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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 MELBOURNE ON FRIDAY, 12 NOVEMBER 2010, AT 8.23 AM**

**Continued from 9/11/10 in Canberra**

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**MR WEICKHARDT:** Good morning. Welcome to the public hearings of the Productivity Commission's inquiry into rural research and development corporations. My name is Philip Weickhardt. I'm the presiding commissioner on this inquiry. With me is Dr Cliff Samson, associate commissioner.

The purpose of this round of hearings is to facilitate public scrutiny of the commission's work and to get comment and feedback on the draft report which was released in September. We've already had hearings in Sydney and in Canberra. Following these hearings in Melbourne, hearings will be held in Tamworth, Brisbane, Hobart, Adelaide, Perth and Mildura. We will be then working towards completing a final report for government in February 2011, having considered all the evidence presented at the hearings and in the submissions, as well as other informal discussions.

Participants in the inquiry will automatically receive a copy of the final report once released by government which may be up to 25 parliamentary sitting days after completion. We like to conduct all hearings in a reasonably informal manner but I remind participants that a full transcript is being taken. For this reason, comments from the floor cannot be taken, but at the end of proceedings for the day, I will provide an opportunity for any persons wishing to do so to make a brief presentation.

Participants are not required to take an oath but should be truthful in their remarks. Participants are welcome to comment on the issues raised and other submissions. Transcript will be made available to participants and will be available on the commission's web site following the hearings. Submissions are also available on the web site.

To comply with the requirements of normal safety procedures, you are advised that in the unlikely event of an emergency requiring an evacuation of this building, the exits are located out this door and into the lift well and the stairs at either end of the liftwell. The assembly point is across the Treasury Gardens, across there. If you require assistance, please contact one of our staff members here today. Finally, can I also ask the audience to check their mobile phones are either turned off or switched to silent mode.

I would now like to welcome our first participant from the Australian Council of Deans of Agriculture. If you could just give your name and the capacity in which you're appearing today, please.

**PROF ROUSH (ACDA):** My name is Rick Roush from the Melbourne School of Land and Environment, and I'm representing the Australian Council of Deans of Agriculture of which I am the president, but I've also been authorised to represent the Australian Academy of Science and the Academy of Technological Sciences and Engineering with whom we're working on a joint submission.

**MR WEICKHARDT:** Okay, thank you very much indeed. If you could give us a brief outline of what it is you would like to cover and we can move into a discussion.

**PROF ROUSH (ACDA):** Sure. We clearly believe that the commission has identified areas for improvement in the Australian rural R and D program. The Academy of Science, the Academy of Technological Sciences and Engineering and the Australian Council of Deans of Agriculture jointly agree that the draft report do not adequately address important issues on the role of Australian rural R and D and its contribution to the overall productivity, sustainability and international competitiveness of our primary industries. We believe addressing the terms of reference can be more adequately addressed in a more productive and effective way with much less risk to the integrity of the RDC system which has been an exemplar of rural research funding globally for the past few decades. I will go through some of the suggested recommendations.

We support a number of things the commission has raised, including the importance of having more government directors and skill based boards for the RDC. In addition to the organisations I represent, I just wanted to comment that my personal experience has included extensive work with the research and development system in the United States, where I was fairly successful at earning grants in the competitive grant system in the United States and also that I was appointed to three different review panels there. From 2003 to 2006, I was the director of the integrated pest management and sustainable agriculture programs in the University of California system, where I managed four grant programs for agriculture and environment and I consider myself to be a bit of student of how these things can be structured.

So with that background, in terms of public funding principles, we agree with the recommendation that the government clearly articulates what it expects from its investments, bearing in mind that it is investing in research, the outcomes of which by definition cannot be known in advance. There is risk associated with research and this has to be recognised. We think that the PC has not adequately considered the public benefit derived from having efficient food production and cheap food security which is a public benefit and outcome of the rural R and D funding. We believe it has efficiently delivered lower food prices without the distortions that costly subsidy systems that most developed countries and our competitors have produced. Food security should be viewed both nationally and internationally. Debate in Australia is virtually all about the international implications of food insecurity but not the domestic issue. We know that more than 50 per cent of Australia's food is now imported and with increasing risks of climate change, we think that it's not at all clear that Australia's food security in key areas, such as fruits and vegetables, is necessarily secure.

There is a simplistic view that if we run short of food, then we'll buy it on the international market. Those international markets may not exist in the future because there is increasing competition here and abroad. Many strategists are now arguing that food and international political stability will be linked to cheap energy, cheap food and available water. All these can influence Australia's food security and we need to have the capability to produce our own food.

So there are a number of issues about food security and we're going to talk about it in more detail, but it is argued in the draft report that the government has not received value for its public-good investment and therefore the best way is to establish a new RDC, Rural Research Australia, to undertake R and D to preserve the natural resource. We strongly believe there are more effective ways of addressing this perceived deficiency in outcomes of R and D funded research and the establishment of a new government-funded RDC, Rural Research Australia, to fund non-industry-specific R and D to deliver public good.

These views are founded on two basic tenets: the separation of productivity research from sustainability research has worked poorly in the past and it is even less likely to work in the very challenging coming decades when food security and ecological security must be closely linked. The essential point is that there are typically multiple beneficiaries from the seemingly specific agricultural R and D projects and it will substantially diminish the outcomes of such research if attempts are made to separate it into private and public benefit. This disconnect of placing them in different systems will make it even more difficult to deliver knowledge through land managers who necessarily must integrate productivity and environmental concerns into workable farming systems over the 60 per cent of the Australian landscape that they manage.

Further, the lack of specific focus on broader raw research has typically meant that there is no well-defined pathway for the application of such research that can be fostered, monitored and evaluated as not all the current RDCs do so well individually or in a partnership. To take a specific example, the draft report mentions greenhouse gas abatement as a possible topic to be pursued by the RRA, seemingly unaware that there is currently in progress effective research, both on livestock and grain crops for reducing the emission of methane and nitrous oxide. This research is being integrated into workable farming systems and we've provided some citations for that. To separate such research into the mooted RRA will severely compromise its ability to deliver outcomes. Similarly, it's hard to see how moving research on energy crops from RIRDC to the RRA will improve outcomes, giving RIRDC substantial experience and know-how when interacting with industry. Our own faculty and we believe also the science faculty in the University of Melbourne are participants in research in all areas of methane emission and nitrous oxide emission and is being funded jointly by several RDCs.

We propose that those who invest publish their research to show that the natural resource base is sustainable and other cross-sectoral research can be effectively addressed by establishing a series of cross-sectoral R and D programs as unincorporated joint ventures, with investment from the RDCs and investors' interest in the areas such as currently occurs with climate variability and forestry programs. These areas would include climate change, sustainable irrigation, climate variability and so forth or such areas as designated by the minister.

Changing the legislation to mandate that the RDCs must invest at least 20 per cent of their budgets in cross-sectoral programs would ensure that at least \$100 million, and \$50 million of government funds, is invested in these cross-sectoral issues. Placing government directors on the boards of all these RDCs to ensure compliance is a fantastic idea and one we endorse. We think there should be formalised annual consultation between the minister, DAFF and the chairs of the RDCs at which the RDCs justify their investments and cross-sectoral programs. These proposed arrangements could be implemented by designated RDCs taking responsibility for managing particular cross-sectoral programs under the direction of reference committees and a restructuring of RIRDC to give it the responsibility of managing cross-sectoral programs and any other multi-industry programs designated by government.

With respect to changes in the funding of the RDC model, we believe that reducing government funding for the existing RDCs will have a much more damaging effect than anticipated by the commission. For instance, the draft recommendations do not recognise that a withdrawal of government funding will have a marked negative effect on funding by other agencies such as universities, CSIRO and state governments. Universities in particular depend on RDC funding for their research. They receive little or no other government allocations for research. I should say there's a widespread misimpression that somehow we have consolidated revenue we draw on. We depend, in universities, very strongly on grant funds, and for this sort of applied research, it comes either direct from the RDCs or indirectly through their contributions to cooperative research centres.

Not only does this research help produce the future professionals, they conduct about a third of all the agricultural research and in Australia's relatively small scientific community, they often cover research expertise not found elsewhere in the nation. A primary example of this might be management of herbicide resistance in weeds, where the expertise is entirely in universities. Reduced government funding to the extent proposed may well threaten the RDC system as farmers reduce their investments correspondingly. Although returns on agricultural research are high, we can expect that farmers and other private beneficiaries will not fill any gaps. The lag times until research has impact are generally long. Financially strapped farmers are more likely to think of short-term needs and they will benefit from the contributions of others anyway. Thus, we can expect that withdrawal of government funding and

the incentive it provides result in further reductions of private contributions, not increases.

I should just put out that in the area of biological control, for example, repeated economic analyses show benefit to cost ratios in the order of 30 to 1, and in principle, a lot of the funding for this could be controlled by government agencies with a very hierarchical structure and yet - - -

**MR WEICKHARDT:** Sorry?

**PROF ROUSH (ACDA):** They have a very hierarchical structure, that you're not dependent on groups of growers, for example, getting together and agreeing on long-term research. Even against that background where the research could be funded by government agencies, where analysis after analysis shows these great economic returns, biological control research in Australia is chronically underfunded and I think a large part of that is because of the long time scales that actually restrict or inhibit people from making these kinds of decisions.

So we agree there should be a framework in setting out the conditions as already foreshadowed in the first draft recommendation. We think that the reintroduction of government representatives on boards of each of the RDCs, preferably with overlapping responsibility from more than one RDC, with ensure the government's expectation for its investment is fully realised. A skills based board is strongly endorsed. There's also room for improvement in the ways in which the applications for funding are reviewed by the RDCs. We think there is far greater scope to use peer reviewers than is currently practised.

We argue that the product levy rates should continue to apply. We think the proposed framework should go a long way to providing government with the tools to establish clear consistent guidance on what public funding is intended to achieve. It would also provide a way of evaluating the success of the investment. As part of the framework, the minister could provide clear directions on what government envisions for its public-good investments on a regular basis. We agree with the recommended broader terms of reference, to explore the way in which rural R and D continues to improve its environmental outcomes.

In conclusion, the RDC matching funds model has served Australia and world agriculture very well and has been advocated as a model in other countries such as the United States. Agriculture is important to our national economy and to Australia's standard of living and can be expected to be increasingly so as there is increased competition for food resources internationally. The level of investment, both public and private, needs to be at least maintained to preserve the benefits the industry provides. If public return on investment is high, there is no evidence to support the notion that removal of government funds will generate increased private

investment. Indeed, we think there's good reason to believe that the removal of government support will remove incentives for private investment. The RDC model can be improved with relatively minor changes that address the concerns that have been raised without risking its considerable benefits. Thank you.

**MR WEICKHARDT:** Okay, thank you very much indeed. Let me make a couple of quick comments and I'll come to a question. First of all, your comment about Australia's food imports, I think the figure you were quoting was one that was recently quoted by the Grocery Council of Australia and I think the minister of science and innovation pointed out that really, it was a completely ridiculous statistic. It includes all groceries, imports, nappies, shoe polish and stuff like that. It doesn't include food. If you take food, Australia probably exports at least 70 per cent of its own production.

**PROF ROUSH (ACDA):** True.

**MR WEICKHARDT:** The argument about food security is one that we've heard a lot and I guess the issue that this inquiry is wrestling with is that there's no doubt that the world diet needs food, but if you carry on that argument, simply repeating it, it would suggest that governments should fund unlimited amounts of R and D, if you believe that unlimited amounts of R and D will add more to world food production. Governments have limits on their capacity to tax citizens and governments don't have money, they have our money which they hand out to other people and it costs them money to raise that money.

**PROF ROUSH (ACDA):** Sure.

**MR WEICKHARDT:** So what we're on about is how does the government best spend our money, and what a lot of people have talked about is this issue of the debate between private good and public good. We accept the fact that a lot of the research that is carried out has a mixture of private and public benefits. That's a good thing. What we are most concerned about is the issue of additionality; that is, that the government should only spend money where it actually is creating additional research. Where the private sector have good reason to invest, then the government shouldn't necessarily step into that area. That brings us to the issue of the assertion that you made that the private sector will not invest if the government vacates that area. Now, of course, we're all arguing about behaviours that might occur or might not occur and none of us can be absolutely certain, which is why we've suggested a gradual reduction in the level of funding because there would be an adjustment process required. But certainly the evidence is that private funding research in many other countries, including one very close to us, New Zealand, is a much greater percentage of the total than it is in Australia. I'm not quite sure why people believe that Australia is so profoundly different in that respect than, say, New Zealand.

The issue however that I wanted to ask you about, first of all, was your statement that an organisation like RRA could not possibly work effectively, that it would be totally disconnected from the adoption of the research, and of course adoption of research is critical. Doing some worthy research which is not adopted or utilised is completely pointless.

**PROF ROUSH (ACDA):** Sure.

**MR WEICKHARDT:** But Land and Water Australia operated for a number of years. It was an RDC. It had lots of cross-sectoral research that was done in conjunction with the other RDCs and almost everyone we've spoken to suggested that it provided an extremely useful model and it was a great pity that it was abolished. They also pointed to lots of other areas which are underfunded, and you've talked about biological research.

**PROF ROUSH (ACDA):** Biological control, yes.

**MR WEICKHARDT:** Biological control. Indeed, the University of Melbourne's submission, the original submission, said:

There is clearly a significant gap in the RDC model in respect of cross-sectoral areas of activity outlined in the terms of reference, all of which are critical to the long-term sustainability of agricultural enterprises.

You're proposing a compulsory levy on the RDCs and the use of RIRDC. Other people have put that proposal to us and obviously we'll think about that more. But why are you so convinced that an RRA, set up with the right governance, adopting the sort of best practices of a Land and Water Australia, would not be a successful model?

**PROF ROUSH (ACDA):** I think it would be fair to argue that we can achieve the same things through RIRDC without establishing another organisation with relatively minor tinkering, without setting up yet another organisation with its own overheads and so forth to run. You could set it up. I think one of the biggest challenges we have is figuring out how it will integrate into the landscape and how it will duplicate the capacity to get extension of work. I think what we see as one of the advantages of the current RDCs is they have extension networks. Grains Research and Development Corporation uses those networks to help get out broader public-good information. When I was a director of Wheat CRC, they even helped get out word on biological control and environmental weeds, so they have extensive networks. So one question would be is it an efficient way to do it to create another one that doesn't have those networks and clearly would take a few years to develop them.

If I can come back to one of your earlier points about New Zealand's performance, I'll have to take another look at that. I suspect a lot of it is around New Zealand's performance in the dairy industry, but if one were to look at what happens to the investments in some of the other minor areas like fruit crops, I'm not so sure it will be such a rosy picture. Dairy is such a big part of New Zealand. But with respect to the question about if government cuts back, will everybody else fill in, we can see a living example of that right now in California where I still have close connections. California is suffering a severe budget crisis, and when I was a director of programs there from 2003, we dropped various grant programs and there was no response from industry to fill in those gaps. There's been about a six-year history now to evaluate whether they would fill in somewhere else and it hasn't happened.

**MR WEICKHARDT:** You might like to tell us why it is - because lots of people put to us that the government contribution, co-contribution, is absolutely critical. Without it, they assert that industry will not invest at all. There are examples already in the current landscape of industries that levy their producers significantly over the government's co-contribution rate. GRDC is an example.

**PROF ROUSH (ACDA):** Exactly, yes.

**MR WEICKHARDT:** There are some that underfund the government's co-contribution. So what evidence is there that the government's co-contribution has a huge effect on the amount that the individual growers aren't prepared to fund?

**PROF ROUSH (ACDA):** I think it's a strong incentive to be able to say, "The government will put in a dollar if you put in a dollar." If there isn't that incentive there, there's a greater reluctance. Again, I point to the - - -

**MR WEICKHARDT:** If that incentive works, why doesn't everyone at least fund up to that level?

**PROF ROUSH (ACDA):** I think what it illustrates is it's still hard to get people to do it, even with that incentive. I would look at the converse of your argument. Even with that incentive, it is still hard to get people to make the contribution. If the incentive wasn't there, we'd see even less contribution.

**MR WEICKHARDT:** Why do some people overfund then?

**PROF ROUSH (ACDA):** Because they have been convinced of the benefits. But even the GRDC has not had smooth sailing with this in recent years, where growers, particularly in Western Australia have started to rebel against this system to some extent. One of the problems that GRDC I think has had in recent years is that because there is such a long lead time between research and adoption which has been

well documented recently by Julian Alston, a lot of growers forget and they will say, "What have we got out of all this over the last few years?" The fact is what they've forgotten is that the research they're using now was actually done 15 years ago and they have to keep priming the pump for it to happen. The GRDCs had to recently go on a campaign to remind people that in fact they have been getting benefits but there's often a long time period between the fundamental breeding research and when they see a crop variety, for example. It's a long period. To keep everybody on board during that period when they're faced with droughts, increasing debt and so forth and still having these levies is sometimes difficult. The GRDC has done really well with this in being able to convince people, but I don't think it's been smooth sailing and they are seeing cracks in the system now with people objecting to it.

I think it is an incentive and again I'd point to a system that Julian Alston and Dan Sumner started investigating in California in about 2003. They wrote a report that concluded that the total funding for agricultural R and D research in California and Australia - they made this comparison - was about the same, in the order of \$350 million each. In California, 90 per cent of the research is from the public, only 10 per cent from the private sector, as opposed to close to fifty-fifty in Australia. Why does this happen? I think one of the major reasons and one of the things we were trying to change at the time is that there wasn't an incentive, a specific matching dollar incentive to draw growers into it. I think it is a challenge. Since the University of California, the programs I ran, they've had to drop their grant programs. There hasn't been a response from industry to increase their own internal levies to match that. The work is simply just going undone.

**DR SAMSON:** If you can just go back to this RRA versus a modified RIRDC issue, we are certainly of the opinion that if you look at the balance of public/private investment to the balance of public/private benefit that comes out of the current model, there is an imbalance and we are looking for ways to ensure that legitimately the government gets more return on its investment in those areas that it thinks are important for the national good, typically large cross-commodity issues. One suggestion you've got here is that we mandate, change the legislation to mandate that the current RDCs invest at least 20 per cent of their income in this sort of area. I'll preface this by saying it is grossly unfair, as we always do, to talk about all the RDCs as a collective, as if they all behave exactly the same, as if historically they have behaved the same, but as a generalisation.

One of the things that has always happened with the government has come out with rural research priorities and asked the RDCs to focus on those. I know from first-hand experience, historically some of the RDCs have been very good at taking what they were always going to do and recategorising it to demonstrate that we're now meeting the government's priorities, and nothing has changed. For good or bad, nothing has changed. I put to you that perhaps under the proposal that you make, that also would be the case, that if they chose, most of the RDCs could point now to

at least 20 per cent of their investment being in areas of cross-cutting research and therefore nothing would change. It's that type of concern that has led us in part to this notion of the only way we're going to actually get real change in this system is to set up a body singularly focused on that issue without all the quite understandable pressures of commodity based levy payers trying to point to the organisation.

**PROF ROUSH (ACDA):** Yes.

**DR SAMSON:** So that kind of explains to you our concerns, our thinking, hence where we're currently sort of ending up. Do you have any comments on that?

**PROF ROUSH (ACDA):** I can certainly understand that. Believe it or not, I had discussions about this sort of thing with John Lovett when he was managing a GRDC over a decade ago because he actually was quite sensitive to the public-good responsibilities. I think one of the problems that's been identified in setting up this review is that the government probably has not given strong signals to the RDCs for some time about what they would like to have and in the absence of some kind of indication, things can wander off. I think it's also really important to get more skills based and government directors on to the boards to make sure that they draw into this and actually test this more.

But I think in the absence of having done those things in the past, to immediately say, "Well, the only way we can go is to a new organisation," with all its attendant costs is probably too big a jump at one time. I think we could still look to the relatively minor changes that we're proposing at lower cost and still get those efficiencies, and particularly continue to connect the public good and particularly environmental benefits through the existing networks of these organisations as set up, without sort of setting up an independent organisation that's going to have to do the same thing, reinvent networks again. I mean, how is that growers get their advice? Land and Water, as good as it was, I don't think that many growers got their advice directly from Land and Water and it was probably the reason why it was easy to close Land and Water, because there wasn't a group out there that felt strongly about it. It was doing fantastic work but it wasn't necessarily connected with people on the land. So it would have been easy to say, "Where's the strong lobby to support the continued existence of Land and Water?"

The RDCs have that network and what we need to do - what we will argue, I think - is to bind them closer to the task of using that network and using collaboration among themselves to try to do these things more efficiently.

**DR SAMSON:** We wouldn't for a minute disagree with you of the importance - in fact part of our thinking is what the current commodity based RDCs do very well is what you've just talked about. They're good at dealing with their producer, levy payers, generating on-farm productivity type research and that is a strength. There is

nothing in our thinking about setting up an RRA which disconnects that organisation from the existing 15. Far from it, we would expect it to have strong ties with those 15.

We do think however as you go forward, as you've indicated, in a far more perhaps complicated world than we're currently in, an ability to focus and to pool together all the disparate players in, say, climate change and take an agricultural/rural focus is going to be important. We also think potentially you're going to require quite different skill sets to encourage adoption of some of this work. While there's a direct demonstrable productivity, cost-cutting benefit of a piece of research, then you're going to have one set of challenges and one set of strategies to get that adopted.

On the more sustainable environmental area, you may well be drifting more into a regulatory space because those financial incentives are not as immediately obvious to producers. So again, we see some merit in having a body, not singularly, but more focused on that. But again, just trying to explain - - -

**PROF ROUSH (ACDA):** I think I understand those arguments and I think we still think that a lot of those functions should be undertaken by RIRDC. It seems to me that even if you set up the RRA, I don't see that that should necessarily be linked to reducing the government contributions that can maintain the incentive of the overall flow of research.

With respect to falling into a regulatory environment, we have an RDC that's been well and truly in that and that's cotton. For over 20 years, cotton has been faced with a very strong regulatory environment, and I think they showed the capacity of the RDC to address that. As an industry, they really focused on trying to address a lot of the environmental issues. There were rapid adopters of genetic and modified cotton because it reduced their use of insecticides like endosulfan that have now been banned. In many ways, the RDC was really good in anticipating the regulatory demands and actually moving with research ahead of them. So I think it shows that there is a capacity within the RDCs to do that, but I accept what you're saying, that there probably would be a much more regulatory environment in the future.

**MR WEICKHARDT:** One thing that you might like to do when the transcript of the Canberra proceedings are available is have a look at the session that we had with Andrew Campbell who argued very strongly that the model you suggested - and you're in good company, other people have suggested it too - that building on RIRDC has merits. Andrew Campbell argued very strongly against that, as have Victorian DPI in their submission. I guess the concern is that there are two issues with the RIRDC approach that I think have affected those people. The first is the concern that RIRDC already has a number of industry-specific responsibilities and there's a question mark about what do you do with those. We were very mindful of

the fact that the argument that an organisation should take a lead and focus on additional, socially valuable research that the other RDCs wouldn't do required a mind-set that was quite different to the mind-set that exists in an industry-specific RDC for all the reasons Cliff has just explained.

