're saying it's 200 million and it's a lot of money and I understand that, but if you're looking at them like that and about even setting up another one, and the money, 60 million in 10 years, and you want to do that based on good economic principle as you are going to do, then how do you do that efficiently if you don't know what the broader picture is and where other people are spending money and what the objectives are? How do you know what the objectives are if you're just dealing with one segment of it? This goes to the original terms of reference, not your problem or issue, and I'm not being critical of you good people. But I'm just saying we try and do that at the same time as we're talking to, as I say again, states, universities, CSIRO, international multi - everyone else about the objectives, as Sam said, the objectives around those issues, and you're looking at the RDCs. How are we going to deal with that?

MR WEICKHARDT: I think what we've said is we do have imperfect knowledge and we do have imperfect data, but I think we're also convinced that even if we had perfect data, this would still come down to a judgment call. Now, would the judgment be a better informed judgment if we had all the data? Perhaps. If we were looking at everything, might we be saying perhaps the money the government is spending over here is less effective than the money they're spending on the RDCs, but ultimately the amount of money that the government should spend, the money that farmers should spend on R and D will be a judgment call, influenced by some facts, and we're certainly calling for more facts and we're certainly desirous of better coordination. I think we've traversed that ground pretty thoroughly. We're just about out of time. Are there any other issues you wanted to raise? We've covered most of the ground that was on our list.

MR FARGHER (NFF): No, I don't think so. I'll make the point again, just to finish on the other one, the fact again that the draft process is out and we can engage in it and then discuss it as an industry, I do think that helps with getting a good reform outcome, rather than just a government cost-cutting outcome because if you line us up for a fight, you know what's going to happen, we'll just fight. That's the reality of it. I'm being genuine when I say we would like to avoid that. We want to make the system stronger and we're not just coming here with a line in the sand and saying, "We just want to protect the money we've got," and that's the outcome, that's our KPI. No, let's see how we can make the system stronger.

MR WEICKHARDT: That's certainly our objective too. So on that note, thank you very much indeed for coming along.

MR FARGHER (NFF): Thanks for your time, no worries at all.

MR WEICKHARDT: Ladies and gentlemen, that concludes today's scheduled proceedings. For the record, is there anyone else here who would like to appear

today before the commission? No. In that case, I adjourn these proceedings. The commission will resume public hearings in Melbourne on Friday, 12 November. Thank you very much for attending.

AT 12.04 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 12 NOVEMBER 2010