So I think those people have argued that you would have to fundamentally restart RIRDC and you'd have to do something with those emerging or smaller industries - and some of them of course aren't too small, areas like rice sit within RIRDC.

**PROF ROUSH (ACDA):** Right.

**MR WEICKHARDT:** So as I said to you before, we will definitely think about that option but there are probably an equal number of people who quite strongly believe that the RIRDC model won't work and some that believe it will.

**PROF ROUSH (ACDA):** As it happens, coincidentally, Andrew Campbell was the invited speaker at our Dookie campus yesterday for our postgraduate students and we talked about this yesterday afternoon there. I am sure I can speak on behalf of all three organisations: we will certainly look back at those comments and think hard about it in our draft submission and short revision.

**MR WEICKHARDT:** Thank you. Can I just change topics for a moment. You say in your notes that there's room for improvement in the way that applications for funding are reviewed by the RDCs, for example, there's scope to use peer reviewers much more than is currently practised. Can you just explain why you think that doesn't occur at the moment and what would need to change and why there might be any resistance by the RDCs for such a change?

**PROF ROUSH (ACDA):** The organisation I've had the most experience with would be with the GRDC, where there's a tendency for the decisions for grant proposals and programs often made by the panels. Certainly in some of the cases I've been involved in, if they had sent it out for a bit of scientific peer review, they could either accept or reject it, but at least they would have been alerted that there were technological problems to achieving the outcomes that were designed. A peer review is an extremely strong model for highlighting issues and so forth and it's one that we think should be more widely applied, that there should be a greater effort to get the proposals before other scientists. They don't necessarily have to take that advice strictly but at least if there were potential objections there, they would be aware of them and there would be a better informed decision-making process. I think that's going to be an issue. Ultimately whether you go with the RIRDC model or the model you proposed, the funds should be really allocated on a competitive basis and there should be a significant peer review. I should say that there isn't a strong history of success for this in government. The Deans of Agriculture in

particular have had meetings and have taken to senior management of the ARC concerns they have had about funding applied research, peer review applied research. The Commonwealth government has had trouble recently spending \$15 million on weed research programs, so there is a need both in the RDCs and I think even in government, if these programs are set up, to have a strong focus on peer review and involve peer reviewers who have an applied focus.

**MR WEICKHARDT:** Okay. Thank you for those comments. You will have noted in the draft report we had suggested an amended assessment process for the RDCs which of course is an ex-post review, but that that should include, as the CRC process does, a scientific peer review of the merit of the work that had gone on.

**PROF ROUSH (ACDA):** Right.

**MR WEICKHARDT:** I guess that that might slowly have some influence on RDCs thinking about the merit of the scientific work that they were about to engage in, but perhaps winding in some peer review of the science pre the funding could be a useful step. We should talk to the RDCs about why more of that doesn't happen now.

**DR SAMSON:** Could I just ask you very briefly, you have just a one-line comment on levy arrangements. Do I read that correctly that you're broadly supportive of the comments we've made in the draft report?

**PROF ROUSH (ACDA):** Yes, we think that the levy arrangements should continue to apply essentially, yes. We think we shouldn't be dropping the levy rates.

**MR WEICKHARDT:** We haven't proposed that levy rates be dropped at all.

**PROF ROUSH (ACDA):** No, so I think it's right that they continue to be applied.

**MR WEICKHARDT:** In fact what we've tried to do is say there should be an ability to be able to raise a levy - - -

**PROF ROUSH (ACDA):** Essentially, if anything, the private sector should be funding more, yes.

**DR SAMSON:** Perhaps the system at the moment is not conducive to allowing people to do that.

**PROF ROUSH (ACDA):** That's a good point, yes. I think we agree with that.

**MR WEICKHARDT:** All right. Thank you very much indeed for appearing and we'll look forward to your submission.

**PROF ROUSH (ACDA):** Thank you for your time.

**MR WEICKHARDT:** Thank you.

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**MR WEICKHARDT:** Okay. Our next participant is the University of Melbourne. If you could give your name and the capacity in which you're appearing here today, please.

**PROF HOWLETT (UOM):** My name is Barbara Howlett. I'm a professor at the Faculty of Science and I receive funding from GRDC. I'm a former panel member of GRDC, so I feel I have an insight as a research provider at the University of Melbourne and also as someone who was involved in decisions of funding. I'm letting my colleague, Prof Ary Hoffman speak for me today, but I'll participate in discussions.

**MR WEICKHARDT:** Okay, thank you.

**PROF HOFFMAN (UM):** My name is Ary Hoffman. I'm actually an Australian Research Council, ARC, laureate fellow. I also do a lot of work for GWRDC and also for GRDC. We provide a lot of the basic research that I guess underpins their pest control programs in particular, and we have been funded by them for a number of years. But I am funded also by a number of other agencies, obviously including the Australian Research Council, so we have a fairly diverse portfolio that extends all the way from the environmental area to the agricultural area. So we're involved in public-good research and also the overlap between public-good research and more applied research. I'm a hard-core scientist, I guess.

**MR WEICKHARDT:** Okay. So do you want to just outline the key thrust behind your position and then we'll move into a discussion.

**PROF HOFFMAN (UM):** Yes, and it would be interesting to sort of come back to some of the points that were discussed in the previous session. There's obviously quite a lot of overlap between our submission and the submission that was prepared by Prof Roush, so it's probably worth just skipping over some of the points and perhaps focusing on some of the other ones in a bit more detail where we can provide a bit more input.

We also are concerned I guess about the fact that we don't want to set up another body with a large administrative structure because of course we're all keenly aware of the fact that sometimes you set up these schemes and what comes down to the research can be rather smaller than one would like as a consequence of having a large administrative structure. So we always raise that point as a research group, that we'd like to make sure that anything else that is set up is obviously very efficient and ensures that most of the funding actually flows to the bodies.

Having said that, we certainly thought again about this issue of whether something already exists that could take the place of the proposed RRA, and you've

already had discussions around RIRDC and you've already talked about the fact that you don't think that's a particularly good model. We certainly feel that if we can roll it into something else, it would be better, and we feel that if a RIRDC based system might function in that capacity, that would be better, or perhaps some sort of body that acts across the current RDCs would be better. It's really a question of efficiency. We don't feel that the Land and Food RDC in its previous incarnation would suffice to cover a lot of the areas that we would be concerned about. We can come back to that in just a second.

The other issue that we push, and again this has been pushed by Rick and obviously other people as well if you look at the transcripts, is the issue that it's very hard to separate the public-good research from the strictly applied research. I can give you several examples of that from our own research.

**MR WEICKHARDT:** We would be in heated agreement with you. You can give us lots of examples, but I don't think you're going to change our mind; we agree.

**PROF HOFFMAN (UM):** Yes, but it's worth thinking though about the issue of what might be funded by an RDA and what might not be funded by an RDA - in other words, where you might actually lose traction - and the types of research that might not be funded adequately under an RDA system, so I'd be quite keen to discuss that with you. Again, I think it might be useful coming back to an example to just think about it.

**MR WEICKHARDT:** Go ahead.

**PROF HOFFMAN (UM):** So if you think about the issue of pest control, for instance, so basically when we talk to industry bodies that are comprised of farmers and managers and what have you and a pest problem comes up - and pest problems tend to come and go, as do disease problems, Barbara can obviously elaborate on that - there's a sort of kneejerk reaction that happens, "Hey, we've got a pest," or, "We've got locusts this year," or, "We've got mice this year," or, "We've got major moth pests coming in this year." So then they will say, "Gosh, we'd better spend some money on the research to actually get that happening." What you really need of course is you need to actually understand the pest system or the disease system in some detail and that can take a number of years. Now, what we've been very effective at doing over the last few years is come to long-term solutions to pests and not simply kneejerk reactions that are based on multi-year research programs, that actually leads to sustainable ways of controlling those pests.

If you're dealing with a body that's purely a levy body where the growers are directly responding to a pest, we have situations already when it happens but of course that is very much moderated by the fact that the Commonwealth government kicks in to sort of the RDCs because that means that the industry body says, "Hey,

we actually have to understand this problem in detail in order to come up with a solution. We can't simply do a kneejerk reaction." Pests are specific to industries to a large extent; there are some that occur across industries but there are many that are quite specific to industries, and you can't imagine an RDA body actually funding that sort of research, despite the fact that over a number of years, you do actually produce sustainable products for the control of those particular pests. So in other words, we really need to understand the biological information of the pests. You really do need these long-term programs that would be very hard to fund if there was simply a body reacting to a levy, I suspect. That's certainly an argument that we've made on a number of occasions. It certainly has worked very effectively with the RDCs because we have been able to get them to actually understand pests in a very broad context. So that's a simple straightforward example.

**DR SAMSON:** Just on that then, just to test our collective sort of thinking, one of the things with the draft report and this concept of an RRA, we have not pretended to be the fonts of all wisdom as to what its remit would be and are seeking input, so this is quite a useful concept.

**PROF HOFFMAN (UM):** Yes.

**DR SAMSON:** Now, in my mind, there are a couple of things, to use the pest example: in a broader context, I would indeed have said the thing quite likely to be on the work program for an RRA in a macro sense, but very much with the realisation that there will be industry-specific issues and therefore a need to interact with that commodity based RDC, which will still be in receipt of significant Commonwealth funds and will, under the proposed model, have a government or somebody representing the Australian government on the board. So I would see what we're proposing to actually potentially enhance the focus on those things. You've got an overarching, if you like, coordinating body who is looking at the very things that you're talking about, but this is more than a commodity based short-term issue. There's a more systemic, "How do we deal with pests in a sustainable, environmental way?" But yes, there will be times when the grains industry has got a particular problem or cotton, and therefore the need to interact.

I think perhaps it may be the way we've articulated it, but we have always seen an absolutely essential part of the functioning of an RRA-type body is a very close ongoing relationship with commodity based groups. It's really just a shift in emphasis. Let them do what they do best. Let this new body deal, in an increasingly complicated world, with all the service providers, all the potential funders, all the different government agencies, and in doing so, potentially leverage quite a bit of money and make the pie that you deal with a lot bigger than it currently is. So again, that's our thinking.

**PROF HOFFMAN (UM):** My concern is that we would fall between the cracks.

Again I'll give you a specific example which relates to climate change and all the things that you actually talked about previously. There's a major moth pest, for instance, in Australia called the light brown apple moth. It's a problem in the wine industry predominantly. It's also a problem to some extent in the horticulture industry. Now, basically if you're trying to predict what sort of problem that pest is going to be in the future on the climate change, and it's one that's actually going to shift - you know, we have some good data - you have to really collect some basic biological information about what makes that pest tick. That information currently is not available. We have over a period of a few years persuaded GWRDC - and this has taken quite an effort - in order to become more sustainable in pest control, they have to collect basic biological information about this particular pest species and that's been quite a job to actually get to that stage. We will hopefully be in a position in three or four years where we can say, "We can actually make some useful predictions about this pest, see what's going to happen in the future, see how distribution is going to change, see what sort of control mechanisms you have to implement to be sustainable for the future for this particular pest species."

We're already getting a response from certain people saying, "Hey, look, light brown apple moth hasn't been much of a pest in the last couple of years. Let's cut our research in that particular system." I can't imagine a national body actually picking that particular system up. I can imagine that's an excellent example of one that actually falls between the cracks. One of the frustrations we encounter again and again is that we are relying on research that was done in say 1910 or 1920 in some cases to actually make these sorts of predictions. So it's not that straightforward.

**DR SAMSON:** I think it's a bit of a glass half full, half empty here. I would say the creation of an RRA-type body giving you a much better chance that there would exist a national pest program that would have a medium to long-term structure to it, off which would sit a whole range of industry-specific issues. But I mean, I haven't got a crystal ball.

**PROF HOFFMAN (UM):** But if you think back to a grain grower - and a grain grower basically works on very, very tight margins when he's producing, particularly crops like wheat and barley, a bit less canola - if you're talking about a grape grower, the margins can often be a lot more, that means that the actual way that they approach pests is very different in those two situations because when you're talking about implementing biological control, for instance, like Rick was talking about, it's much, much easier when you've got decent margins. When you've got those very fine margins, it's much, much tougher, and the requirements for those industries are actually quite different in that respect.

**MR WEICKHARDT:** At the end of the day, the government is not here to protect people from their own short-sightedness and the world exists because fundamentally people normally do react to self-interest. I would have thought that if there's an

industry-specific pest that's around that's going to destroy people's crops, eventually they will decide, "We have to do something about it." If they're convinced that a longer-term approach rather than a short-term kneejerk reaction is the only way they're going to get an adequate response, ultimately they will react or the industry will disappear.

The government is not here to legislate to say, "Every time somebody makes a misjudgment in their industry, we should protect them." Most of our society depends upon people acting in reasonable self-interest, and the government couldn't afford to provide a safety blanket for every case that they stumble on.

**PROF HOFFMAN (UM):** Absolutely, but don't forget that when you actually change the way that these chemicals are being applied to control these pests and you incorporate this sort of data that I'm talking about, your chemical load on the environment generally decreases and everyone basically has enormous benefits as a consequence of that. I think we tend to forget a lot of the time that most of our biodiversity is actually tied up with private land and that most of the chemical loading that's going on in the environment is actually tied up with private land and that of course has flow-on effects in national parks and everything. So anything we can achieve at that level has very, very much bigger flow-on effects. We certainly have used the argument very effectively in the past with the RDCs that, "Hey, you're getting government funding," and they actually recognise it as being incredibly important and hence this sort of work is really worth supporting, this work that builds on the sustainability idea.

**MR WEICKHARDT:** Yes. At the heart of a lot of this discussion, there's I guess a position that's being put to us by many, saying, "What you're recommending is going to destroy research spending in agriculture in Australia." That's not our starting point. Our starting point is actually, based on everything we've seen and heard, there's probably a strong case why research spending in agriculture should go up. But what we want to do is make sure that the two parties that fund that at the moment, governments and private sector, both bear their appropriate responsibilities. Now, of course predicting what both government and the private sector will do in response to our report is going to be a matter of conjecture, but what we've tried to do is say let the RDCs do what they do best give levy growers the chance to change their levies in a much easier way than they do at the moment, and make sure government have a set of principles around its funding and a better mechanism for coordinating the way it spends its money because at the moment, as we pointed out in the report, there's not a great deal of transparency about what government portfolios are spending in what areas, and whether or not it's all being done in an efficient and effective way. So we're not here just to suggest that agricultural R and D or rural R and D should be slashed. That's not our position at all.

**PROF HOWLETT (UM):** Can I make a comment about the assumption that if the

government contribution to the R and D corporations is diminished over a five or a 10-year period, that industry will kick in to take up the gap. Now, certainly the growers I've spoken to are unsure that that would happen, but secondly, the sort of research that then would come on to the portfolio table - and I've been for seven years on these sort of panels - is much more of the immediate on-farm type benefit to the growers. So you don't have the long-term sort of things that Ary is talking about, the high-risk, high-benefit but much longer term are really much harder to get up. Now, I suppose you can argue, as you have, if the industry is silly enough to do that, that's their problem. I guess also we're from the University of Melbourne and we're researchers who do a lot of in fact long-term stuff, but the investments from the universities and CSIRO in this sort of thing is quite considerable. We put in maybe 45 per cent in kind et cetera and so I just can't see that sort of thing happening, so you would jeopardise that contribution as well.

**MR WEICKHARDT:** You might. Our position was even were our recommendation to be adopted, that the rural sector is still going to be funded more generously than other industry sectors are through the R and D concession and because of that, the RDCs would still have a responsibility to ensure that some work was being done in their portfolios that justified that generous government investment and therefore the assessment process that went on on a three-year cycle, we've suggested, should include an assessment of the balance between short-term and long-term research because the impression that we've gained from talking to each of the RDCs is that some of them have quite balanced portfolios, some of them have very short-term small-scale portfolios that are, in the very short term, adaptive-type work. It's not appropriate that government should be funding a portfolio that's purely in that capacity. So we're totalling of the view that the RDCs, if they expect any government money, they must continue to sponsor some longer-term sort of blue sky type research.

**PROF HOWLETT (UM):** Then it's also the training, so many of these RDCs are training the next generation of agricultural scientists, people contributing in all these different industries and certainly the ones that I'm familiar with such as GRDC have a very long-term innovative-type mechanism. But again I do wonder about how that would happen because remember all of this happening as well at a time when the Australian Research Council and all of these other bodies are under real pressure and indeed it's very difficult - Ary is quite an oddity, so to speak, in terms of the types of research that he does and the support as well. I mean, it obviously reflects his excellence, but often there is a sort of assumption with these bodies, "Well, the RDC should cover this stuff." Agricultural funding is not well covered by bodies such as the ARC. So my assertion is that a lot of stuff would drop off the radar.

**MR WEICKHARDT:** Can I raise a couple of issues that were in the University of Melbourne's original submission. You raised an issue there about the publication of results and the issue about intellectual property protection. A number of other people

have raised concerns about the degree to which the output of the research funded by RDCs is visible to all parties, is published, and whether or not it's locked up by confidentiality or intellectual property arrangements. Can you just elaborate on your experience in that area and what you think should happen? It seems a bit incongruous that if publicly funded research is going on that it's not available and accessible to the whole scientific community and to levy payers.

**PROF HOFFMAN (UM):** I think there's also a point around that which relates to your peer review process because once you actually try and publish research, of course there is an automatic stamp of quality research if it's publishable, and it's certainly the case that at the moment, those research outputs are not being published enough or at least being screened enough through that particular process, so I'd certainly very strongly support the comments that were made previously about peer review. That's actually a very cheap way of achieving it because if the research isn't of a sufficient quality, you simply can't publish it in the scientific literature.

With respect to intellectual property, we've been quite deliberate in our research program to always point out to the RDC that we envisage our research as being public good and we'd like to obviously see it in the public domain as quickly as possible and that has certainly been a very strong point that we've always pushed. Certainly with respect to the grains industry and the grape and wine industry, we have found them to be quite amenable to that. We have encountered one problem in the past where there was a rapid test that we developed, a DNA test for a particular pest species, and in that case the industry did want to tie it up, but again we negotiated that while the DNA sequence was tied up; at least the rest of the research could actually be put out in the public domain through publication. So in that sense, we have certainly found those two bodies to be reasonably flexible with respect to that sort of issue, but I know that other people have encountered some problems and that's particularly a problem in respect to student projects of course, because for students to progress in their scientific careers, they need to publish and they need to get the work out.

**PROF HOWLETT (UM):** I think some of the RDC corporations do it differently and certainly over the years, I've watched GRDC become much more, "We want to get it out." For instance, we have breeding companies there now, so any of the pre-breeding work funded by GRDC must be available to all of these programs. So the part of the submission you're referring to, remember this is a cross-university submission, so, for instance, the research office put quite a lot of time into it. The legal team, they were perhaps venting a few frustrations about the fact that we would like a cross RDC-type contract and I think they're working towards that through the heads of the RDC. You can't just have one contract but at least some consistency so that they don't reinvent the wheel each time.

**MR WEICKHARDT:** Sure.

**PROF HOWLETT (UM):** But certainly the student projects, I think one or two have been an issue.

**MR WEICKHARDT:** There was also a comment in the submission about the fact that the commission should consider ways to ensure that RDC funding is registered on the Australian Competitive Grains Register.

**PROF HOWLETT (UM):** Yes.

**MR WEICKHARDT:** That means nothing to me. Can you tell me why and what the implication would be.

**PROF HOFFMAN (UM):** Sure. A university can receive different categories of research. There's category 1 research, category 2 research and category 3 research. If a research program is defined as category 1, basically it means that the university gets a lot more money from the federal government to support infrastructure at the university; then it's defined as a category 2. So in general if research is defined as category 2, then the university really is supporting that research unless they have an on-cost attached to that research which is normally in the order of at least 35 per cent but preferably around 50 per cent. So it's really a question of ensuring that the research program is judged to be in the competitive category 1 category because otherwise we would lose an enormous amount of infrastructure as a consequence of that being downgraded, very straightforward. So if you want universities to do high quality agricultural research, we definitely need to make sure that it falls into category 1, especially in the public-good area.

**MR WEICKHARDT:** Okay. Have you got other things you wanted to raise? Do you propose to make a further submission, do you know?

**PROF HOWLETT (UM):** We will write this into a form and then submit it formally to the commission by the closing date, yes.

**MR WEICKHARDT:** Okay. An issue that's critical that you've raised and the previous participant raised is what will the response of the levy payers be. This of course is an issue of judgment and levy payers respond to various signals. Of course some of them are under acute financial pressure, we understand that, but farmers are not stupid either. What is it that research providers can do that, if you like, will help educate, stimulate, provide stronger messages of the value of the research? The previous participants pointed out that some of the benefits of research can be very long term, but the assessments of the RDCs themselves which quote quite high benefit-cost ratios point out that even after five years, benefit-cost ratios of over 2 to 1 are typical. Five years is not an incredibly short time but in the research world, that's a damn good return. If you could be guaranteed that you were going to

double your money after five years, I would have thought most people would say, "I'll be into that."

What is it that the research community can do, has done or could do more of that would stimulate a better understanding and therefore perhaps a better response by levy payers to say, "We ought to be putting more money in here because there is a return to us from a balanced portfolio of short and long-term research"? If that happened, then what we're proposing will certainly not produce a reduction of overall expenditure, it might produce an increase.

**PROF HOFFMAN (UM):** Yes, but don't forget you've also got to capture the environmental benefits and the social benefit as part of that equation and that's much more difficult, I guess.

**MR WEICKHARDT:** Sorry, you have to capture - - -

**PROF HOFFMAN (UM):** The environmental benefits and the social benefits are often much harder to incorporate in a cost-benefit analysis.

**MR WEICKHARDT:** In fact the benefit-cost ratios that have been quoted in all the assessments that have been carried out to date do not quantify the environmental and social benefits, so these benefit-cost ratios of 2 to 1 after five years or 11 to 1 after 25 years exclude the social and environmental benefits. They're cream on top.

**PROF HOFFMAN (UM):** Sure.

**PROF HOWLETT (UM):** I'd like to answer your comment as to what can indeed the research providers do and indeed what do they do at the moment? Again I'll use the Grains Research and Development Corporation. A newspaper coming out every couple of months called Ground Cover goes to all growers and/or research providers. I know the people in Ary's group are probably in it every month. So the research providers certainly are engaged in a lot of communication strategy and extension with the growers via that medium. The other thing is that many of the farming groups - the Birchip Cropping Groups, all of these - have collaborations, etcetera with universities, with these research providers, to do the research, because they realise that perhaps they don't understand the random trials, etcetera.

So research providers are certainly out there a lot of the time, through these formal strategies such as Ground Cover and other publications, etcetera, where their telephone numbers, the web sites also, have the names of the researchers, what they're doing, their details. Obviously we have got to do more. We all try and go to these farmer updates, etcetera and speak at them, we get invited to go, and we have got to keep doing that, because we feel accountable as well. I mean, we are not just from the university wanting to get the funds to fund our lab; that's certainly part of it,

but we feel that we contribute to rural R and D.

**MR WEICKHARDT:** Simon Hearn from ACIAR presented at Canberra and he was making a point too that involvement of researchers going back and assessing the outcome of work is something that ACIAR believe in very strongly, and he was saying, "Well, okay, there might be the danger they'd be perceived to have an axe to grind, but the upside is that they're intimately involved with seeing how the research has been adopted, learning from that, perhaps helping to educate end-users in how they could use the research better." All that involvement and interaction has got to help this process, I would have thought.

**PROF HOWLETT (UM):** I would argue that we do that anyway.

**PROF HOFFMAN (UM):** I think we do, yes.

**MR WEICKHARDT:** Good. All right, thank you very much indeed for your submission and participation. Our next participant is Prof Glenn Browning from the University of Melbourne. Could just give your name and the capacity in which you're appearing, please?

**PROF BROWNING (UM):** Glenn Browning. I'm Associate Dean for research in the Faculty of Veterinary Science at the University of Melbourne. I guess I wanted to speak to you presenting an animal health perspective. I think Ary and Barbara put a very good case around the plant research and development work, but there are some aspects of animal health and production, but animal health in particular, that I thought I should bring to your attention.

**MR WEICKHARDT:** Yes.

**PROF BROWNING (UM):** Just to follow on from one of the points that you were up with about infrastructure funding and making sure that the RDCs remain on the infrastructure lists. We have recently RIRDC fall off this year, because they weren't put onto the register this year, and so research that's currently under way funded by RIRDC is not receiving infrastructure funding this year in the universities.

**MR WEICKHARDT:** We have a bit of a concern that the RDCs have typically relied upon a sort of competitive process to try to leverage their money; and have relied upon, if you like, the marginal costing of research, by universities in particular, and done so because they have assumed that the government will, through another funding arm, these infrastructure grants, fund them. Why on earth, if the RDCs are trying to leverage their money and buy as much research as they can for a given dollar, don't they register this research so that the university can get this additional funding?

**PROF BROWNING (UM):** I think most do, and RIRDC is the exception. But it appears that the process has become more complex in the last year. In fact I find it difficult to understand why rural industry bodies need to re-register each year. Why should they? They have been in existence for a long period of time.

**DR SAMSON:** Is it simply a point of registering? There's no criteria that they have to meet?

**PROF BROWNING (UM):** They have to meet criteria. They clearly meet the criteria. It's simply that they had to re-register, and missed the boat this year.

**MR WEICKHARDT:** Is that across the board or specifically RIRDC?

**PROF BROWNING (UM):** No, it's specifically RIRDC this year. But it does raise a significant problem. I mean, you raised the issue of infrastructure support anyway, and I think the universities in general would argue across the board that we probably cross-subsidise rural research through other resources, and the leveraging activity is highly problematic. I think the other aspect of leveraging is that it can result in an uneven playing field across and that as a result we may well have possibly less-able researchers who are better-leveraged obtaining funding through the system rather than the most able researchers, simply because they don't have as good a leveraging behind them.

**MR WEICKHARDT:** As we also try to point out in the report, some of this leveraging - not necessarily in that particular category - would appear, at least superficially, to have very high transaction costs. People are being quite inventive about trying to make every dollar go further, but there's a cost associated with doing that, and whether there are net benefits in terms of the way public money is being used is quite questionable in our minds.

**PROF BROWNING (UM):** I'd dispute that perception. I think actually the result of what goes on is that research is done extremely cheaply in Australia as a whole. It would be interesting to see international comparisons with the British Biological Science Research Council and USDA to see just what the cost is. My pretty clear perception is that we operate on much lower margins for infrastructure and much lower grant values.

**MR WEICKHARDT:** I wasn't necessarily referring to the research actually being conducted. If you look at one of the examples that we showed in the report of what we call the money-go-round - in the sugar industry, for example - of money flying between CRCs, the RDCs and various other entities there, all of which are probably wrapped up into individual legal contracts, the amount of money leaking out to lawyers and other people is probably quite significant.

**PROF BROWNING (UM):** That could be possible. Actually, when you mention CRCs, the other problem with infrastructure components flowing to universities is that once RDC money goes into CRCs they cease to attract the infrastructure payments through the national infrastructure systems for universities, which does create problems as well.

**MR WEICKHARDT:** Yes.

**DR SAMSON:** Just on another issue, while we have got so many academics in the room, it's quite easy to get the impression that most of Australia's best researchers spend more time writing research proposals than actually doing the research. I know you're applying for money that comes from the public purse, you're applying for money that comes from growers through the levy, so there has got to be some system. Are there things that you believe the RDC system could do to make that whole process no less effective but perhaps considerably more efficient?

**PROF BROWNING (UM):** I'd say the one very good aspect of the RDC system that they have in place is a preliminary proposal system, and that does save significant time. It's a two-page initial proposal, which is then judged; and for the most part, final proposals usually get funded - - -

**MR WEICKHARDT:** I think the University of Melbourne submission said that some of the RDCs, after the final proposal goes in, knock back the proposal on grounds that should have been obvious in the initial proposal.

**PROF BROWNING (UM):** I have been subject to that myself. In fact that may have been me who has included that. Yes, those are rare events. They're frustrating when they occur, and certainly the effort to benefit ratio for the RDCs is higher than it is for the ARC or NHMRC systems, for most of us.

**MR WEICKHARDT:** It's higher?

**PROF BROWNING (UM):** It's higher, yes. Sorry, the benefit to effort ratio, yes.

**MR WEICKHARDT:** So the RDCs are better?

**PROF BROWNING (UM):** So the RDCs require less effort compared to ARC and NHMRC.

**MR WEICKHARDT:** Okay.

**DR SAMSON:** Is there a sense there is scope for some form of standardisation, so you are working off a single template for all 15, similar timelines for calling of proposals? I appreciate the GRDC try to be open for business 24 hours a day, seven

days a week, but I know it doesn't work that way.

**PROF BROWNING (UM):** There's certainly a good argument for having a coordinated system for public grants that ensures that the same information is shared across all, that we're not endlessly typing out names and addresses over and over again for different bodies, and that the systems are the same. I think also there's a good argument for peer review system for RDCs that more closely matches what happens with NHMRC and ARC.

**DR SAMSON:** I think it has been put to us somewhere - perhaps applying a bit of a risk management approach - that if you're an entity, an organisation, like the University of Melbourne, or individual researchers, that have a track record and a history, perhaps the numbers of hoops you jump through are fewer than an unknown researcher.

**MR WEICKHARDT:** You make a comment in your notes about the model used by NHMRC and the desirability of having a transparent, conflict-of-interest-free process for soliciting and reviewing applications. It suggests that you think the current system that the RDCs use does have some problems in that regard.

**PROF BROWNING (UM):** I think that at least with some of the RDCs there are difficulties, in that often producers or, you know, end-users of the research are involved in making scientific decisions; and conversely, that the research providers are making producer decisions. I think sometimes there's problems with expertise and potentially conflicts of interest that flow into that. The systems that are in place for NHMRC and ARC are much more rigorous, in terms of dealing with conflicts of interest than the RDCs.

**MR WEICKHARDT:** But you mentioned the ARC one comes with the downside that there's more effort required.

**PROF BROWNING (UM):** That's more a consequence of the number of grants that are placed into the system and the success rate each year. So ARC and NHMRC success rates are about one in five, and the full grant needs to be submitted.

**MR WEICKHARDT:** So do all the RDCs suffer from this deficiency or is it some in particular?

**PROF BROWNING (UM):** I couldn't comment across the board. I can comment about the ones that I know. The systems used by RDCs to obtain applications for research are in some cases closer to commissioning than an open call. I guess a by-product of the preliminary proposal is that judgments are made on fairly scant grounds on whether to accept a full proposal or not.

**MR WEICKHARDT:** Introducing the sort of processes you're talking about, if the RDCs were sitting here, would they say, "That would cost us a lot more money, "take a lot more time"? What would their sort of push-back be?

**PROF BROWNING (UM):** The most likely concern would be that it is more time-consuming and more expensive. It's difficult to determine a cost-benefit ratio for that. I think it would ensure that the best research was done by the best people. It's difficult to know what the cost is.

**MR WEICKHARDT:** All right.

**PROF BROWNING (UM):** If I can return to one of the other points that you raised with Ary earlier, about confidentiality agreements. I'm not sure whether they have been there long-term. They have entered into a number of RDC contracts in recent years. I don't see a problem with IP protection, I think IP protection and the confidentiality associated with that is usually short-term until appropriate protection is obtained, and IP protection actually generally leads to more rapid transfer into use, because it can lead to commercial transfer for further development.

I think some of the confidentiality agreements that have been introduced are more focused on concerns about damage to the industry from particular information. I haven't seen it in action, however it sits in the contracts, and it does concern me that there are potential situations that something that might be in the public-good could be blocked by an RDC through one of those confidentiality agreements.

**MR WEICKHARDT:** Do these confidentiality agreements basically lock up the outcomes of that research for a considerable period of time?

**PROF BROWNING (UM):** Effectively, if some of them were invoked, they could prevent publication ever occurring of some results. As I say, I haven't seen it ever invoked, but - - -

**MR WEICKHARDT:** You haven't actually seen it apply?

**PROF BROWNING (UM):** I haven't seen it invoked, but it does sit in the contracts.

**MR WEICKHARDT:** Some people have put to us that the outcomes of research by certain RDCs is completely opaque, that they, levy payers can't see what it is the RDCs have produced and they allege that some of this is locked up in commercial and confidence type agreements. You're not aware of any like that?

**PROF BROWNING (UM):** The only commercial and confidence agreements I have seen are essentially to enable commercial transfer of that information, and

they're short-term, and there's none that I'm aware of would block utilisation of that research, it's more to ensure - - -

**MR WEICKHARDT:** Utilisation by everyone of that research?

**PROF BROWNING (UM):** By everyone. But sometimes that utilisation can only occur through a commercial party. So development of a vaccine and new veterinary medicine will only occur through commercialisation.

**MR WEICKHARDT:** All right.

**DR SAMSON:** Could I just explore a little bit the pros and cons of this new RRA model? Quite rightly, you say in your notes that, "As currently defined, the examples of its areas of interest are quite narrow and not comprehensive at all," and animal welfare would certainly be one I think where we'd see that having an interest. If that were the case, perhaps in the same way we had the discussion of the pros and cons of an RRA addressing pest management issues - vis-a-vis individual commodity RDCs doing their thing - if you look at animal welfare, there'd be a lot of commonalities across all the animal industries.

**PROF BROWNING (UM):** Animal welfare is an issue across all the animal industries. The issues are very different from industry to industry. My principal concern in coming today was the potential for RRA to do exactly what Ary has said, that things could drop through the cracks that have a mixture of benefits or that may be industry-specific but have a significant public-good benefit.

On that, I can choose an example with which I'm familiar, similar to Ary's. A vaccine developed for prevention of a disease in poultry has a production benefit, yes, but that production benefit may not be sufficient to justify a commercial-only decision to invest in that research by levy payers. But that vaccine has animal welfare benefits because it reduces disease in those animals, it has public health benefits because it reduces antibiotic use during production.

In fact one vaccine developed on our institution resulted in a 95 per cent drop in antibiotic usage in poultry, which is an enormous public health benefit, but is of very little interest, if any, to the industry concerned or to the levy payers. Animal welfare issues are a concern to industries where they are, if you like, a public community concern, but there is a public benefit, a public-good, in reducing animal welfare issues, whether they are a concern about an export industry or about selling product on the supermarket shelves.

**DR SAMSON:** So listening to you describe that - again it's a glass half full, half empty sort of thing - I would have thought that under an RRA model with an organisation with a broader remit for the public good you'd have more chance of

getting investment in that sort of issue than under the current system.

**PROF BROWNING (UM):** There was investment in that one under the current system, the example I was talking about. That tends to be an industry-specific issue. Most animal issues tend to be industry specific, at least in animal health. There are some that cross over. My experience is that some of the current RDCs manage some crossover work, but it's often an issue of horse trading, it's a case of, "If you give me this, I'll give you that," and so things can still drop through the cracks as a result of that. Creating yet another body to bargain with that is likely to create just another crack for things to drop through, I would think. I would see some of these as what might be seen as smaller industry issues. So smaller animal industries are not likely to attract the focus that the bigger issues of water, energy and environment might attract.

There is an argument that public health benefits - and public health is a very significant factor in a lot of animal health research - ought be addressed by NHMRC. The fact is that NHMRC is not interested in funding those sorts of issues. They see those as being of producer benefit, and you have this divide. The producers see it as a public health benefit, so they're not interested in funding it. The public health system seem it as a producer benefit, and they're not interested in funding it, because they think the producers should do that as a matter of course. I would fear that particularly in a lot of animal health research the benefit might not be captured anywhere and may be allowed to drop - - -

**MR WEICKHARDT:** Those issues are always likely to arise, because private parties are always likely to have incentives to try and encourage government to put the hands in the pocket, and, as governments become increasingly strapped for other priority funding - health care or whatever - they're likely to push back too. I guess what we have got to try and avoid is a situation where these things creep up on us, without the opportunity for debate and discussion, and fall off a cliff edge. I can understand entirely that sort of reaction of, "No, it's your responsibility," "No, it's yours."

**PROF BROWNING (UM):** Sort of returning again to an issue you were talking about previously, the idea of if an industry makes a silly decision they deserve to wear it, and I would tend to agree with that. However, the problem is that a decision can be made by a dominant sector in an industry to adopt a particular approach that has implications for other sectors in the industry that did not have a say in that decision, and that's particularly the case with infectious diseases. Infectious diseases know no boundaries. They don't know sector boundaries.

Take the horse industry as an example, a decision made to import horses for the benefit of the thoroughbred breeding industry was essentially what resulted in the Equine Influenza into Australia, yet the flow-on effects of that were right across the

sector, including non-commercial producers within the horse industry, who are a very significant component of that industry. They aren't people who make money out of it but they invest significant amounts of time and their own money in recreational horses or marginally commercial horses. So they are an important component of that industry. They contribute as much as the horse industry contributes to rural research.

**MR WEICKHARDT:** I'll let my colleague respond to that. I suspect he knows a bit more about it than I.

**DR SAMSON:** Equine Influenza is something I choose to forget I think.

**PROF BROWNING (UM):** I was choosing it as an example where you have cross-sector effects of a decision. So I think treating an industry sector as a unified entity would seem to me a problem.

**DR SAMSON:** The potential attraction of an RRA model is that if you have that entity and part of its remit is to do with animal health and welfare then you do create a focus for some of the issues about which you just spoke, over and above the sectoral interest. Again, that's not say that RRA doesn't interact with the various animal based RDCs on issues. You're worried it will dissipate the focus. I actually see it as a vehicle to generate a focus.

**PROF BROWNING (UM):** I guess what I see is the big issues dominating RRA, and the smaller issues that could ultimately be regarded as industry-specific falling off the table and getting edged out of those areas.

**DR SAMSON:** Okay. I guess we grapple with the same discussion point we had before. I would say that the commodity specific RDC where you would expect those smaller issues to be picked up would still have a responsibility to do that, they would still be in receipt of significant Australian government funds and would have representation - or, some of them, hopefully, would have representation on the board.

**PROF BROWNING (UM):** That would simply be an argument for increasing the focus on those entities as they currently exist, to ensure that they do public-good research within their own remit, and there is no necessity to shift that research off to a separate body. You could simply require those RDCs to more clearly enunciate how they address public benefit issues.

**DR SAMSON:** Over the 20-odd years that the RDC model has been in existence there have been various attempts to get RDCs to comply with government priorities in the rural sector, or to respond to particular issues as they come up. People have said to us that that's not the strength of the current model, to get RDCs to do that, that they inevitably do tend to focus on the on-farm productivity-type issues in which

their levy payers are interested - the core of what we're trying to do here is have a good look at that issue - "Here's what our levy payers want, but the GRDC has a very sophisticated structure of regional panels and getting a bottom-up approach for, 'Here's our portfolio.'" They do try and overlay a broader national interest perspective. Others aren't quite as sophisticated as that. So that was I guess what we were interested in.

**PROF BROWNING (UM):** I don't see any reason why you can't do that within the current scheme by just changing the focus that the current RDCs have. It should simply be a matter of reporting against those guidelines. I mean, that's what I would say.

**MR WEICKHARDT:** I guess the observation is it hasn't happened in the past. Lots of people drew to our attention before we wrote the draft report that there was a huge number of these things falling through the cracks, despite admonition from government. So we had a long list of things to which the RDCs weren't attending. Indeed, Andrew Campbell yet again gave the example of the fact that when he was in Land and Water Australia he tried to get up an irrigation program and he went around to all the RDCs that had interests in irrigation. The RDC that one would have thought had the most interest in irrigation and is the largest user of irrigation and water refused to participate. So it does appear that the existing model, despite lots of attempts to try to tweak it and encourage it to think more broadly, hasn't been all that successful, and that's the reason that we propose this new vehicle.

**PROF BROWNING (UM):** I guess what I would see happening is that the new vehicle will create something that deals with big issues, and a series of existing RDCs become even more focused in the way they were going. So I think to some extent you're arguing to throw the baby out with the bath water rather than returning the focus to the RDCs and saying, "Well, maybe there are ways to ensure that RDCs deliver on public good within the current structure, without creating a completely separate body."

**MR WEICKHARDT:** Thank you for your comments there, and we'll think about those. Certainly your points were amplified by Rich Roush in the first session. So we'll think about that a bit more.

**PROF BROWNING (UM):** Maybe one other point to make. I mentioned the horse industry as an example of an industry that has a problematic structure in terms of getting appropriate investment in R and D. There are other industries where there are dominant players, where the dominant players can actually choose to do research in-house and therefore some of the benefit that might be achieved can then dominate the direction of research with an RDC so that they gain a competitive advantage as a result. I think there are arguments, trying to ensure that there is even representation, not just based on contribution to levy, would - - -

**MR WEICKHARDT:** The example you made there in the horse industry, are all those different segments actually paying levies?

**PROF BROWNING (UM):** There's not a huge levy being paid by the horse industry at the moment. It's been very difficult to get the horse industry as a whole to get together. The closest that was ever reached was a horseshoe levy probably 10 or 12 years ago, which is about the easiest way to identify everyone else, otherwise it becomes calls on individual racing clubs or on breeding organisations and it's been very hard to develop a uniform levy system. The horseshoe levy was probably the closest one, although again, who gets to rule the roost, because the biggest users of horseshoes are probably the recreational sector. But there are other industries where there is a single dominant industry player or a couple of dominant industry players who can call the shots about what research is done but then take other work in-house and maybe gain commercial benefit.

**MR WEICKHARDT:** Okay. Thank you very much indeed.

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**MR WEICKHARDT:** Okay. Our next participant is Apple and Pear Australia Ltd. If you could introduce yourselves please and the capacity in which you're appearing.

**MR LAWRENSON (APAL):** My name is John Lawrenson. I'm a director of Apple and Pear Australia myself but I'm a director of RIRDC. Any comments I make, they are solely in my capacity as a director of APAL and not as a director of RIRDC.

**MR WEICKHARDT:** Okay.

**MR RUSSELL (APAL):** My name is Tony Russell. I'm the general manager for Apple and Pear Australia Ltd.

**MS FARROW (APAL):** Annie Farrow, I'm industry services manager for Apple and Pear Australia Ltd.

**MR WEICKHARDT:** Okay. Thank you very much indeed. Thank you for the submission that you made to the original inquiry. If you would like to outline the points you would like to address this morning, it would be helpful.

**MR RUSSELL (APAL):** Thank you. I guess I'd just like to briefly recap our submission and confirm our view that we believe that the current RDC system is a robust and sound system. We acknowledge that there may be some opportunities to remove duplications in administrative effort and achieving a greater cross-industry focus to the process. Of course we operate within Horticulture Australia Ltd framework and we believe that many of the features of that system that operate under Horticulture Australia Ltd are definitely worth keeping. The compulsory levy, the voluntary contribution system that we enjoy under that RDC, the dollar-for-dollar government matching, the fact that industries do manage their pool of funds within that process in what we might term "money silos", there is quite an effective across-industry program across the horticulture sector that operates within Horticulture Australia. There is obviously some very strong grower representation in the decision-making which does have quite a major influence in making sure that the right work is done to meet the requirements of industry and the research uptake is effective.

All of these are appropriate and serve the objective of serving the R and D to the benefit of industries and community very well, we believe. We would like to I guess comment on three specific areas within the draft report, namely the proposal for reduction in government funding, the creation of Rural Research Australia and consideration or comments thereof regarding voluntary contributions because we believe these three areas are of particular interest to our concerns.

In the first instance, reduction of government funding, we're obviously disappointed that the commission has made this recommendation without providing an assessment on the impact on the industries and their levy rates, the nature of research going forward and the future productivity of Australian agriculture. We'll be outlining in greater detail in our responding submission the detail of these various concerns.

We believe that there is a system-wide impact on the proposal to reduce government funding. The commission acknowledges in the draft report that RDC investments have been beneficial to Australian agriculture. Even though much of this has been of direct benefit to industries, Australia has benefited as well, both environmentally and socially. So going forward, when we know that there are two major pressures that we have no experience in, climate variability and climate change and food security, we are somewhat perplexed as to why we would be wanting to look at reducing government investment in R and D rather than increasing it in fact. So that's a general comment that I'd make about the proposal.

We would certainly implore the commission to undertake an impact assessment of the proposal. Assessing impact of the proposal to reduce the cap on funding from .5 to .25 would be rather difficult for horticulture. A cap is applied across the whole sector within horticulture. It's not to each industry. We are aware that that cap has been reached or close to reached in the last few years which means that there's very little opportunity for an increase under the current arrangement, an increase in investment in R and D, aside from a reassessment of the whole GVP for the various industries.

This means that while some worthwhile projects have been deferred to the following year, inevitably it will mean that potentially some good projects will be cut completely. This will continue at a more rapid rate with the proposed reduction in the cap, unless we can convince industry to actually make additional investments in levies of course. In general, this is likely to impact more on projects which are funded partially by voluntary contributions which is perhaps something that might not have been properly alluded to by the commission in its draft review. I'll discuss that more a bit further on.

There will also be pressure on across-horticulture projects which I think is something that the government has been impressing upon Horticulture Australia Ltd, that it needs to increase its focus in that area and in fact a new statutory funding agreement which was signed between the federal government and HAL as recently as the last two weeks actually does in fact place a procedure to increase that investment in across-industry projects over the next five years to a level which obviously is to the acceptance of the government.

We would like to outline what we believe the impact on the apple and pear

industry would be as a result of the proposed cap reductions, the reduced investment by government. The way this cap works is based on the GVP of our industry. In 09-10 it was around \$650 million, so at .5 per cent, investment applies at \$3.3 million. Levies, plus voluntary contributions in the current year totalled around \$3.4 million, so the cap has been triggered in the current year in relation to the apple and pear investment. If we assumed that the GVP and production remains constant and the cap is reduced by the commission, the apple and pear industry would need to find an additional \$2.2 million in year 5 and an additional \$3.8 million in year 10. So this would have to be funded through additional levies paid by industry.

**MR WEICKHARDT:** Sorry, I don't follow those amounts. You say the government co-contribution is the order of 3.3. If that were over a 10-year period - - -

**MS FARROW (APAL):** No, we're saying the cap kicks in at 3.3 million.

**MR WEICKHARDT:** Right.

**MS FARROW (APAL):** What we've simply done is taken the current level of levies raised and the current level of voluntary contributions made and assume that that continues forward. We can make all sorts of assumptions about whether things go up or down, but for the sake of argument, we've just assumed that in year 10 we have the same level of levies raised and the same level of voluntary contribution as we do now, but then apply the reduction in the cap, so that dollar for dollar becomes less because there's less of a pool that is available because the cap is triggered more and more.

**MR WEICKHARDT:** So your calculations assume that the industry will reduce in lock step with the government's reduction?

**MS FARROW (APAL):** No. These were just very back of the envelope - - -

**MR WEICKHARDT:** Just let me outline where my maths comes from. If the government is contributing 3.3 at the moment - - -

**MS FARROW (APAL):** No.

**MR WEICKHARDT:** - - - then if they halve that, then you've lost about \$1.6 million in year 10 and that phase is in year 10. So I don't see where you get your numbers from.

**MS FARROW (APAL):** No, the 3.3 is what the cap is.

**MR WEICKHARDT:** And the cap, we're suggesting, would be halved.

**MS FARROW (APAL):** Yes, it will be 1.6. If government contributes 1.6, then we would have to increase our levies, our calculations were, by 33 per cent in order to maintain a pool of funds at the existing level. So if you wanted to keep the same funding pool that you have now, we would have to increase it by that. That's what our mathematics show. We've also got some other studies which actually show that it's actually much more than 33 per cent. These are very back of the envelope calculations because in actual fact, the cap doesn't get applied to apple or pear and for oranges and for table grapes and for vegetables and then aggregated to find HAL's cap, it's HAL that has the cap, and because HAL triggers that, somehow HAL has to allocate that across the industries in some kind of equitable manner.

**MR WEICKHARDT:** How do they do that?

**MS FARROW (APAL):** I'll have to leave to Tony or to HAL to explain. But I would like to say - - -

**MR LAWRENSON (APAL):** I think the answer is we're not entirely sure.

**MR WEICKHARDT:** Okay, thank you. That puts two of us in the same camp.

**MS FARROW (APAL):** And it's complicated because it's done in advance but then has to be redone each quarter because each quarter the GVP estimates and revisions for the estimate from the previous quarter is gazetted, so what might be planned for one quarter, HAL has to then go back and redo not only its projections but going back in the past. So it does make it complicated. Because apple and pear is one of the largest within HAL and because APAL has a program such that our levies are roughly matched by our voluntary contributions and our voluntary contribution program is quite significant because of the particular projects we have, and that will continue going forward, then we - Apple and Pears - are actually are one of the few players that trigger the HAL cap.

So coming back to the impact on APAL or Apple and Pears, it's extremely difficult and complex to actually work out accurately what that might mean and we have got various sort of estimates or sensitivities of what it might be, but I guess at the lower end, the numbers seem to imply an increase of 33 per cent and I think the point was whether it is that high or not, there's a very big question as to whether the industry is willing or able to do that.

**MR RUSSELL (APAL):** In addition to that, there are some other unintended consequences, we believe, in reducing the cap on government funds and we think that these might well have a major impact on long-term initiatives that we have embarked upon that involve, particularly in relation to the comments that Annie has just made about how the apple and pear industry investment involves a significant

level of voluntary contribution funding - - -

**MR WEICKHARDT:** How much does voluntary add up to typically now?

**MR RUSSELL (APAL):** At the moment, it would be in the order of - - -

**MS FARROW (APAL):** It's half.

**MR RUSSELL (APAL):** It's about half of our total.

**MS FARROW (APAL):** Yes.

**MR RUSSELL (APAL):** Which means I think it's about 3 million.

**MS FARROW (APAL):** Our levy income in 08-09 was 1.8 million and our VC income was .7 million. Then 09-10 that increased and it increases each year because we have some commitments, so it's getting sort of half and half.

**MR RUSSELL (APAL):** Total VC.

**DR SAMSON:** If it doesn't upset your flow of what you want to say too much, could you just spend a little time explaining to us please why it is that you're an industry that has such a large component of voluntary contribution versus the compulsory levy?

**MR RUSSELL (APAL):** I guess it's been a conscious approach to move our investment portfolio to more of a program approach of research and in fact it picks up on a comment that was raised earlier about the amount of time that researchers spend in preparing proposals. We feel that that's a waste of time too and figure that it's much better to be more directive of a research program and determine that within the industry. We've gone to a great deal of effort within our industry to develop a strategic R and D plan which pretty much lays out what we believe should be done in the best interests of the industry as far as an R and D portfolio is concerned. Therefore the plan is, and we've already started this process with a major project called PIPS which stands for productivity, irrigation, pests and soil, so it encompasses all the productivity questions raised by our industry in an overarching program of research.

**DR SAMSON:** Okay. I recognise you're speaking as an industry association and not as the RDC here but when you say you're more directive of the research, going to the point that was raised by at least one academic organisation here this morning, to what extent are the researchers involved to say, "Well, that's achievable," or, "That's already been done," or, "That's scientifically impossible"? Is there an inter-activity here or is this simply the RDC saying, "What we want to do is make apples fly?"

**MR RUSSELL (APAL):** No.

**MR LAWRENSON (APAL):** Perhaps I can make a comment there. In terms of developing these research proposals, HAL has a number of industry advisory committees and it has one for apples and pears, so that's very much its own industry focus. It doesn't make decisions, it makes recommendations to HAL. HAL has the final say. But our approach has been to move research much more to commissioned research from the open call and we've done that deliberately because we recognise that a lot of time can be wasted from research organisations on open call and we don't always end up - far from ending up with the right result in the past probably. So we've tended to look much more closely at what the industry needs, take a longer-term view as well, rather than a short-term view, a longer-term view, and then go out to the research organisations and say, "Collaborate. You've come to us with a proposal that encompasses X, Y and Z, but we don't want you to compete with each other. We want to get the best result we can. We believe that can be achieved by universities and research organisations collaborating much more closely." The program that Tony has referred to, PIPS, is our first go at that in a large scale, but it is a large-scale proposal and that has involved research organisations both here and overseas.

**MR WEICKHARDT:** Has there been any attempt to get any peer review of the science done in advance?

**MR RUSSELL (APAL):** The preparation of these programs of research involve the key agencies and researchers in the development process of creating these programs. They were absolutely critical in the development of this PIPS project that we referred to. In addition to that, and in an ongoing sense for the broader portfolio of research that we commission, we work closely or we will be working closely with the NHRN, which is the national research network agency that has been delegated to represent the national sector, research sector, for the apple and pear industry, being the Department of Primary Industries, Victoria. So we will be working very closely with the researchers in DPI Victoria in the development of these programs, but nothing happens without the great assistance of the researchers within the agencies that we're pulling together to provide this integrated approach to research.

**MS FARROW (APAL):** Coming back to your original question, because they are program based and they're collaboration between a number of organisations and they're not one little project, it's a whole series of projects that are integrated, that requires significant amounts of money to actually be implemented. So what we've done with the PIPS is tried to leverage off some additional funding from New Zealand, and because this program is big and the funding from various parts is big, that's what causes our voluntary contribution to be large.

**MR WEICKHARDT:** Just clarifying that a bit more, the voluntary contribution in at least one of the other RDCs I'm familiar with tends to be associated with almost firm-specific work where intellectual property is protected. Is that an attribute in your area at all?

**MR RUSSELL (APAL):** It's almost completely absent in our situation. Our voluntary contribution - the vast majority of the voluntary contributions in the apple and pear industry is for and on behalf of the whole of industry. A significant portion of that funding actually is coming from New Zealand, and it's matched from New Zealand funds that come into the system here.

**MR WEICKHARDT:** Thank you.

**MR RUSSELL (APAL):** So moving on to the likelihood and preparedness of our industry to actually increase levies, we think it would be rather unlikely that we could manage to extract more levy dollars out of our industry because of the degree of fragmentation that exists in our industry. We probably have somewhere between 800 and 1000 businesses. I know that's probably not large compared to some sectors of agriculture but even so we regard it as quite fragmented. There are a number of very large businesses, rather typical of agriculture generally, some of them that are very progressive and do understand the value and see the future benefits from investment in R and D, but, you know, there's a very large number of small operators as well who typically can see the value of research when it's proven but tend not to jump in too early. They have to see the demonstration through extension activity and the like. All levy payers have the opportunity to vote on whether levies are introduced or increased on a one-for-one basis, it's not pro rata, and maybe that's something that might need to be considered.

**MR WEICKHARDT:** So not weighted by production?

**MR RUSSELL (APAL):** No, it's not; in our instance, no.

**MR WEICKHARDT:** Okay.

**MR RUSSELL (APAL):** There's one levy vote per - - -

**MR WEICKHARDT:** So you can have one apple tree, gets the same vote as somebody with 10,000?

**MR RUSSELL (APAL):** In principle, yes. So that would create some difficulty in being able to change our levy collection system. The government contribution, as far as our industry is concerned, is certainly regarded as a bit of a sweetener. We see it as a sweetener to corral all of the micro-businesses within the industry. It's easier for us to argue when we go to a levy payers' meeting that we're getting a good

contribution from government to support this work and it's good value for industry to support ongoing research. So that provides somewhat of an incentive, we think, to a lot of these sort of perhaps less progressive growers to invest in what might be seen to be highly risky investments where return outcomes are less certain for those particular growers.

**MR WEICKHARDT:** Yet based on the numbers you were quoting people are - if you put the voluntary contribution to one side, most of which you say is coming from New Zealand, the levy is not actually up to the cap amount anyway, the compulsory levy. So what sort of incentive effect is the government contribution having?

**MR RUSSELL (APAL):** Well, we've got the industry accepting at least at this point that ongoing investment in R and D is valuable for the industry. We haven't actually gone and tested the industry since 2005 in regards to a levy increase. But just knowing the current viability of the industry and the pressures that are being faced by growers in our industry I would think it would create some difficulty in the minds of many growers to contemplate increasing - paying additional levies at this point in time.

**MR WEICKHARDT:** But what you might conclude is - I mean some people have suggested to us, it wasn't our recommendation, the government should pay more. Based on what you've said I would almost conclude well, if the government paid more industry wouldn't pay any more at all, in your industry.

**MR LAWRENSON (APAL):** I'm not sure that's necessarily the case. I think the government contribution is a significant incentive. So I think if the notion that it's going to be reduced - that the producers will make up the gap, I think that is a very, very hard ask. I think most producers - and it probably goes across most of agriculture - are focused on today's cash flow. They're not focused on the benefit of research five or 10 years down the track. Having said that, if there is an incentive to invest in research, they will. Now, that's no different from a manufacturing business that has actually got a tax incentive to invest in research. You will probably find the same drivers there. So I think that's the issue. If it's pulled back I think there will be very little hope of making up the difference.

**MR RUSSELL (APAL):** I think growers also see the government contribution as means of levelling the international playing field in agriculture where other countries do provide significant resources and benefits to agricultural industries internationally. OECD figures suggest that support for Australia agriculture is certainly at the lower end of the scale, somewhere around half the rate of the United States and substantially less than the EU; but we know we're also a little bit higher than New Zealand as well. But growers do see that as one supporting benefit that our government makes to agriculture in Australia.

**MR WEICKHARDT:** Well, I understand that argument. It is put by many. I think we've put our point of view about that argument in the draft report.

**MR LAWRENSON (APAL):** We nevertheless think it's important for government to consider that.

**MR WEICKHARDT:** I'm sure the government will be told that multiple times.

**MR RUSSELL (APAL):** The other things that I wanted to comment on is the creation of Rural Research Australia. We, in principle, support the reinstatement and maybe even expansion of the research formally undertaken by Land and Water Australia, and whether we're really talking about the same types of investments or not is not really the point. But we generally are supportive of that type of R and D investment. But we're not supportive of the idea that that be funded from what is now the current contributions that are provided to RDCs, since early this year when Land and Water was disbanded.

We would certainly want to see the revenue coming from consolidated revenue rather than from the RDCs. However, we are not supportive of a separate organisation because we think that it just adds to the overhead costs. The draft report actually highlights that overheads in the RDCs range between 10 and 20 per cent, and so adding another RDC would - what is it, 50-odd million that was proposed as an investment an RRA - would entail five to 10 million-odd dollars of admin costs, potentially. So we wouldn't be supportive of a separate organisation.

It also assumes that public and private good elements can be separated by setting up a separate organisation. We don't believe that it would remove the tensions that exist in setting of investment priorities. We would actually be more supportive of the investment in these types of areas being incorporated within the existing structure, so to improve the collaboration and using the existing vehicles that are consistent that are in place. I referred earlier to the new statutory funding agreement that has been signed between government and health to increase across-industry investment, and it's in that area we believe that these broader investments that have been considered and raised in the Productivity Commission draft could be applied.

The final comments that I wanted to make relate to the voluntary contributions. We aren't really clear what the commission's intentions are with voluntary contributions. We don't support the commission's reservation that BCs only benefit the entity supplying the benefit. I guess it would apply in the case of individual businesses that are seen to be capturing those benefits, but in our instance we don't believe that that is occurring at all, and we certainly don't agree that the benefits from some of these are dissipating overseas.

We think that the PIPS we talked about a bit earlier illustrates that in the case of our industry these investments are applying well and truly across the whole of industry, and in fact we are actually benefiting greatly by the involvement of New Zealand research agencies in our program by bringing technology and support, it's reducing duplication of effort and it's bringing known research to effective use in a much shorter time frame. So we believe that the lack of this opportunity going forward will have an impact on our industry, and we would be rather keen to see voluntary contribution arrangements continue.

**DR SAMSON:** Thanks. I am interested in the recently signed SFA between HAL and the department. Correct me if I have got you wrong. Does it specify a proportion of HAL's investment that needs to go to cross-cutting? What is the frame?

**MS FARROW (APAL):** Yes, it has to increase in the next five years progressively from 5 per cent to 10 per cent of each industry's contributions. Yes?

**MR RUSSELL (APAL):** Yes, I believe so. Look, I think it would be worthwhile posing that question directly to HAL, they have got the details - - -

**MS FARROW (APAL):** We have quoted those figures in our submission to you and a description of how that across-agriculture program works. Tony is on that committee, which then decides how to use that funding for projects that are of benefit to all within horticulture, and then also some projects that need to be done that go across agriculture, so contributing to climate change type research, and the funds come from that.

**MR WEICKHARDT:** Just clarify for me, the 5 to 10 per cent increase is that cross-cutting across HAL or is it cross-cutting across the other RDCs?

**MR RUSSELL (APAL):** Just HAL. That's within that particular statutory funding agreement, yes.

**MR WEICKHARDT:** So sort of trying to reduce the silos within HAL, as opposed to necessarily HAL, to dairy or something like that.

**MR RUSSELL (APAL):** Yes. I guess it's demonstrating that there are other mechanisms for achieving this broader cross industry type research investment, on which I know the government has been very keen. It is being implemented through these means, and you don't really need to look at setting up a separate RDC to create that requirement.

**MR WEICKHARDT:** It's a bit bizarre I suppose intuitively in some ways that the government have to encourage HAL to look at collaborating within themselves. Do

you think it is within HAL's own sort of command to be able to achieve that?

**MR RUSSELL (APAL):** You would appreciate the dynamics and tensions that exist between all the different industries associated with that process who are putting money into the pot. It almost requires rules and directives to ensure that these sort of investments are carried out, because, as I think you have noted in the draft report, there is and has been an emphasis on farm productivity focus, which is driven by the actual producer investors, and that has probably been overemphasised up to date. But moving forward, these new arrangements I think help address some of these shortcomings.

**DR SAMSON:** At the risk of repeating ourselves from one section to another, taking on board what you say is to the tensions that exist within HAL, a single organisation, or the usefulness of actually having to stipulate within HAL targets for cross-sectoral cooperation, if you then extrapolate that issue to the collaboration between the 15 RDCs, that is sort of the genesis of our concern about how difficult that is to do.

Notwithstanding for many, many years government edicts, government putting out rural research priorities, 20 years of experience shows that that does not happen to the satisfaction of the government, and that is again why we are putting on the table the notion of a separate entity singularly focused on doing that. Of course with the best will in the world, 20 years of experience has shown, people just reconfigure what they were always going to do to make it look like they have done what the government has asked them to do. That is unfair to some corporations, but as a broad statement I won't resile from it.

**MR LAWRENSON (APAL):** We are not opposed to the incentive to increase the rate of the cross-agricultural collaboration and the cross-cutting. Our issue really is: why create another organisation? There are drivers that will make it happen anyway. I think there is evidence that it is happening to great extent, maybe not to the extent that the government would want. There is one organisation particularly where part of its remit is to invest in cross-agriculture.

**DR SAMSON:** We would say, John, in answer to that, we don't think it has worked. You're absolutely right, there are some examples of cross-commodity cooperation, there are far fewer than there should be, and each of those examples has had a very long, protracted and painful birth - more so than it should have, in our opinion. Notwithstanding there is one organisation that, yes, has a remit both to health commodity specific and also takes on the broader public good, we also at this stage feel that it is very difficult to focus on one without being influenced by the other, this is all understandable, but at a point where you have producers paying a levy what seems to happen inevitably is the levy-producers' agenda dominates. We

as part of this process are happy to receive information that disavows those views, but that is sort of where we have got to.

**MR LAWRENSON (APAL):** I hear your comments, and we will address that more fully in our further submission.

**DR SAMSON:** That would be very helpful.

**MR WEICKHARDT:** Thank you very much indeed. We are pretty pressed for time, so we will have to wind it up there. Thank you for coming along. We look forward to your further submission.

**MR LAWRENSON (APAL):** Thank you for the opportunity.

**MR WEICKHARDT:** We are going to adjourn for about 10 minutes.

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**MR WEICKHARDT:** We're now going to resume the hearings. Our first participant after morning tea is AUSVEG. If you could introduce yourself, please, for the transcript, giving your name and the capacity in which you're appearing?

**MR MULCAHY (AUSVEG):** Yes, my name is Richard Mulcahy. I'm the chief executive officer of AUSVEG and I'm joined on my right by AUSVEG communications and public affairs manager, Hugh Tobin, and on my left is AUSVEG manager, vegetable industry development program communications, Andrew White. If agreeable, chairman, I'd like to read a short statement beforehand and take questions, if that's in order?

**MR WEICKHARDT:** Okay.

**MR MULCAHY (AUSVEG):** Thank you. AUSVEG is the national peak industry body representing the interests of over 9000 vegetable and potato growers around Australia and is by a long way the largest peak industry body in horticulture. AUSVEG oversees a significant number of R and D projects and our industry advisory committees make recommendations to Horticulture Australia Ltd on the expenditure of over \$7 million in levy funds annually.

As a significant and growing contributor to broader agriculture, the vegetable industry does not support the Productivity Commission's proposed or recommended halving of the government's co-contribution to research and development from .5 per cent to .25 per cent of the industry's gross value of production. AUSVEG contends that there is little to suggest that growers would be willing to make up the shortfall in funds through an increase in the levy which would be required to maintain current R and D programs if the Australian government reduces its co-contribution. Our estimates are that approximately \$2.5 million in extra levy moneys would be required in order for existing funding levels to be maintained, based on matched funding of 50 cents in the dollar, which constitutes around an extra 40 per cent in levy funds required.

AUSVEG supports the current contributions towards the funding of R and D on the basis that projects are normally targeted to industry needs, funding is spent prudently and there are systems in place which enable us to strive for effective and efficient expenditure. Figures reported by Horticulture Australia Ltd suggest that for every 100 megalitres of water used in horticulture, 250,004 jobs are generated at the farm gate and approximately 0.5 billion dollars is injected into the economy. This demonstrates the broader economic impact and benefit of our rural industries in the areas of job creation and environmental management, ensuring we have strong and vibrant rural economies.

The importance of investment in efficiencies related to our national resources should not be underestimated in terms of their tangible impacts on the wider

community and the economy. It's particularly important that the cross-over benefits to growers and the community are not divorced, as may be taken from the draft paper, as this may result in a loss of the benefits that come about from having this research combined in the first place and may even foster duplication through the establishment of a new RDC. This is particularly true for the vegetable and potato industries we represent where growers rely on the land, good environmental practices and sustainable production in order to stay commercially viable.

As an example of our industry's commitment to best practice when it comes to water use, the vegetable growers are actually amongst the most efficient, consistently producing a rate of return per megalitre of water upwards of three times the average for all of agriculture. Yet despite our pioneering strength on water use and on a number of other key national issues, the vegetable and potato industries are struggling to compete with international producers and suppliers who can undercut the Australian market due to their lower input costs.

In order to ensure a more level playing field for Australia's rural industries, AUSVEG contends that the commission should consider the possibility of extending existing levies so that they are applied to international processors importing products into Australia. This would have the combined effect of stimulating greater investment in Australia as well as ensuring that international suppliers, who by importing into our country bring with them potential biosecurity and other threats to our industries and the community, are playing their part in finding solutions through research and development for the major problems facing broader agriculture. This would establish a more level playing field for growers selling in the Australian market in that they would all pay the same levy on their produce.

In addition to the loss of benefits from having research that is for industry purposes and also in public good no longer combined, the creation of Rural Research Australia will inevitably lead to significantly greater overheads and administration costs. Rather than establishing yet another body to under research and development that is considered in the "public good" AUSVEG contends that more oversight should be given to the existing RDCs - Horticulture Australia Ltd in our case - to ensure they are meeting efficiency/administration standards in terms of their costs and that further direction should be provided on the general public and community-based outcomes that are expected of them in far clearer terms.

Greater efficiency and cost savings could also be achieved through the consolidation of horticulture's numerous peak industry bodies. Rather than having numerous PIBs covering a diverse range of horticulture commodities, AUSVEG contends there should be fewer PIBs, which would result in an overall reduction in administration cost at the taxpayers' expense as well as less duplication of services, research and greater effectiveness based on economies of scale. We would also contend that not only should there be a reduction but certainly new PIBs encouraged

to be formed. AUSVEG recommends that there be less PIBs rather than more and considers this would be - it would achieve significant costs savings for the industry and for taxpayers.

In regards to existing levy collection mechanisms, it is critical there is a simplified mechanism for making modifications to existing levies so that industries can adapt to the emerging demands of the 21st century, particularly when it comes to new threats from pests and diseases and new marketing opportunities. The current 12-step approval process is laborious and excessive, resulting in substantial costs to levy payers and taxpayers when change is contemplated. AUSVEG recommends that the 12-step consultation process is significantly simplified to accommodate the necessary level of consultation and due process while keeping costs to a minimum. It seems logical that there should also be an automatic mechanism to establish a biosecurity levy set at zero when a peak industry body signs the Emergency Plant Pest Response Deed managed by Plant Health Australia, on which the federal government has an expectation of industry sign-on.

Voluntary contributions are always a good barometer as to whether R and D is achieving the required return on investment. The vegetable industry, through its industry advisory committee, aims to focus on accountability and strives for a three to one return on investment. The recent enthusiasm by private enterprise to invest in the vegetable and potato industries indicates both that there is a need and that return on investment is perceived as high. Often there will be market failure that private enterprise will only look to address with some government assistance and VCs do provide that mechanism.

Within our industry there are many examples of VC projects that have been beneficial to the private investor, industry and broader community. They have played a vital role in helping our industry set the benchmark internationally. Without VCs many projects would never happen and the industry potentially would start to fall behind its international competitors. Given Australian growers have higher input costs such as labour, it is vital that R and D projects find ways of making Australian growers more efficient and competitive so that we can maintain an Australian horticulture industry that will provide Australia with long-term food security.

In looking at RDCs whilst there has been a recent push from the federal department in Canberra for more collaborative and cross-industry based research, there is also a risk that this can create a free ride for smaller industry organisations and their constituents. The decision-making processes for these particular initiatives or projects do raise issues of equity in their determination. Larger industry sectors such as our own should not be at risk of having their interests overlooked or the agenda hijacked by a collaboration of smaller industries that may in fact only represent a fragment of a particular sector to fulfil some objective laid down by the federal department. Ultimately, if an industry is going to be asked to spend their levy

payers' money on a project or an area of R and D it should only be if the project is in the best interests of those growers they represent. Certainly in our view the peak industry body is by far the best-placed organisation to determine its own industry priorities.

While we have provided a supportive view in our statement today regarding the existing structures for RDCs, if I could advance something of a left-field view - and this is not a unanimous view in my sector, but if the Productivity Commission is seriously looking at efficiency gains - whilst it would involve a more radical view than has occurred to date, the existing model for other government expenditure activities which is used by the Australian government to distribute hundreds of millions of dollars directly to service providers through grants and other expenditure each year may eliminate a large amount of unnecessary administration and overhead costs. That is, direct funding, government funding provided to service providers, is worthy of consideration.

We would contend that if the government is able to handle oversight for these large grants amounting to many hundreds of millions of dollars that it potentially could also oversee funding directly to industry service providers rather than via the existing statutory bodies in the form of RDCs, as is currently the case. There are however those within the industry that express concern that a change along those lines could result in the tick a box approach to grants where people simply match a range of standards and then receive their funds without the level of flexibility and possible scrutiny that may occur under the current process. But it's just a thought that is worth looking at, given this commission is looking at the efficiency, I think, of expenditure, particularly of taxpayer dollars. So I might - chair, Mr Samson - at this point finish my preliminary remarks and we'll do our best to respond to any questions that you may wish to place to us.

**MR WEICKHARDT:** Okay, thank you very much indeed. Perhaps I can go back to your comment about the levy-raising process. In the draft report we made recommendations about trying to increase the ease and speed by which industries could increase the levy. You raised the issue again. Is that because you feel dissatisfied with what we recommended in the draft report?

**MR MULCAHY (AUSVEG):** No, certainly not. We just want to put on the record our strong commitment to the concept of simplifying the process. It's an issue that's in fact right before us at the present time where we're attempting to deal with two changes that have zero impact on growers. But essentially what we're saying is that - for example, I might illustrate. We have groups within our constituency that would like us to introduce a marketing levy and there's great reluctance, frankly, on the part of our organisation to accede to those requests because of the challenge that would be represented in travelling the length and breadth of Australia convening meetings all over Australia with growers to put up a marketing levy. Whilst there are

a lot of I would say enlightened people in the industry who could see opportunities and how that could be of benefit it's the process that represents such an off-putting challenge to us that's holding us from doing it. So we welcome your suggestion to improve the process of changing levies and certainly anything that can happen down that line will be progress, in our view.

**MR WEICKHARDT:** So can you just also then give me a rough dimension of the balance between the compulsory levy, the money raised in the AUSVEG area from compulsory levies versus how much you raise from voluntary levies?

**MR MULCAHY (AUSVEG):** From VCs?

**MR WEICKHARDT:** Yes.

**MR MULCAHY (AUSVEG):** Unfortunately I don't have those figures with me at the present time but I'm happy to supply those to the commission. It was an oversight before in preparing for this. One thing I would say is that I am encouraging more and more people to use the voluntary levy process, particularly where you can get collaboration between key researchers and companies that have an interest. But on the other hand, we're very strongly opposed to people using the VC system as a way of just simply removing their corporate costs. So there's a greater level of scrutiny now occurring on VCs within Horticulture Australia. Whereas previously they were simply approved by the board of HAL they are now being referred to industry advisory committees for comment, not for a recommendation, for input. That has led to greater transparency. That also has brought great pressure to bear to ensure that the VC's putting forward have industry-wide benefit.

So we're comfortable with projects - and there's some that we've dealt with in the last week that are substantial to do with soil health that involve the Victorian Department of Primary Industries and some various companies that are providing products. We're comfortable with that providing the situation with intellectual property is protected, from an industry point of view, and that the benefits will flow to industry and the findings will be shared with industry and they're not simply a substitution for a private company's costs, because philosophically - certainly from a personal point of view but I think mostly in our own industry - we're not in the business of saying that we should simply be there to have government hand-outs and have government picking up the costs of business.

One of the other problems, however, is the lack of awareness of VCs. I have met major companies on the supply side of horticulture who say, "What are they?" There's a major global tractor company that's doing a lot of their R and D in Australia which only discovered recently. I said, "What you're doing here is in fact applicable across the whole of our industry, let alone horticulture or agriculture broadly, and you should be considering sharing some of your research with industry." There will

obviously be all those commercial considerations but it surprised me that a massive global entity that you would know had no knowledge of the system and were off doing their own R and D and then shipping that information back to the United States.

I just think that that needs to be more vigorously promoted, providing you've got the protections in place to ensure that taxpayer dollars are prudently spent for industry benefit and you have arrangements in place, as my colleague Mr Russell mentioned earlier, that the intellectual property is in fact not held captive by the participating company but is owned by Horticulture Australia Ltd or certainly in joint ownership with the researchers.

**DR SAMSON:** Is there much direct investment by private companies in R and D in your - - -

**MR MULCAHY (AUSVEG):** Yes, there's substantial investment. Many large companies - there are major companies such as Bayer that you would know that I know have very, very substantial investment on their own account with primary research facilities in Australia. Many of these entities do work here and work with us and share information with us on a confidential basis. We talk to them about what we see as emerging threats in the industry, it might be pests or diseases or other matters. But yes, there is substantial - I don't have a figure on that and I'm not sure I could measure it easily but certainly it has been my observation in almost two years in this role as CEO that they are very serious about R and D, particularly the multinational companies. But even - there are smaller firms that operate in the field and do experimental work on farm, and that's obviously beneficial all round.

**DR SAMSON:** Can I just clarify that a little bit more. Are most of the VCs that you're getting in this area coming through large companies like Bayer and others or are they coming from you going back to levy payers and saying, "We'd like you to put a bit more dough in"?

**MR MULCAHY (AUSVEG):** I think there's a mixture. I haven't seen too many asks from what I'd refer to as the multinationals. I mean they're relatively modest amounts. I've only just started seeing the VCs because until recently they weren't going before the ISCs, but those I'm seeing are relatively small amounts. The vast majority of what they're doing we never see that outlay, it's being handled by those companies in their own right.

**DR SAMSON:** So they're not coming from the levy payers - - -

**MR MULCAHY (AUSVEG):** No, there are growers who have undertaken projects. Again, they are scrutinised very vigorously to make sure that it's not a case of just costs substitution.

**DR SAMSON:** But individual growers?

**MR MULCAHY (AUSVEG):** Individual farm operations, yes. So I don't - again, I could probably get a split on that, which we will undertake to get back.

**DR SAMSON:** That would be helpful.

**MR MULCAHY (AUSVEG):** But certainly I've seen both sides of the equation. We've seen new experiments undertaken. I think there was a company in Queensland recently, a farm operation that was looking at a new way of protecting crops through a netting process. We wanted to satisfy ourselves that that wasn't just a case of them transferring costs to the taxpayer. I'm a former chairman of a public accounts committee in one of the parliaments, so I take those sort of things pretty seriously and I use my position to vigorously go through those things and ensure - but no, we do see a number of growing operations we've seen work with - one of the leading farms in Tasmania, for example, working on carbon footprinting issues where they've had projects that have been undertaken jointly with other entities and with levy funds involved. So good balance, I think, and certainly not awaiting - from my observation with the large corporations.

**DR SAMSON:** Richard, one of the good things about this process is it gives us an opportunity to sort of re-test conventional wisdom. Towards the end of your presentation you raised an issue that we did touch on the draft report, alternative vehicles for providing public money to service providers, and you said it's not a universally held view but there is certainly a view that you can cut out the middle person and get government departments to make the money directly available to service providers.

As I say, we did look at that and the sort of what I'd loosely call conventional wisdom was that that's not necessarily a skill-set that mainstream, often policy based departments of state have, and indeed one of the strengths of the RDC model that has developed over its 20-odd years is the build-up of a considerable degree of expertise in identifying research needs and going out and evaluating the ability of providers to deliver it. Do you still see some merit though in removing that middle person?

**MR MULCAHY (AUSVEG):** I can only base it on prior experience. In an earlier life I was the head of a hotel industry organisation. We engaged with the federal government to develop a greenhouse challenge program. There was a design to introduce a no-regrets environmental program throughout the industry to achieve savings in energy, waste and so forth. Despite others that you would assume would be front and centre - such as the coal industry and others, who were sort of what you'd call prime targets - the Australian Hotel Industry delivered the single largest number of participants and outcomes of any industry sector in the greenhouse gas

area of activity and managing those things and reducing waste and emissions.

Those programs were directly through a federal government agency. They were handled by ourselves on an industry basis. We retained specialist consultants in that field and the programs were extraordinarily successful. When the Goods and Services Tax was introduced we managed I think at the time a million dollar program, it was done directly with the federal agency, it was done utilising professional tax experts in the field who had meetings collectively in the order of about 5500 small business people. There wasn't then a need for the high level of micro-management that exists.

I was quite shocked frankly when I came into this role to see the enormous administrative time devoted by our organisation to deal with what I refer to as the micro-management. If it was because it was being heavily driven by research skills, then I'd understand that, but I don't necessarily share the view that that is the way the programs are directed. I see them often as reactive, that the researchers drive the program rather than the levy payers. If I am run over by the proverbial bus tomorrow, I would hope that the one legacy I leave is that I have managed to dramatically changed the way in which we are now tackling these things to ensure that in fact the research is driven by the needs of levy payers.

As a taxpayer and not a levy payer, I am rather passionate to make sure my tax dollars are prudently spent. We have got a very, very rigorous approach to ensuring that we're getting value for money. We have done this by recruiting onto our industry advisory committee an extraordinary mix of skills. I didn't think it would be achievable, but we have a number of people on those committees who have strong academic credentials; they have got doctorates in various fields, they have had university experience, and they are also growers of four, five or six generations. I think it is quite an achievement.

The effect of that is that they are not quick to assume that a researcher's view is exactly what the industry needs, they apply a lot of scrutiny. They also have the benefit of running farming operations and are passionate about the needs of the industry and they understand what has been tried in the past and what really has got commercial applicability. So we're moving through quite a new approach, to ensure that it's actually driven by the levy payers and the needs of taxpayers broadly. We are very conscious of the Commonwealth contribution in there, we wouldn't accept the view that they have not given weight.

It's probably not a view that will be embraced in the depth of this commission, but I nevertheless do wonder about why one needs such a level of bureaucracy in all the rural sectors for the administration of these taxpayer funds when it seems - notwithstanding a few celebrated examples - to work relatively well, in terms of government, and you can get still get substantial research and improved efficiency

outcomes without the layering of bureaucracy with which we must contend. It would be one of the biggest consumers of my time, meeting their requirements and compliance and so forth in the administration of funds, to a level that I don't think is actually the most efficient use of the dollar.

**MR WEICKHARDT:** Thank you for your input. As Cliff said, that was a matter that we looked at, to a fair degree, in the preparation of the draft report, and there were a lot of very strong contrary views to your own saying that the examples of direct funding by government of commissioning research by portfolio departments hadn't been - notoriously - successful and that the corporate memory in most departments is pretty short, the turnover of staff is pretty short, the ability to manage projects in that area is short. You might like to look at the transcript where Andrew Campbell in Canberra spoke to that issue himself and referred to the problems that he'd had, in terms of trying to discover the outcomes of significant sums of money that had been spent by departments on some of those special programs.

**MR MULCAHY (AUSVEG):** All I would say is that there's, in my limited two years, a substantial amount of evidence of exactly the same issues on the model we're using. So I don't think either model is without fault. I have seen the sort of waste you talk about in government. I have conducted many parliamentary inquiries into government agencies that left a lot to be desired. Similarly, this is not a pristine system, but it does have fairly heavy administrative cost involved, and that's one of my passions, efficient use of the dollar, and hopefully we can work out ways of trimming it and making it more efficient. We, as an organisation, are moving further and further away to doing less funded projects, so if we can see that more of that is undertaken by the researchers in areas that are of importance to growers, then we think that is progress. It's just a possible view, but you have obviously given thought to it.

**MR WEICKHARDT:** I guess I'd be interested if you're going to make a further submission outlining how it is you think HAL could address some of that bureaucracy inside their own organisation, because part of the implicit governance model here is that the RDCs ought to have a pretty strong vested interest in making their own operations as efficient as possible, including collaborating across the RDCs, which is something you'd think that might have occurred earlier. There now seems to be some evidence that they're working more actively in that. But anything that makes the government and levy payers' dollar go further and buy effective research is obviously to be welcomed.

**MR MULCAHY (AUSVEG):** Indeed - and in fairness to Horticulture Australia - there have been significant changes since the appointment of the current chief executive officer, of whom we are very supportive. I think he has moved quite effectively to address bureaucratic cultural issues, prudent use of the dollar and to trim things down, so I don't want to leave the impression that we don't think that's

happening. I have taken a more broad picture view, in terms of do you even need these sorts of mechanisms to distribute potentially taxpayer money and the levy money collected by the Commonwealth. So we're very comfortable with the progress being made. None of these things, as I say, are without fault, but progress has been considerable in the last 12 months, and we think it will continue along those lines.

**MR WEICKHARDT:** Good.

**MR MULCAHY (AUSVEG):** If we make a further submission, then we'll be happy to talk a little on that.

**MR WEICKHARDT:** We are just about out of time, but can I just come to your issue on fewer PIBs, to save on overheads and admin costs. I assume you're not suggesting that AUSVEG shouldn't exist. So is there some other PIB that shouldn't exist?

**MR MULCAHY (AUSVEG):** It's not so much one - I mean, there is something in the order of 30-odd peak industry bodies in horticulture. Again, when I became aware of that on coming on board I was just absolutely stunned to learn the extent of the resources being expended. One organisation has an entire bank balance of \$1500, looking to set up a levy and a new peak industry body. I just am concerned that we're having more and more bodies created that are employing lots of people like myself, and that's great, but at the end of the day, typically these bodies could be consuming as high as 30 per cent of the levies collected on administration. It doesn't seem to me that fragmentation of this order is an efficient way to go. So (1) I think the brakes should be put on by the Commonwealth about having more of these bodies set and (2) I think that there's an argument down the track - and it's not a view supported by any, except my own board - that we ought to have consolidation of the peak industry bodies which again will maximise the efficiency, I think. I know big is not always better but I think fragmentation is crazy.

We have a situation in horticulture where, in our case, we've got 135 commodities under our oversight. We have other commodities that are running with a part-time person working from home two days a week. It doesn't seem to me that spending levy funds that way is terribly smart. So we would certainly like to see the brakes put on the creation of any new ones, certainly in our sector, and strong encouragement for some of the smaller sectors to move in with common interest - you know, Mr Russell's organisation is in the fruit sector and they're a well-regarded efficient operation - but there are a number of other smaller operators there that one could well argue probably would sit more comfortably in terms of homogenous interest with that industry and similarly with our own and a few of the others. So that's just a view - - -

**MR WEICKHARDT:** I understand your point and intuitively it makes a lot of sense but we live in a democracy and if growers want to put their hand in their pocket and support a group that they like, then I guess that's their democratic right. Whether or not that body should be - - -

**MR MULCAHY (AUSVEG):** Except that half the money has come from the Commonwealth, so I think the Commonwealth should have a say in that ultimately.

**MR WEICKHARDT:** Well, now for the peak industry body surely.

**MR MULCAHY (AUSVEG):** If they're doing project work, then a lot of that funding is effectively coming from the taxpayer.

**MR WEICKHARDT:** What, back through HAL, into peak industry body - - -

**MR MULCAHY (AUSVEG):** Yes.

**MR WEICKHARDT:** - - - because they're paying expenses?

**MR MULCAHY (AUSVEG):** Well, projects that could be undertaken by industry groups, so it's not just the traditional research laboratory.

**MR WEICKHARDT:** That is a concern if that's the case. We made a comment in the draft report that we felt that peak industry bodies ought to be, I guess, well and truly self-sufficient and certainly not dependent upon the money from an RDC. It's a very cock-eyed governance system if you've got a PIB that's supposed to be, if you like, representing the growers to the RDC but the peak industry body is dependent upon the money from the RDC.

**MR MULCAHY (AUSVEG):** Some things that affect peak industry bodies are best handled such as communicating the R and D results across industry, so I think there are areas that are most appropriate for PIBs. They're not normally so skilled in doing primary research. But there are periodically projects that I think are appropriate; for example, we have identified mechanisation as a major issue which we're trying to progress because it's one way of making industry more competitive, and we are looking to bring together the interests and we'll do that as a project.

**MR WEICKHARDT:** Just clarify that. Some PIBs are actually doing research on behalf of the RDC?

**MR MULCAHY (AUSVEG):** Look, I couldn't give you absolute answers on that, whether it's a collaborative or so forth, but generally PIBs do projects in the areas.

**MR WEICKHARDT:** Are they marketing projects?

**MR MULCAHY (AUSVEG):** They could be, or they could be communications projects or they could be other specialist areas. For example, we did one last year, a one-day conference dealing with sensitive waterway issues, so we put that together and that involved a lot of interest.

**MR WEICKHARDT:** Perhaps if you elaborate on that in your further submission, that would be helpful. I'm sorry, we're going to have to move on now. Thank you very indeed.

**MR MULCAHY (AUSVEG):** Thank you.

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**MR WEICKHARDT:** Our next participant is the Australian Fodder Industry Association. If you could each individually give your name and the capacity in which you're appearing, that would be helpful.

**MR GOUGH (AFIA):** I'm Bill Gough. I'm chair of the peak body, Australian Fodder Industry Association.

**MR PEACE (AFIA):** Colin Peace, I'm the executive officer of AFIA.

**MR WALTER (AFIA):** Andrew Walter, I come here as a farmer but primarily as chair of the RIRDC fodder crops R and D advisory committee.

**MR WEICKHARDT:** Okay, thank you very much indeed. If you'd like to give us a brief outline of the points you want to cover, that would be helpful.

**MR GOUGH (AFIA):** We'll start with the executive officer.

**MR PEACE (AFIA):** Thanks, Phil. In the case of hay and silage, we think we've got some issues here which are unique to across-industry commodity and while we see that the RDC model works very well for the broader industry-specific R and D issues, it fails sectors such as ours which are reliant on many various stakeholders through agriculture. We're a big industry with seven million tonnes of production, \$2 billion gross value of production, yet our R and D program struggles in a program with RIRDC which Andrew will talk about a little bit further. We invest between four and five hundred thousand dollars a year but with total investment directly of about \$900,000 a year from all sources, it still represents about .045 per cent of the gross value of production which is clearly way short of the industry-considered norm of 1 per cent.

We've got a chequered history with attempting to get levies going. We had a failed attempt in 98 to get a mandatory levy going based on applying a wholesale increase to the crop packaging products which is an input into hay and silage, namely the twine and net wrap. Fundamentally, the opposition came from the existing peak industry bodies because we were seen as a bit of a nuisance and just another levy, even though we're a relatively tiny contribution from farmers and the fact that we were jabbing the potential levy payers with another levy was enough for peak industry bodies to not support what we were trying to do, in order to protect their own R and D levy, as you could understand. So we've tried many different ways of trying to slice and dice this situation. The former parliamentary secretary for agriculture, Judith Troeth, probably 10 years ago now, got all RDCs in a room and said, "Okay, what about a few hundred thousand dollars from each of you, already levy-collected funds, put it into a fund within RIRDC and we'll get something happening here."

But a little bit like the same example that I've heard quoted this morning with the irrigation industry with land and water, the RDCs were not supportive and would rather spend on their own industry-specific issues and we were left to fend for ourselves. So we've tried to get going some funding for our industry through cross-industry efforts but no-one owns our particular sector of agriculture within the existing RD systems, it's a problem that no-one owns. We've got 20,000 producers in the country. Our efforts to establish a levy are massive in trying to communicate what we're trying to do. We're a peak industry body which has two and a half full-time equivalent employees paid for by our members and don't have the resources to pay for polls which is required within the existing 12 principles as DAFF require of us. So that brings us up to pretty much where we are today.

**MR WEICKHARDT:** Okay. Do you want to go on?

**MR WALTER (AFIA):** Thank you, Colin. Perhaps a little bit about myself; I come here as a person who was raised on a farm. I'm actually technically qualified in the area of plant biology and agriculture, having a PhD which was supported by one of the RDCs, dairy itself. So I'm a product of the current RDC model, in one sense. I've got a commercial interest in grain, livestock and fodder production in Australia and overseas and I'm currently the chair of the RIRDC Fodder Crops R and D advisory committee. So I wear a range of hats which I'll swap through during my presentation.

In brief, very much support the current RDC model. The only area that I see as an area of failure is that of fodder, and that really relates to the fact that the industry doesn't have a natural point of collection for a levy. Most fodder is produced on a farm and consumed on the farm or at best it might be traded over the back fence or to a neighbour. We have a very good voluntary levy collection system through our export industry, and that is an obvious collection point, but around 85 per cent of fodder produced in Australia is produced and consumed domestically. So it's very difficult to find a natural levy collection point.

So as chair of the RIRDC Fodder Crops R and D advisory committee the number one issue that the committee has is one of financial resources. We are presented with some tremendous research projects each year and it's a difficult task to identify which ones we can support. It's a challenge also because we're dealing with a very biologically challenging product in fodder. Some people call it the dead grass society but really, it's very technically challenging. We need to grow it in a climate, an environment, that is challenging. The product itself never actually dies, it is essentially always alive, and it has physical characteristics which make it difficult to package, transport and ship around the world. I think it's actually a testament to the Australian fodder industry that we're actually able to be in a self-sustaining and profitable industry that's exporting into some very competitive markets overseas.

The fodder industry in Australia has a whole number of stakeholders, that being the livestock industry; the grains industry, where fodder production is now a valuable part of a holistic crop production system; the equine industry; elite animals; hobby farmers and the like. So from my perspective now as a farmer it's fantastic that we have an organisation like RIRDC which actually facilitates research in the fodder industry: so taking the voluntary funds, matching it with some - if you like, some core funding from RIRDC to be able to support, as Colin said, what is a relatively small program of four to five hundred dollars' worth a year.

As a point of note, a group have just confirmed our five-year plan and we now have seven objectives. I've read through the report and the proposal with RRA that it might be looking to focus on environmental, social and energy use outcomes - it's my privilege to say that as our little R and D program goes, of the seven objectives that we have within our program four I can link to these outcomes that might be otherwise pursued with RRA.

We, as a small program, are very dependent on the support of industry and the cooperation of other RDCs. We actually have a close collaboration with the Grains Research and Development Corporation with the national oat breeding program. Oats are the major fodder type that is exported out of Australia and a key competitive advantage that Australia has is our elite oat genetics that we have. It's much more efficient for the oat breeders to be breeding resistance simultaneously into fodder varieties as grain varieties. So we do have a good collaboration with GRDC through the national oat breeding program, albeit the fodder component we would like to have more funding. We also have a good working relationship now with Dairy Australia. We're assessing issues regarding fodder quality, transport and the like.

So we're doing our very best to get the best bang out of our bucks. We think that the fodder industry not only has productive interest from its research and development activities but also social and economic aspects which is covered in four of our seven objectives that we have. Fodder itself, in my mind, is very deserving of public good support. It is a product that in times of climate change with drought and floods that you just can't readily ship in fodder. It's something you can't substitute. Animals must have fodder in their diet. It's a lot easier to ship in feed concentrates like grain and pellets but fodder there are a whole number of issues; down to people who have pets and hobby farms and the like, fodder is a key component to what they're supporting, which further supports the difficulty that Colin outlined with regard to the structure of our industry in being able to secure a good levy point for raising funds.

My farmer now on. The proposal that RRA - and reading the transcript of previous meetings - it certainly seems like it's about, if you like, pushing a greater focus on environmental, social and energy use outcomes. From my own perspective

I have seen these sorts of approaches taken with groups like Landcare and there has been a disengagement from industry and of farmers. As chair of the RIRDC Fodder Crops R and D advisory committee I can say that our committee always look for multiple outcomes from any of the research projects that we support. I don't think that project-based projects should be necessarily supported or conducted in the absence of consideration of environmental, social or energy use outcomes. So I have a concern that RRA has a potential of separating and disengaging. What I think and what the report itself has said it's been a very effective model for research to be undertaken in Australia and adopted by industry.

Our community have found RIRDC administration to be exceptionally supportive, professional and a great resource for us as R and D advisory committee members and I think the broader industry as well. Consideration may be given to utilising the existing infrastructure and expertise of RIRDC if another organisation or another area was to be supported other than what's currently in existence. This ends my brief submission.

**MR WEICKHARDT:** Thank you.

**DR SAMSON:** Thank you. Okay, this is a very interesting topic because the smaller industries like your own particularly - that they don't have a natural sort of separate commodity, can be overlooked in any sort of process including ours. So it's very helpful - - -

**MR WALTER (AFIA):** We're only small from an R and D levy perspective. We're number five as net farm gate value.

**DR SAMSON:** Well, what's your future - if nothing changed, will you forever see your future as one of RIRDC's emerging industries? Clearly you're not emerging, you're small.

**MR GOUGH (AFIA):** No, I would disagree with you there on that. We've gone from being new, because we're a very old craft industry initially, we have emerged and now we're fully fledged from the point of view of having a commodity that's highly traded and highly specialised.

**MR PEACE (AFIA):** But in terms of funding, your question is - - -

**DR SAMSON:** Yes, I mean just perhaps - and obvious, you know, given all the synergies you have with the GRDC - - -

**MR WEICKHARDT:** Or MLA or dairy.

**DR SAMSON:** - - - why are you in RIRDC and not part of the GRDC?

**MR PEACE (AFIA):** For the issues we've referred to before. We're cross-industry. No-one owns our problem. We are not seen as a important enough issue in any one single RDC to be housed in that RDC. We do get some co-funding occasionally from RDCs but not sufficient to drive a dedicated program.

**DR SAMSON:** Okay. I mean it's an interesting issue because at the moment the solution is you're within RIRDC, and we can understand that. I guess - and again, just testing or explaining or thinking - your sort of circumstances writ large are what led us towards an RRA, that there are lots of issues out there, not necessarily commodities but there are lots of issues out there that don't easily find a home. They are important issues and they are issues that the Australian government is very focused on, hence the RRA thing. So there's sort of similarities between your situation as a commodity looking for a home and a whole range of national issues looking for a home.

**MR PEACE (AFIA):** Yes, we'd agree with that.

**DR SAMSON:** I know a little bit about your circumstances and it is remarkably short-sighted on the part of lots of the industries, I have to say, that you are left to fend for yourself. I guess part of it is depending on what the world price is for commodities; you know, if the price of wheat drops through the floor, people will divert it to feed and all of that.

**MR WEICKHARDT:** The 85 per cent of people who, if you like, produce fodder but either use it internally on their farm or trade it across the fence, do they see any value in the of R and D that you're already doing?

**MR WALTER (AFIA):** Very much so, from the feedback that we get as a committee. If you look through the sort of projects that we have supported - and there have been two economic evaluation studies completed on some of our projects - yes, a very good return and if you went out into industry I think the fodder industry has a very good connection with its R and D activities and its peak body group. I speak as a fodder producer, a grain producer and a livestock producer in answering that question.

**MR GOUGH (AFIA):** The same with me, as a fodder producer. But the problem is the 20,000 producers, getting the message out.

**DR SAMSON:** So the .9 million, which is the total R and D investment for your industry, all of that comes from RIRDC? Or can you break that down for us?

**MR PEACE (AFIA):** We can and we will in a subsequent submission, but - - -

**DR SAMSON:** Very broadly.

**MR PEACE (AFIA):** Sure. Roughly, the RIRDC fodder crops program has around a \$400,000-a-year budget, of which around half of that comes from RIRDC core funds, half from our export voluntary levy. The balance is research that is undertaken by state government department, CSIRO and some private industry.

**MR WEICKHARDT:** The export voluntary levy, is it the same usual suspects that pay that each time or does it depend upon the season and might, you know, there be somebody who sort of suddenly rocks up to export some fodder one year who had no idea he was going to pay a levy?

**MR WALTER (AFIA):** Philip, I think there are fewer more competitive industries than the hay export industry. By virtue of the nature of the product where it's so variable and you're delivering into a select number of international markets, it's highly competitive. I think one of the strengths of the fodder industry is that they have an exporters subcommittee and they work exceptionally well together and there's a lot of cross-check, and I'd like to think that there's a very good execution and support of the voluntary levy across all those that are exporting.

**MR WEICKHARDT:** Would that be a large number of - compared to the 20,000 that's suggested?

**MR PEACE (AFIA):** 16. It's the same 16 every year.

**MR WEICKHARDT:** Okay. I think I heard you say that it was other peak industry associations that sort of spiked the last attempt to get a levy up, not that the levy payers themselves were against it. Is that true?

**MR PEACE (AFIA):** We had examples of stakeholder levy payers who were supportive and could see the merits of what we were trying to do. But politically the peak industry bodies were opposed to what we were trying to get across, because it threatened their own industry levy. They didn't want to have multiple levies going to their levy payers.

**MR WEICKHARDT:** What, they thought it would cannibalise some of the levy that they were collecting themselves?

**MR PEACE (AFIA):** No, I think the point is that they are sensitive to growers complaining about levies and it would be seen as another levy, and they wanted to avoid that at all costs, to ensure their own levy survived.

**MR WEICKHARDT:** But if the fodder growers themselves were of the view that they wanted this to happen, surely their will would prevail, wouldn't it?

**MR PEACE (AFIA):** It would in Utopia, but to do the sell message to 20,000 farmers is beyond our resources and we could never get to that point.

**MR WEICKHARDT:** All right.

**MR WALTER (AFIA):** Also the structure of the industry is such where we have several hundred farmers that dominate hay production, but then you have go trailing number of much smaller producers.

**MR WEICKHARDT:** Is there any thought that the several hundred could get together and form their own, if you like, voluntary levy and maybe capture the benefits of that R and D themselves?

**MR WALTER (AFIA):** I'll put my farmer's hat on now. They are members of the Australia Fodder Industry Association, and the association itself has one of the highest membership costs as it is. I think one of the things that sometimes is overlooked - with all due respect to those who drafted the report, where they talk about the warrant and the justification for public-good funds being invested in RDCs - is that frankly the rural terms of trade at the moment is very poor. I mean, the ag sector has little profit, the impost of additional levies is seen as additional cost input, regardless of the medium to long-term output and benefits.

**MR WEICKHARDT:** I understand that people can be doing it tough and given climatic conditions and the \$A. One has got better, one has got worse. It may still be tough. But I guess the larger producers, that get a sizeable income from fodder, you'd think might look at the sort of work that you've done already and say, "Gee, that's good. Maybe a bit more."

**MR WALTER (AFIA):** Well, they have from time to time when we've had specific projects, one of which was the transport project, where we were looking at ensuring that hay could be transported safely and economically. In that case, if you like, the hat was passed around, and industry I think made a contribution in the order of many tens of thousands and in the end hundreds of thousands of dollars. But you have still got 19,000 growers, if you like, I think the term used in report, "free-loading", and that is always an issue.

**MR WEICKHARDT:** Well, it's an interesting and challenging dilemma, isn't it?

**MR WALTER (AFIA):** Tell us about it. Yes.

**MR WEICKHARDT:** Cliff, have you got any questions?

**DR SAMSON:** No, I'm right, thanks.

**MR WEICKHARDT:** I don't know whether we have got any immediate answers for you, but thank you for your input. We'll keep that in the back of our mind while we're cogitating on other issues.

**MR GOUGH (AFIA):** May I make just a final point? Looking at it from the 14 years that AFIA has been going and been involved in trying to get a levy up, it seems to me when you look to the future there's a danger that we may well create from an R and D point of view: a club or an elite that has access to a levy and has the funds to continue their levy, because they have the funds in the bank. From our point of view, that is a very dangerous situation. It's a situation that we don't like. The reason why we're really involved here today is we are asking you, through this report, to recommend changing the tools for us to get the levy, it's really very important.

**MR WEICKHARDT:** What specifically would you want to see changed?

**MR GOUGH (AFIA):** You have already mentioned with a previous presentation about trying to make the conditions of getting levies easier - - -

**MR WEICKHARDT:** Or varying levies easier.

**MR GOUGH (AFIA):** Yes, but getting the 12 points. Could you review those, please? I'm sure Mr Peace - who has been through the mill many times on this - would be happy to help you.

**MR WEICKHARDT:** All right. Thank you. We will look at that again.

**MR GOUGH (AFIA):** Thanks for your time; it's much appreciated.

**MR WEICKHARDT:** Thanks very much indeed.

**MR WEICKHARDT:** Our next participant Australian Beef Association. If you could introduce your name and the capacity in which you're appearing, please.

**MR ECONOMOU (ABA):** Thank you, commissioner. My name is Athol Economou. I'm a beef producer. Today I am here representing the Australian Beef Association. ABA is a formal association, a voluntary association, of beef producers Australia-wide.

**MR WEICKHARDT:** Thank you. You have sent us two submissions before the publication of the draft report and you have sent us some notes. Are a formal submission yet, are they, or your draft of a submission?

**MR ECONOMOU (ABA):** Commissioner, I hope to tidy them up. They're basically the essential elements of the submission. I'd like to just have some time to work on the typos and the context and make it more legible and understandable.

**MR WEICKHARDT:** Okay. Assume we have read this material, but if you want to outline the key points, then we can move into a discussion.

**MR ECONOMOU (ABA):** Okay. ABA has made its point that our key concern is that very little of the R and D generated by Meat and Livestock Australia is actually available. I think our first two submissions tried to put a measure on how little of the \$700 million is actually delivered in reports that are accessible and readable and make sense to people in general.

There's two elements to the MLA's report in the concerns. Firstly, there's the formal reporting; that is, actually simply counting the reports, documenting them and making the reports available. One is for accountability purposes which is to do with the whole business of just accountability of other people's money; the second area of course if for the science community. It needs to be able to reference things, so it can actually build on the body of science. Our view is that the formal reporting is abysmal and that neither accounting or the cumulative science process can proceed in any way.

The next thing is the informal reporting which you can call "extension" and at its worst is spin. There's plenty of informal reporting but really, it's just Mickey Mouse. We've made those points in our submission and we've tried to quantify them, as I said before, as best we can. We accept that there's error, but given that we're talking about less than 5 per cent of the total body of science being reported properly, even if we're in error substantially, there's still a huge deficiency.

With respect to the current draft report by the Productivity Commission, I'd like to address your recommendation 8.1 which we see as a sensible standard to try to achieve. We believe that MLA should be doing what's set out in 8.1 as a matter of

course. In your recommendation 8.7, you have requested information and we've interpreted it to mean how do we actually achieve some of the things set out in 8.1? Now, I have had some conversations previously with your officers and they said the idea is not just to pull MLA down but hopefully find ways to actually keep the good parts of it and find ways that will actually comply with the recommendations in 8.1.

So I've tried to address three things in my report. One is the industry structure. We've talked about this in the past. It's set out there. The industry organisation is very, very messy. It was designed 10 years ago but it's designed to service an industry which probably hasn't existed for more than 40 years in Australia. It's absolutely obsolete. The industry chart - and I've got a nice coloured one here if you'd like a nice coloured one - that's just the beef industry. There's over 20 boards and committees there. They all have a say on how the \$60 million-odd MLA spends on R and D is spent.

A couple of things about the chart: firstly, there are about 20 boards and committees. Most of them are actually technically subcommittees. They're not elected by anyone. They are appointed by other bodies. Then you actually end up with subcommittees appointing more subcommittees which I call derived subcommittees, so they're even less accountable to anybody. In the end, the farmers just feed money into this system and then this structure just sort of turns it over and churns it over and farmers can't actually appoint or vote for anybody who has actually got a say in the structure. I believe that's fundamentally wrong with our system and it's probably the single biggest impediment that mucks up everything we try to do.

With regards to specific solutions for MLA in the short term, there is a document called the Deed of Agreement which exists between MLA and the Commonwealth. It has a great line, and I'll quote it if I may quote it, where it says that MLA "must spend the money in a manner that is efficient, effective and ethical" and I thought that was a great thing to find in an agreement between two organisations. I suggest that "efficient, effective and ethical" have all been failed on pretty spectacularly.

But within that agreement, there are actually powers that if enforced could actually deliver some of the outcomes that the Productivity Commission is requesting in 8.1 Clause 8 basically says it allows the Commonwealth to terminate or reduce the R and D funding. It's just written into the agreement. Clause 10 particularly gives the auditor-general power to monitor MLA compliance of this deed, so there is a power for the Commonwealth to go in there and look after the interests of taxpayers' money. It says quite specifically that the auditor-general is empowered to access MLA's premises and records and MLA is required to provide access to the premises and the records. That's pretty simple.

**MR WEICKHARDT:** This is in the deed, you're saying?

**MR ECONOMOU (ABA):** This is in the deed of agreement. I submitted a copy. It's clause 8. So I submit that these powers to actually try to enforce some level of compliance to the spirit of this document of the whole R and D arrangement are actually there in part, it's just a matter of getting out there and making them happen. I'm not an expert on government administration but on a simple reading, it's pretty straightforward.

The third thing is the Productivity Commission has asked a little bit about the allocation of the levy. The beef industry already has four components, so it's actually possible to apply sanctions to MLA with respect to its performance without actually pulling the whole of MLA apart. You can just do something about the approximately 20 per cent of its levy revenue that's earmarked for R and D. That sanction can be applied at the levy level where the levy itself is reduced, or the levy can be collected and held by DAFF or whatever other administrative arrangements are possible, but the net effect is that the money ceases to flow to MLA until such time MLA actually starts performing to expectations.

**MR WEICKHARDT:** We understand that that ultimate sanction exists. I guess we were concerned that there's quite a lot of collateral damage if that sanction is applied, collateral damage to probably innocent bystanders. First of all, the levy payers themselves have their levies connected but not distributed, and the researchers, who probably weren't the guilty party, also suddenly get their funds terminated. So what we were looking for is some ideas of sanctions that would address the issue of concern and I think what you're talking about - and we're not here to opine whether you're right or wrong - but the principle of what you're talking about is if an RDC themselves isn't doing the right thing, then the government ought to have some method of applying a sanction until they get their horse in order. Now, if your thesis is correct and MLA aren't doing the right thing, I think what you're saying is the government in theory already have the tools but they're not applying them.

**MR ECONOMOU (ABA):** That's how I interpret these documents.

**MR WEICKHARDT:** All right. That's a useful piece of input and we should look at that deed a bit more closely. I guess sending the auditor-general in on a weekly basis might attract some attention.

**MR ECONOMOU (ABA):** I would think so. The auditor-general has a history of checking out R and D corporations. He certainly checked out the Meat Research Corporation at the time of its dissolution. The report is available. MLA needs some pressure put on it. I think there's some great people in MLA, there's some hardworking people in MLA, but things got clogged down.

**MR WEICKHARDT:** You responded to MLA's push-back to your original submission where they said, "No, you're confusing, "I think, "contracts and project numbers," but apart from your membership, it would appear that other levy payers are either much less vocal about this issue or are ignorant of this issue or happy with what MLA are doing. Is that correct?

**MR ECONOMOU (ABA):** We're a very big industry. I don't know what our average age is. When I joined it I was the young person in the group. 30 years later I'm still the youngest person in the group. We can laugh but it's really sad. We are growing old and we're not being replaced. Quite reasonably we're not being replaced because young people just can't see a future in agriculture in general, in beef particularly. The returns are appalling and the lifestyle is pretty challenging. I think if you go to the MLA AGM in Launceston next week you will see a lot of grey hair and bald heads. It's very difficult to go and find a forum with young people in it. I think we're all tired. I think we know too many people who have committed suicide, too many people that are depressed. That's the reality of the situation. The general level of education is low. I think the intuitive skill level is high through experience. It's a run-down industry and I think it's being taken advantage of, but that's my view.

**MR WEICKHARDT:** Sorry?

**MR ECONOMOU (ABA):** It's being taken advantage of.

**MR WEICKHARDT:** So who is, in your view, getting the advantage of this levy money?

**MR ECONOMOU (ABA):** I think the scientists are missing out. I think the young ag scientists are missing out because they can't even find out who did an honours thesis last year on the topic because it's not listed anywhere. We can't attract people to good science. I think the scientists are missing out because the reporting is poor. I think the farmers themselves are probably missing out because they don't understand how things impact on them. Just commenting on today, some of the things people said, "We need a level playing field," and I think the corollary to that is we're looking to have a competitive price. But the reality is Australia is an expensive place to grow food. You compare Violet Town with the mid-west of America and it's just crazy. Like we have crappy soils, we have erratic rainfall, we have to import our nutrients, we have to import our petroleum, we have to pay first world wages. Australia will never be the cheapest place to grow food in the world. Trying to be cheapest is hopeless. All we can hope to do is be efficient and sustainable and produce food for first world people who can afford to pay a bit more, but that's just a dream at the moment.

**MR WEICKHARDT:** Okay.

**DR SAMSON:** I thought that - the issues you raise, I mean if I can characterise it as dissatisfaction with the performance of, in your case the MLA, and sanctions et cetera I mean in general terms this is an issue across all the RDCs that we've looked at quite a bit and have struggled a little in the sense that the ultimate sanction seems to be to simply stop the flow of money. Then there is, as Philip said, the potential for a lot of collateral damage and innocent levy payers, innocent researchers are suddenly getting penalised as well. When you look at the issue sort of from a systems point of view, there doesn't actually seem to be a lot wrong in that, as you pointed out, MLA and the government through the Department of Agriculture have an MOU or deed of agreement, SFA, whatever they call it nowadays, which is actually - you read it and it's quite reasonable. The Department of Agriculture has the responsibility for ensuring that that document is point into effect. We struggle, in a systemic sense, to see what else needs to be done other than the gatekeeper keeping the gate. I mean is it a deficiency that having entered into this SFA, which seems to be a reasonable document, the signatories then just walk away from it. What's the missing ingredient here?

**MR ECONOMOU (ABA):** That's the million dollar question. Look, I think the system looks okay. As you say, it looks okay. It seems to have the checks and balances and the - you know, should give it a good chance of working well. It would seem to me that to make something work well you need to have goodwill and no particular pressures to make it not work well. I feel the meat industry has got issues within it that mitigate a perfectly good system working well or stop a perfectly good system working well. The other thing is we haven't applied rigorously or threatened to apply the sanctions that are available to make it work well. That's how I see it, but I have very micro view of this. Like you guys see the whole picture, I just see one very little narrow picture.

**MR WEICKHARDT:** But you make a point in this draft submission that MLA's poor accountability in respect to its R and D expenditure is in part due to its wider need to conceal the identity of individuals and organisations that it funds. Can you just elaborate?

**MR ECONOMOU (ABA):** The classic view of the meat industry is the hour glass.

**MR WEICKHARDT:** The?

**MR ECONOMOU (ABA):** Hour glass, the perfect body. You've got thousands of producers at the bottom, you've got processors in the middle and millions of consumers at the top. The reality is it's broadly like that but within that now there are major chunks. There are two retailers who sell 50 per cent of all retail meat. There is one processor, foreign owned, who has 30 per cent of all processing capacity. Half our exports go to Japan. That total trade is controlled literally from farm gate, and

before farm gate, to shop by Japanese trading houses. That's another sort of 25 per cent of our industry. This is the real world we live in. These people have shareholders to account to. They need to throw their weight around and it's things like that that I think unbalance what is a perfectly reasonable model, which is what we have.

**MR WEICKHARDT:** So are you suggesting that MLA are basically doing research that they're keeping as confidential on behalf of those big players?

**MR ECONOMOU (ABA):** I haven't got the evidence but, you know, if a processing works decides to import a robot to eviscerate sheep and it costs a couple of million dollars to import, they bring it in. Then all of a sudden you need a technician to set it up to work. You need a computer programmer to program it. You need a whole bunch of other people to make it fit in - integrate it into your system. What do you do? You go back to Europe where you got it from and they say, "Oh, it's going to cost you a million bucks to get this bloke out, he's a whiz." So you turn around and do a research project, if you can. I would, if I was the managing director having to report to shareholders. If I could get half a million dollars and call it research and make it commercial-in-confidence, I'd do that, and that's my task as an MD. I believe any MD worth his salt would have made those requests to MLA. But again, I can't prove any of that because as we've said before, none of these documents are out there.

**MR WEICKHARDT:** Despite the grey hair among the levy payers, they do have a right to vote at AGMs on the levy. If they're not seeing the outcome of the research that MLA are doing, why don't they actually take action in terms of the vote on the levy?

**MR ECONOMOU (ABA):** The make-up of MLA is - theoretically there's hundreds of thousands of people that can be members. The number of people who actually register to be members is probably, I don't know, 40 per cent. I'm just guessing now, the numbers, but you get the idea. Of those 40 per cent everyone gets one vote, unless you go to the trouble of filling in your form which relates to how many cattle you sell. Of those people only probably 15 per cent or 10 per cent of the total membership actually vote based on their revenue. So what happens is you've got maybe 30 people or 30 organisations account for 80 per cent of the votes cast at an MLA AGM. Now, they're basically in Queensland because they're the bigger operations. Major processors actually vote as producers because they run feedlots, and an average feedlot can run 50,000 cattle. It's huge, like there wouldn't be a farmer in Victoria with 50,000 cattle. So the whole voting process just comes down to little sort of groups and it's very easy to attract their votes. I won't say that they give them R and D projects but certainly many of the larger pastoral companies have been beneficiaries of R and D funds, and it's very easy to keep those votes in-house.

**MR WEICKHARDT:** So your suspicion, if I could put it that way, is that those bigger guys are happy to vote because they're beneficiaries of MLA and the small tail is disempowered and disenfranchised?

**MR ECONOMOU (ABA):** Yes, I'd make that - I think that's a matter of record. If you look at the board of Meat and Livestock Australia, producers don't actually vote for the board members, they're appointed. They're appointed by a committee, and we can set it all out there - of the peak councils. We can't actually vote for a board member; as I said, they're appointed. In fact, even if a majority of voters voted against someone's appointment, the board has the power to appoint that person anyway. We're talking about a very, very bent sort of corporate document. If you look at the board membership it has got - at the moment we have - you know, Iain Mars is a member of the MLA board. He's the chief executive of a Brazilian meat company. The Japanese lot feeding companies have always had at least one or two members on the board. Farmers don't actually have any members on the board.

**MR WEICKHARDT:** Now, we did say in the draft report that we felt the review process for the RDCs should be, I guess, enhanced. We adopted a few of the processes that are used in other areas such as the CRCs. One of the things we said that the review which we had suggested would be on a three year basis - that that review should look at the visibility of the research that was conducted, the degree to which it had been published and the degree to which it was available to all levy payers, and its scientific merit. Now, if - and this is a big if - but if that process were carried out and if there were some sort of appropriate response by the government were this not to be, I guess, in a satisfactory shape, would that address the concerns that you've got or some of the concerns you've got?

**MR ECONOMOU (ABA):** Look, if the review was done independently and in good faith, I'd be perfectly happy. I think the reality is that MLA has commissioned its own review from consultants it appointed itself. I can only ask what data did the organisation that did the review look at? If MLA can't produce a scheme of commissioned completed R and D with financials and science, what did the reviewing consultants actually look at to say that MLA's program is good or bad?

**MR WEICKHARDT:** Well, I mean of course the criteria that we specified about transparency and publication wouldn't have been necessarily on their list of review. Maybe if your suspicions have any foundation and some of the MLA work is, I guess, commercial-in-confidence to some of the bigger players then maybe they looked to that and said the bigger players are entirely happy with it, I don't know.

**MR ECONOMOU (ABA):** I don't know what the internal - you know, the paid consultants looked at and what their terms of reference were.

**MR WEICKHARDT:** Okay, all right.

**MR ECONOMOU (ABA):** I also say that the Cattle Council, the peak councils, also claim to review MLA's R and D performance. What data, what documents, what schedules, what databases they have access to to approve or disapprove of the performance or rate the performance - I don't know what they look at. But again, if they can't make simple lists available for us how can they make complex lists available for others?

**MR WEICKHARDT:** Well, you've raised some important issues. As I said before, we're not here to inquire into any specific RDC but you've raised some issues that are really relevant to issues in the previous participant - and that is, are the smaller sort of levy payers being disenfranchised or disadvantaged here by the self-interest of larger ones.

**MR ECONOMOU (ABA):** Well, look at the value of R and D. Going back to what I said before, if farmers picked up - 90 per cent of the productivity gains in Australia will be achieved by adopting what is already in the textbooks. The new R and D will only make it marginally better for a few people. My personal view is that the future is try to increase your productivity and let's spend our money on figuring out how to do it without creating more damage, because I really feel the environmental - the collateral damage, environmental collateral damage, of modern farming is the big issue that my grandchildren will face, or my children and grandchildren will face.

**MR WEICKHARDT:** Well, that's a somewhat different issue - - -

**MR ECONOMOU (ABA):** Yes.

**MR WEICKHARDT:** - - - but nonetheless an important one. Cliff, you - - -

**DR SAMSON:** No, that's fine. Thanks very much, Athol.

**MR WEICKHARDT:** Well, thank you very much indeed for your input. We appreciate it. We're going to adjourn the hearings now and we will resume at 1.30. Thank you.

(Luncheon adjournment)

**MR WEICKHARDT:** We'll resume the hearings now and our first participants after lunch are the VFF. If you could, for the transcript, please, give your name and the role in which you're appearing today that would be helpful.

**MR NIXON (VFF):** Chris Nixon. I'm the president of the livestock group of the Victorian Farmers Federation and I'll be representing the majority of the VFF submission.

**MR WEICKHARDT:** Thank you.

**MR KEATING (VFF):** Darren Keating. I'm the manager of the VFF livestock group.

**MR HARRISON (VFF)** Darryl Harrison, senior policy adviser of VFF.

**MR SHERIDAN (VFF):** Stephen Sheridan. I'm the grains group manager for the VFF.

**MR WEICKHARDT:** If you want to run through the key points of the issues you want to traverse across, and then we'll move into a discussion. Thank you.

**MR NIXON (VFF):** Thank you very much. Firstly, just a little bit about myself. I'm a beef and dairy producer in far East Gippsland. I milk 450 cows and run between 800 and 1200 beef cows depending on seasonal conditions. It has been a trying couple of years. I'm here representing the livestock group and the VFF as a whole, with support staff, Darren Keating, Stephen Sheridan and Darryl Harrison. A little bit about the VFF. We're the largest state farming organisation in Australia and the only recognised consistent voice for farmers in Victoria.

The VFF is run by an elected board of people. It has an elected policy council, and then it's commodity divisions - dairy, livestock, water culture, chicken meat, pigs, flowers and eggs - and is represented by 230 ranchers across the state. The VFF has made several submissions to the Productivity Commission so far: a general submission from the VFF, with supporting documentation from other commodities, primarily the livestock group and the grains group. The dairy group has decided to make its submission through the Australian Dairy Farmers.

Today we'll be covering a number of issues, those raised in our submissions and those raised by your Productivity Commission report. These include why we have RDCs, the current funding levels, the positive spillover effects from investment in private benefit RD and E, general comments and questions around Rural Research Australia, governance issues around research development corporations, the difference between the different RDCs and a time frame for implementing change.

Why have the RDCs is a question that has been asked? They work very well. They allow producers and government to engage directly on the dollars spent in an equal partnership. This occurs through the national RD and E strategy and through that the Red Meat Co-investment Committee. I'll talk a bit more about MLA, which is the one with which I'm principally familiar, but I know the other RDCs have a similar sort of structure.

**MR WEICKHARDT:** Can I just interrupt at that point, just while you're talking about the broad level RDCs. This is an entirely hypothetical question. Do you think if the governments were not contributing to the RDCs that growers would still see the RDC as it's structured at the moment as being the right way of managing and expending their levies?

**MR NIXON (VFF):** Well, our belief is principally that the current structure works because of that matching government funding. The outcomes that the RDCs have delivered are very well appreciated by the levy payers on our side of the fence. The problem we have particularly with the Meat and Livestock Australia RDC is the lag time between the research and the extension and adoption by farmers. We know that the work that it's doing now was research and stuff that was done in the early 70s. So there's a long lag time between the research and the extension and adoption period, anywhere between 25 and 30 years.

**MR WEICKHARDT:** I guess R and D is an inherently risky business and you're not going to get something converting immediately, but I understand the idea of trying to accelerate that. I'll put my question another way. If the government were not contributing but there were a levy process in place - and these are two hypotheticals - do you think farmers would create something that looks like today's RDCs to manage their collective pool of money, or do you think they'd do something else?

**MR KEATING (VFF):** Perhaps if I could answer, Chris. Currently farmers support their RDCs and they do that quite often very vocally. At the AGMs there's often good support for that. There's often votes on levies and the amounts they pay. There's often discussions around how much that is. We tend to see them being fairly consistent in the manner they are. I suppose you're sort of asking the question that if the government pulls out and doesn't invest in RDC will producers continue to do so? They will, I imagine. However, we see a very different-looking RDC, because the total funding and that amount of money there would be vastly different. Possibly one of the differences in the focus of where the money is spent and the work is done is that a lot of the community good that comes out of this work would probably be reduced.

**MR WEICKHARDT:** I understand that. It is a hypothetical, but I'm trying to get a read-out from you - from a high level, because I know you're looking at the totality

of the situation - as to the degree to which, if you like, the RDC model has been shaped by the government saying sort of, "We're going to put money into it," or the degree to which it matches what sort of in a hypothetical world the growers would have created had they just been putting their collective money into one pot.

**MR KEATING (VFF):** You see the uniqueness between the different RDCs, and I think that's a sign that the producers do have very strong involvement, I think you're aware. The discrepancies between different RDCs was raised in your reports. I think that's a very strong sign that the producers all have strong ownership of the various industry group. Again I think the government investment in that just adds to that, the critical mass of money there. The ability of individual producers, they're often compared to fish-and-chip shops, when you talk about farmers owning a business, they're not big businesses. So they need to have that combined capacity to get the critical mass - - -

**MR NIXON (VFF):** The other thing to keep in mind is that farmers do not have a good history of working collectively across different boundaries. For instance, sheep guys won't necessarily work together with the dairy guys, or the fish industry. That's where you'll have a fight over where the dollar-spending is funding. So the development of the RDCs is around our industry supports and our RDC, whether that be grains or Dairy Australia or MLA. So people have a direct ownership of the particular RDC with which they're involved.

**DR SAMSON:** That being the case, Chris, we do have issues that are not commodity specific - climate change, water, whatever. But clearly of immense importance, not just to the broader community but to rural sector, do you see the current RDC model working as effectively at dealing with those cross-sectoral broader national interests than with the more commodity specific R and D issues?

**MR NIXON (VFF):** I do. Under the national RD and E framework we know that there's 14 strategies and seven cross-sectoral strategies to deal with the various different groups, and so we know industry is already working together to maximise the dollar that people are spending in their respective agencies.

**DR SAMSON:** You're, being in Victoria, are probably closer to that national RD and E than most, I suspect. Despite what they might say, I think it has been driven to a large part through VicDPI.

**MR NIXON (VFF):** Yes, that's because Victoria has got a greater emphasis on public-private benefit than most of the other states.

**DR SAMSON:** So all that is good stuff. Do you sense that the RDCs themselves are buying in to that? Certainly at government level there seems to be a healthy degree of buy-in, but it's not quite clear, to me at least, whether that is now sort of

permeating down to the investment strategies of RDCs.

**MR NIXON (VFF):** I do believe so. Another hat that I wear is deputy chairman of SAMRC, which is the Southern Australian Meat Research Council. It's not quite developed yet, it is going to be the next stage on from SABRC, which is the Southern Australian Beef Research Council. We're just moving to combine the Sheepmeats Council as well.

What happens there is - looking at the various initiatives - that different DPIs want to invest in the southern sector, and we'll try and work out how that fits in with the meat industry's strategic plan, beef industry's strategic plan and all the different strategic plans and make sure that all these things tick all the right boxes to make sure that we can put it up to the co-investment committee for funding as a project. That does include animal welfare and issues like that, which are not just farm based, there's a high community expectation on what should be the outcomes from research in these areas. So we are fully aware that there is that role there.

**MR KEATING (VFF):** Look, definitely a clear example is Meat and Livestock Australia and the way they have been working with VicDPI and in that national strategy, showing a real example of what you're talking about, the RDCs working into those national plans. It's a clear indicator of it working very well with some of the investments. Only a couple of weeks ago Meat and Livestock Australia and both the Victorian and the New South Wales DPIs met, and they're looking at that working, where they're going to plan capacity forward and those things so they're not tripping over each other, making sure that nothing has been doubled-up and working very well together.

**MR NIXON (VFF):** We're very aware, especially at a state level, that the amount of research dollars available is being considerably wound back. Victoria has been probably one of the better state agencies at maintaining the level of commitment. But certainly if you look at South Australia and, to a lesser extent, New South Wales there has been a massive withdrawal of funding. Similar with Tasmania. It is a great area of concern. So under the national RD and E we become a lead agency. New South Wales, for instance, will be a lead agency in lamb, then you'll have Victoria coming in as the secondary supporting agency. In dollar terms they might end up spending the same amount of money because of the withdrawal of capability in New South Wales, but in Victoria, between the two, we make sure that we get the outcomes that we're all looking for.

**MR WEICKHARDT:** I don't want to completely derail your presentation, so you put this in where it fits best. Immediately before lunch we had a submission and presentation by the ABA, they specifically referred to MLA and concerns they have got about MLA. I don't know whether you were present during that.

**MR NIXON (VFF):** No. I was too busy trying to write my own submission.

**MR WEICKHARDT:** But you probably know, because the ABA are fairly vocal, and have been fairly vocal about their concerns over a period of time. You probably know generically the sort of things that concern them.

**MR NIXON (VFF):** Yes.

**MR WEICKHARDT:** So at some stage you might like to comment on your perspective on all that. We're not here to inquire into MLA. What we're doing trying to look at the model and any sort of, if you like, generic messages that come from this as to why is it perhaps that a particular sector of that industry feels disenfranchised or to be not getting value out of this. So if you have got any comments on that issue it would be useful.

**MR NIXON (VFF):** I do mention it, but I can touch on it now, if you like.

**MR WEICKHARDT:** All right.

**MR NIXON (VFF):** I am biased. I am very much in favour of the skills based board that MLA presents. That board is achieved by three MLA directors and the industry council overview, Sheepmeats Council, Cattle council and Australian Lot Feeders Association, and between them they decide who is retiring off the board, what skill-set is needed to keep a full round of expertise on that board and what will be the process of attracting the new people. They get a list of candidates. I know last year for this round they had 140 applicants for the three board positions. They get a short list. They go through it and then they make their decision which is then ratified at the AGM next month.

**MR WEICKHARDT:** Board selection was only a small part of the discussion we had this morning and a large part of the discussion was around the visibility of the research that MLA do, its accessibility to certain people, whether it's published and whether it's actually able to be used by the sector as a whole.

**MR KEATING (VFF):** We would say it's highly accessible, it's highly visible, it's highly trailable. There's a number of ways you can put information forward. Simply getting to the end of a research project and putting the final report on the Web or posting a copy to every member would be an exceedingly clumsy way of presenting research information. Certainly not everything is done - I know that there is work being done within MLA to make more of that kind of work available and that's a process that's going on. Again, when you look at the size, you would be aware of sometimes the volumes of material that comes out of such research. It's not certain to every producer.

**MR WEICKHARDT:** I guess we've heard concerns, rightly or wrongly, that some of the work that MLA do is through their donor company structure which is, if you like, commercial-in-confidence to a particular proprietary organisation.

**MR NIXON (VFF):** An example would be Pfizer with their genomics project.

**MR WEICKHARDT:** Okay.

**MR KEATING (VFF):** The benefits that come to industries from spillover of those technologies and that research, it is there and it is real.

**MR WEICKHARDT:** So the members you represent feel entirely comfortable and happy with what their levy is buying within MLA?

**MR NIXON (VFF):** Yes. We have very high level of support from MLA, in particular within our livestock group, and part of that support comes through from - MLA is one of the more unusual RDCs, where it has a strategic overview by the peak industry councils, so we do have a sense of ownership with the operating budgets and strategic direction MLA wants to take. So we do have a sense of ownership of where that goes. I know the ABA throw brick bats from the outside but they don't make much attempt to actually engage with the company on a one-to-one basis.

**MR WEICKHARDT:** Your members, the little guys down there, do they feel a sense of engagement too? Is it just that you've got a seat at the table?

**MR KEATING (VFF):** Perhaps a good example of that is Chris will be attending the MLA AGM this coming week. We often ask that members will direct their proxies towards our livestock group president. In the past with previous presidents, we have carried quite large amounts of proxies, so that's a way of demonstrating that members are actively supporting the livestock group's involvement in MLA and they are seeing fit to do so through us. I think that demonstrates it quite well.

Another key point would be that a lot of our members and just the farming community in general, if you run livestock and you haven't been to an MLA-run or designed extension program that's been based on research and development, whether that be something like Prograze, the meat profit day; we had an event here in Melbourne earlier in the year where we had about two or three hundred producers, nearly 400 producers at the Showgrounds, so the amount of MLA directives - again being very focused on MLA - but the amount of extension events that are attended by our members in the farming community would be greater in Victoria. It's huge. That's a definite sign of, "I like it, I'm voting with my feet to attend."

**MR WEICKHARDT:** Okay.

**MR NIXON (VFF):** The other thing, in Victoria we run the Better Beef Network through the Vic DPI and Best Wool Best Lamb things. These are projects that are basically running more beef from pastures which was developed by MLA, the same with making more from sheep, going into goats, tying all the research together into an extension program that we can deliver on to the ground is how our members see the benefit. Now, you have little beef check groups or Prograze groups, they all go under different names, and basically they come all under that sort of one banner and that's the proactive work that they've done in terms of getting that research on to the ground. We know adoption rates are quite slow - you know, the top 20 per cent go quickly. The others will follow. The last 20 per cent we don't worry about basically. If they don't want to be interested in the future of their own industry, that's their business. That's a bit cold-hearted but that's the reality.

**MR WEICKHARDT:** Sorry, as I say, we've interrupted you a couple of times now, but proceed.

**MR NIXON (VFF):** We have touched on a few areas, so do you want me to run over it again?

**MR WEICKHARDT:** No, don't say what you just said a second time, please.

**MR NIXON (VFF):** The co-funding model encourages industry and private - it comes back from the national RD and E strategy, the co-funding, and we were talking about the red meat co-investment committee as an example of this co-funding model. The co-funding model encourages industry and private investment that would not otherwise occur. An example of this is the reduction in greenhouse gases which delivers the benefit of increased production on farm, but the public benefit is the national NRM - native vegetation - I'm tied up in acronyms now.

**MR WEICKHARDT:** Feel sorry for the transcribers who are trying to make sense of it.

**MR NIXON (VFF):** Yes - the benefits received from lower greenhouse gas emissions and/or water protocols. The long-term nature we've spoken about already.

**MR WEICKHARDT:** Just on the co-funding encouraging industry participation, one challenge we left with the NFF at the Canberra hearings was to give us feedback, and we would welcome your feedback too, on this issue of the degree to which the government contribution is critical at encouraging levy payers to contribute. The reason why we still scratch our head a little bit about this is that the behaviour of different groups is different.

**MR NIXON (VFF):** Yes.

**MR WEICKHARDT:** You've got the GRDC, for example, where growers contribute over the matching government cap, have done for a long time; the same in wool, the same in some cases in the fishery industry, the same in the sugar industry. You've got other areas where the levy payers seem to hug exactly the matching dollar, in which case you might say, yes, there's some significance to the government contribution. But there are other industries where people don't even contribute up to the matching dollar.

**MR NIXON (VFF):** The meat industry would be one of those.

**MR WEICKHARDT:** Correct. So how do we reconcile those different behaviours if the government co-contribution is supposed to be a key motivating factor? Why does it apparently not work in some areas? Why is it seen critical in others and why in others is it seen as being an interesting contribution but not fundamentally dependent upon the level at which levy payers contribute?

**MR NIXON (VFF):** From my point of view, it's to do with the nature of the individual industries. The meat industry, as you would be aware, is so diverse across Australia with such a wide base, there's always somebody going into and out of drought and levy dollars can fluctuate quite widely from year to year.

**MR WEICKHARDT:** Surely that would apply to grains too?

**MR NIXON (VFF):** It probably does. Steve?

**MR SHERIDAN (VFF):** Yes, it would fluctuate. As far as this issue goes, I think the issue of levies versus public-matching funds gets down to the nature of essentially the benefits or the productivity gains are a public good to a degree and it's very difficult to separate the two. On behalf of the grains group, we wouldn't be supportive of a reduction in public funding or matching funds.

**MR WEICKHARDT:** We understand that. It's a bit like asking turkeys to vote in favour of Christmas, but I guess - - -

**MR SHERIDAN (VFF):** I'm not sure I'd endorse the analogy but I get the sentiment.

**MR WEICKHARDT:** The question really comes back to why do the grains industries traditionally, even though they do go through some tough cycles, why have they been prepared to overcontribute, if you like?

**MR SHERIDAN (VFF):** I think they would, as I said, like to see equally matching funds. It is, I understand, a legislated levy. To separate the two would fundamentally change the nature of the model and the benefits derived from it. You

have essentially public productivity benefits with a lag, potentially a 10-year plus lag on development of new varieties, growers amongst other things. Growers can see the benefit of that but they may not be the individuals themselves when they're contributing those levy contributions. They may not be the ones that are obviously extracting the benefits.

**MR WEICKHARDT:** All that would point to them saying, "Well, we're only going to contribute as much as the government does."

**MR KEATING (VFF):** It's probably not quite. There are inherent differences between the different industries and part of that comes from the time it takes to get a response. I used to work for the Department of Primary Industries. I worked out of Bendigo doing everything to do - broadacre farming west and north of Bendigo. We used to joke, the further north and the further west you went the farmers got smarter. It wasn't anything to do with that, but you did tend to have a greater focus towards cropping and their ability or their readiness to change seemed to increase the more that they went into cropping areas and that was because when you - - -

**MR WEICKHARDT:** By the time you get Port Hedland they must be incredible.

**MR KEATING (VFF):** They are absolute geniuses. It more comes down to that some industries have - are inherently easier to see the changes that happen through research and development. Livestock or a genetic change in an animal industry, the time it takes you to get turnover of genetic stock and to see those benefits come through into bales of wool, kilos of meat, you know, kilos of pork being turned off can be quite slow. When you talk about, "I'm going to change the fertiliser I'm using, the seed variety I'm using, the planting method I'm using," bang, you've got a really quick change there. So that probably spurs on their investment there and they say, "I put this in and I get these real changes." Now, they may not happen every year, but it's probably an attitudinal difference, it's between the various industries and therefore the RDCs and the way they're supported by that industry.

So that is part of the RDCs, they are so different and the industries are so different, so we have one common thing in that all farmers think the RDCs are fantastic and the farmers on their own don't have the capacity to do the work. That is my view on that and it probably doesn't quite back to farmers are smarter the further north and west you go. I certainly won't give that up to any of my New South Wales or Western Australian colleagues because I'm from Victoria and I'll stay parochial on that. But that is probably an idea on that in that difference in investment.

**MR NIXON (VFF):** The other thing too is that it might be - from an MLA point of view I've always believed that they're trying to be a little bit conservative, they never wanted to take up the full amount of matching dollars, they wanted to make sure that they were living within their area without being too responsible with the research

dollars available. I think it's an attitudinal problem for that reason and you had probably best direct that question to them on why that has never happened.

**MR WEICKHARDT:** Okay.

**MR NIXON (VFF):** Reasons why RDC funding probably shouldn't be reduced is that sometimes the public benefit of the R and D funding is sometimes overlooked. Some things where the public benefit from the research that goes on is the CSIRO wellbeing diet done in conjunction with MLA. It gives a public health benefit to a much needed boost to help us sell more meat basically. You have the environmental benefits that develop over time, grains direct drilling and the lesser impact that has on the environment, similarly with the beef and sheep meats, the higher input, more productive farms have less impact on the environment; that's delivering a public benefit that is sometimes overlooked.

**MR WEICKHARDT:** You won't get any argument from us that there is often and desirably a link between private and public benefits as a whole smear and it's probably very rare that you get something that's entirely private or something that's entirely public. The distinction we tried to make in the draft report was not between public and private benefits, it was between work that the government should fund because it was truly additional, that is, that it would not have been done, it couldn't be conceivably done by a private entity funding it and we were saying the government only has a limited amount of money, it doesn't have unlimited sources of money, it costs money to raise money and so the government should confine spending its money to areas where really it and only it can do this sort of work but important work. It's got to not just be blue sky work, it's got to be work that's adopted and it's got to be socially valuable.

But we were suggesting there are quite a few areas and quite a few examples where there are high benefits to producers which the government at the moment is funding quite generously where really, from a logical point of view, that if the government reduced its level of funding that private industry would step in and fund it. Now, of course, surprise, surprise we're getting lots of people telling us, "No, that won't happen." The question is why wouldn't it happen? There are certainly examples, as you mentioned before, of state governments pulling back on doing things. I'm sure that the industry at the time told them, "The sky will fall in, everything will go to hell in a hand basket if this happens," but surprise, surprise private industry has decided, "Well, gosh, if the state government is not going to do extension, we're going to have to do it ourselves," or private contractors have come in and agronomists and filled some of that gap.

**MR NIXON (VFF):** Yes, but if I may but in there, in Victoria that's the policy position that Vic DPI pushes where they're becoming the wholesaler of extension work, they don't want to interfere with the private consultants and so they'll provide

those consultants with the information, give those guys the backup and then get them out into the field. It's a very clear example of how they're fitting in with that national RD and E strategy that's been developed at the federal level. So they're trying to say, "Righto, we can't be things to all people. We don't have enough money in our budget to be an extension service in Victoria and where we are we're actually stifling the demand of the private consultant," and so that's recognised. Other states it's not as well recognised, I know that for a fact. Queensland, for instance, you've got vast areas of country where private consultants aren't operating because of the sheer cost and size of the enterprises involved, so it's really a much more difficult situation.

**MR KEATING (VFF):** But in addition to that, in Victoria anyway, the DPI is looking to the RDCs to assist in funding those areas they're stepping out of. So with this work that's going on and the way they're changing it, there is a greater inference looking to Dairy Australia to meet Livestock Australia and Australian Wool Innovation for funding in these areas. So it's again where it's coming out of one hand and going into the other there, so it's still being paid for and it is coming from industry. I suppose it's putting a greater stretch on resources of those RDCs and, if anything, it adds to the argument that their funding needs to increase rather than go down.

**MR WEICKHARDT:** Well, it argues that the RDCs might have to pick up a heavier load and then the question is whether does that extra contribution come from. Our submission is that some of that extra contribution ought to come from the levy payers themselves because they're the people that get a fair whack of the benefit, not that the government should completely exit the field. We're not suggesting, as I stressed this morning, that research and development should be reduced. What we're suggesting is there should be a greater division between the levy payers financing the RDCs that are commodity specific and the government financing the areas of research that levy payers and private individuals wouldn't fund at all.

**MR NIXON (VFF):** The problem we have, particularly in the livestock industry, is because of this very long lag time. In industry where we in real terms are at the same dollar value as we were in the 1950s for our product, as a result we've got a decline in terms of trade, we've gone through probably 10 years of drought and suffered through that. What we're seeing is that when faced with, "Do I put another dollar a beast into R and D or do I spend that dollar a beast onto the here and now of my farm?" producers always take the here and now over the benefit which will be five, 10, 30 years down the track. Particularly in the livestock industry that's the real issue for us, the lag time between doing the work; the work that is being done on genomics now is very blue sky, it will deliver real benefits to livestock producers but it might come in 30 or 40 years' time when the big break throughs really come through. Like medical research, it has to start somewhere and we're at the beginning of that very long outcome.

The expectation that after a CRC that ran for seven years that we'll have a few magic bullets at the end of it is unrealistic in these sorts of things. The more they delve into the science of the genomic and DNA make-up the more they've found that we're creating more questions for ourselves, not developing answers. At some point in time we have to recognise that me as a farmer at the coalface, when I go to an R and D meeting and we talk about this, it's too blue sky for the producers, we want something that I can see in the next five years, not something that might come good for me in 25 years that my grandson might take over.

The spillover effect from R and D benefits we've touched on several times here already but as managers of 50 per cent of the land mass here in Australia, there have been large benefits from the RD and E programs that have happened. There is an inextricable link between industry and community benefits, however, industry must adopt the R and D before wider community benefits are often realised and again, this comes back to the lag time that we're experiencing with the R and D outcomes.

I mentioned environmental and health issues earlier. We have animal welfare issues where the research on long-haul transport, while addressing concerns of producers also addressed community expectations on what's fair and reasonable to transport sheep from Western Australia to Victoria. We have the ongoing work with water and carbon footprints in our industries and, of course, you have a supply chain R and D delivering private efficiencies picked up in healthier, cleaner food and fresher food for the consumer. So the outcomes of our RD and E are picked up by a wider audience and is so often identified as, "Here's the money, there's the benefit," that the ongoing benefits are often overlooked to the wider community. The draw an analogy, in the water debate at the moment they put the price of water at \$400 on farm gate but the downstream value of that water at \$400 on the farm gate is far greater than that initial \$400 and that's the terms you have to think about this in the Productivity Commission review. We know the RDCs facilitate all of those things.

Reverting to the creation of Rural Research Australia. We envisage that this new body will probably undertake a lot of the work that the old Land and Water Australia used to do. Undoubtedly this vehicle could be used to push government policy, the contestable funds that are so often talked about on the cross-sectoral issues around water, environment and climate change. Funding for RRA, as it will be basically researching government initiatives, should not come at the expense of funding of the other industry RDCs. There should be quite clear guidelines on how this organisation, if created, interacts with the other agencies and how this will operate under the national RD and E strategy that exists. We believe it is going to lead to a fair bit of cross-over on some of the work that it will do if it's recreated.

Governance of RDCs, we've touched on that earlier. Difference between the RDCs we've also touched on. It's more to do with the different industries that were in and how they've evolved into what they are today. Time frame for change: the

Productivity Commission reports suggests considerable changes to both reporting and governance and the funding model. The best approach in our view is to deter any changes to the funding model until the reporting and governance changes, indicated by your report, had been put in place and had been evaluated to see the extent of the effect of those. In regard to the funding, and to be frank, it seems more like an ambit claim by government to reduce its costs than it does to - the time and funding seem to be an ambit claim by government to reduce costs more than anything.

**MR WEICKHARDT:** With respect to the government, it's not their claim.

**MR NIXON (VFF):** Well, the Productivity Commission.

**MR WEICKHARDT:** It is the Productivity Commission's draft recommendation and that wasn't, let me stress, directed to us by anybody. So point the finger squarely at us and don't blame the government.

**MR KEATING (VFF):** I suppose the question around it is that the numbers put it around the 10 years and that from .5 to .25 we said, "How was that arrived at?" It does seem conveniently to be very round numbers. I suppose we were wondering what is the basis behind that.

**MR WEICKHARDT:** It certainly doesn't come out of some algorithm and some super computer next door that cranked out, "This is exactly the right number." We stressed at the start of this that we didn't think that this area was amenable to any modelling or absolute scientific approach, it would always come down to a matter of judgment and we've tried to put in words the issue that led us to the judgment we've got and the purpose of this sort of hearing and the sort of submissions we'll get is to test whether or not our views are reasonable or not. But we have had people, "You've asked for more clarity on data, you should wait until you get all the clarity on the data before you make any changes." I think even if we had absolute certainty on all the data, it would still come down to a matter of judging how will farmers or growers react to a challenge that they have to do a bit more themselves and how will some sort of other entity or mechanism cater for the work that they are highly unlikely fund themselves and how you could best do that and get productive change.

So that is the debate that we're having really. I think the idea that we will finally get some super answer that is based on absolutely knock-out, algebraic reasoning is fanciful.

**DR SAMSON:** Even to the point we've asked for input on what the people think the precise remit of an RRA would be, we didn't seek to be the font of all wisdom on that issue at this stage. As Philip has indicated, it was at this stage of our thinking an assessment. Some people - I think wrongly but nevertheless - have described RRA

as Land and Water on steroids. Well, you can look at the volume of work that LWA did. We see the remit of RRA as being far beyond that, so that puts you in a ballpark space but we don't pretend there's any rocket science in it at this point in time. One of the things, Chris, that you said about - and I agree - different industries are very different and some of the benefits of R and D are more obvious in a shorter time frame in some industries than others.

It doesn't in my mind argue against this concept of an RRA because what we say - and people will be very bored with us saying this by the end of the day - is we do believe that the current model, the current operation of the RDCs is, at its best, dealing with commodity-specific R and D that has an on-farm productivity gain or cost reduction effect that people could see in perhaps that shorter time frame than some of these other things, that when you get into the cross-commodity, longer-term national interest, that's where the current RDCs do struggle in our opinion and we're not along in having that view. Because of that quite legitimate focus they have on the priorities of their commodity based levy payers.

**MR KEATING (VFF):** My concerns are your concerns are probably legitimate. What we're saying is that if you do want to go down that path of creating that higher body, the funding for that shouldn't come at the expense of the fundings to the RDCs, so that's probably - - -

**MR WEICKHARDT:** You're in good company in making that sort of assertion and I understand why you might say that and I guess we're trying to wrestle with whether that's a legitimate argument or not.

**MR KEATING (VFF):** Some of it also comes as the RRA, although it's described to some extent - it's a bit of a question of what is this potential beast or what is it? So that's something that the details are low on and so making a finite judgment and us being able to say, "Actually we think it's a fantastic idea," or, "It's a terrible idea," a little bit difficult. But again caution around the idea that it will come at the expense of other things.

**MR NIXON (VFF):** Just to keep going for a second, to give a live example, the research that MLA have done and the productivity gains that livestock producers have made, we've seen a reduction of a carbon footprint. As an industry as a whole we have the largest reduction of carbon footprint of any industry in Australia other than the timber industry. It does translate into a public benefit which is not clearly identified but is known to have happened. So the costs and benefits of some of the work that we do is not fully understood by the wider community.

**DR SAMSON:** Another issue you might want to think about and we would appreciate your thoughts on, you've spoken quite a few times about the RD and E framework that you're very actively involved in and clearly it's an idea that the time

has people and people are working assiduously on it. It has been put to us that and RRA-type entity would potentially be quite a good vehicle for coordinating a lot of the R and D effort that sits within that framework as well.

**MR NIXON (VFF):** It might well do. The way it works at the moment is that it's a PISC sort of a subcommittee that determines where it all ends up at the moment. If the RRA does get up, it certainly will need, in my view, some industry representation around the table.

**MR KEATING (VFF):** But it could almost duplicate some of the work that's going on in those processes and currently got government and industry involvement in directing that work. If this were to come on, it's almost another government body that would no doubt want to be speaking to industry as well, so it potentially could see duplication of some roles that have already been carried out.

**MR NIXON (VFF):** You would hope the national RD and E strategy prevents that though.

**MR KEATING (VFF):** You would hope not but - - -

**MR WEICKHARDT:** You would hope so and the fact that at the same time as recommending the RRA concept, we were saying the industry-specific RDC should focus on doing what they do best and that is focus on the things that are of direct interest to their growers and levy payers. Recognising, as I said before, there's a continuum of stuff that's relevant to, I guess, environmental and social good and stuff that's relevant to the direct productivity improvements that growers are looking for.

**MR NIXON (VFF):** Because of the nature of our industry and because we are landholders of the land mass, you can't divorce the two. We can't run beef improvement without understanding that we have effects on the land and the biodiversity around us. That's just the nature of the work that we're in, they're just the industries we're in.

**DR SAMSON:** Yes.

**MR NIXON (VFF):** Unfortunately, we're not Ford or Holden who say, "Inputs that side, cars out that side." We're not that simple.

**MR WEICKHARDT:** Sure. One issue you might like to comment on, and we had a presentation this morning by the Australian Fodder Industry who were talking about the difficulties they have had in getting a levy up to improve productivity and efficiency of the fodder industry and they were suggesting that previous attempts to get a levy up on fodder have been - these weren't their words but I'll use the word - scuttled by the existing entities, whether they are producer bodies or whether they're

RDCs who were scared that if another levy came along it would, if you like, cannibalise or erode the goodwill toward the existing levies and yet they're saying fodder is quite a big industry. A question to you because you've got a visibility to MLA, why is it that an MLA or, for that matter, a dairy or a grains RDC or an AWI that aren't critically interested in fodder, why wouldn't they be prepared to kick some money into the fodder industry?

**MR KEATING (VFF):** A lot of the work that is done across the various RDCs, in just talking about fodder there's work on pasture development and historically there has been in pasture development, different varieties of crops and those sort of things. So there are things that would perhaps spill over into the fodder industry, whether they are seen as being specifically what the fodder industry is after, I'm not certain and I'm certainly not going to try and speak to that, but there is a large amount of work that would deliver benefits to that industry.

**MR WEICKHARDT:** This come back to the issue that we've been wrestling with that people keep on quoting these examples where at first sight you think, "Gosh, that's entirely reasonable, why shouldn't somebody be kicking money in there." We heard examples in Canberra of the people from LWA saying when they tried to get an irrigation project up the largest user of irrigation water in Australia, dairy, weren't interested in putting any money in.

**MR NIXON (VFF):** I can give you other examples of dairy too. Look, the reality is I know MLA, Dairy Australia AWI are working together on pasture varieties for grazing enterprises. Perhaps the fodder industry, being that next step on the production chain they're seen not as their - it's not core business. Where there are obvious synergies between the different companies and I know they are trying to work together, they worked together on the national wild dog strategy, for instance, so that's not to say it doesn't happen but I would suggest that those companies haven't made their case to those other ones well enough to warrant various expenditure.

**MR KEATING (VFF):** Or to the base of people they would be looking to leverage some levies off. I suppose that's a consideration as to how it was pitched too. If it was looking to cover all farmers - and I'm not sure of the methods they spoke about, but I do recall hearing things about putting a levy on things like baling twine or a mechanism like that which could be seen as being perhaps a crude way of collecting a levy. Certainly not all those producers - my parents have a farm, I think with the rain coming tomorrow I hope dad hasn't got the mower out now but fingers crossed - - -

**MR NIXON (VFF):** History would say he has.

**MR KEATING (VFF):** But my father wouldn't see himself as being a fodder producer. We do make some hay and bale some up. So it comes down to whether

they would see themselves as being in the fodder industry and how it's collected, so they've got a unique challenge there.

**MR WEICKHARDT:** Sure.

**MR KEATING (VFF):** I certainly wouldn't say that that's a comment on all producers that desire to pay a levy and I'm certainly not aware of anything from the Victorian Farmers Federation or anything to scuttle it as such.

**MR WEICKHARDT:** I'm conscious we've interrupted you and you've got a lot and we've got about another - - -

**MR KEATING (VFF):** We're finished.

**MR WEICKHARDT:** If others among your group want to critically say some things, now is the time.

**MR HARRISON (VFF):** The only thing I would is about the question about why farmers wouldn't add more money and Chris covered the lag time really well and also mentioned the issue around drought and seasonal conditions, not guaranteed income from year to year and the low return on investment in general for an individual farm. So I think it's really hard for a farmer necessarily to say, "Yes, I'm happier paying an extra amount of money. I've been paying a certain amount, a certain percentage for the last 20, 30 years" - but especially coming out of the seasons that we've had in Victoria recently, I think farmers would have a difficult time funding this research that won't have the results for another 20, 30 years.

**MR SHERIDAN (VFF):** If I could just mention, I know there's been a lot of focus on some of the other RDCs and I realise you must have a difficult task looking at them all, but I'm concerned that we wouldn't want them all tarred necessarily with the same brush. I think in the grains industry we're quite comfortable with the way GRDC has been operating. If there are some areas where efficiencies need to be made in other RDCs, so be it, and a number of the recommendations, I think, are quite plausible from what VFF has seen. As I said, we wouldn't necessarily throw the whole system to be thrown up in the air because of one or two incidents in other RDCs.

That aside, as Darryl and Chris have both spoken to, we have talked about the lags in the industry, and I think that is one of the fundamental reasons you asked why growers may contribute more or less. But that is the major concern, as Chris said, trying to invest more now for something that they as an individual may not recuperate. It may go to another generation down the track, and I think ultimately that's why you need government involved, to make sure of that. Unfortunately, growers probably need levies to be legislated and they need that government

involvement and that government expenditure in there, because they are inherently a public-good.

**MR WEICKHARDT:** Very quickly, from where you guys sit - and I accept your point, you've said several times not all RDCs are the same, on any issue or whatever - over the 20-odd years the model has evolved to, quite rightly, I guess, meet the needs of different industries. So you've now got the sort of pure model where you've got the stat authorities who just do R and D. Then you've got the industry-owned corporations and the subsetting there is some do R and D, some do R and D and marketing, and a couple even do R and D, marketing and are the industry-representative body.

**MR NIXON (VFF):** APL, yes.

**MR SAMSON:** Have you in your general wanderings through the system any comments to make about the appropriateness or not of multiple roles for an RDC?

**MR NIXON (VFF):** Apart from being jealous of APL's funding model, my first comment is that there is invariably a problem with marketing and R and D together. When you have a levy dollar that's yea much, you know, producers primarily want the here and now having the greater money spent on it. Given the choice between marketing and R and D, they would prefer to have the marketing, that's my gut feel; they'd prefer to have a marketing bent than the R and D bent. That's not to say that they think R and D is the saviour in the long-term.

**MR KEATING (VFF):** That's reflected in the way - as AWI often has - they'll have the levy votes and there'll be deliberations on how it's split up and they'll put and models forward. Most recently, the promotion that has come out has been quite popular, amongst the wool growing industry anyway.

**MR WEICKHARDT:** But they still contribute above the matching cap at the indicative research percentage. But I understand the AWI board have the ability to flex the total levy between R and D and marketing, and one of the questions we asked in our draft report was, "Is that a good idea or not?"

**MR NIXON (VFF):** I'll put my cattle hat on. I would suggest that we would probably like to see a greater proportion of the cattle in R and D at 92 cents in the \$5. We know with the shortfall in funding that's occurring we need more dollars in there, but, with the likes of the ABA running around, it's getting harder and harder to have a reasoned debate about trying to change these levies.

**MR WEICKHARDT:** But would you prefer that the MLA board have the right to say, "Well, we reckon this year we'll spend 35 per cent on R and D," or "45 per cent," or do you think levy payers should fix that split between the marketing and the

R and D component?

**MR KEATING (VFF):** There's probably a degree of flexibility in there, because each industry is different. The boards are appointed on a skills base be the levy payers. I think there's a fair amount of trust in those boards, that they will do the right thing for the industry. But that's not saying that the levy payers don't have a right to have a vote on that. Again it depends on industry, but there can be a combination of the two. There is a place for marketing from the RDCs if it's the best way to return a good dollar value to the investors; you get good returns back, it's reflected in the levies that come through. But certainly it wouldn't want to be at the expense of R and D.

**MR WEICKHARDT:** Could I play it back the way I heard that? I think what I heard was that you're saying, provided the levy payers, if you like, authorise the board to have that flexibility, you're comfortable with that.

**MR KEATING (VFF):** I think that would be a fair summation, yes.

**MR WEICKHARDT:** Okay.

**MR KEATING (VFF):** Thank you very much.

**MR WEICKHARDT:** We appreciate you appearing. Thanks for your submissions. Are you going to send in a submission on the draft report?

**MR NIXON (VFF):** There will be a submission from the VFF, yes.

**MR WEICKHARDT:** All right. Thank you very much indeed.

**MR NIXON (VFF):** Thanks.

**MR WEICKHARDT:** Our next participant is Mr Don Lawson. If you could, for the transcript, give your name and the capacity in which you're appearing, please.

**MR LAWSON:** Don Lawson. I'm a beef-cattle producer involved with a number of organisations. I happen to have a masters degree in ag science. I have been a founder of the Beef Improvement Association, a co-founder of the Red Angus group, and involved in the application of science to the beef industry for 40 years. We have family businesses at Yea - Lawsons Angus, Paringa Angus - and I'm chairman of a company called Hot Cross Genetics that has been supplying designer genetics to the northern cattle industry, producing probably more embryos than all the women's hospitals and IVF units in Australia, and I'm only just a farmer.

So we're vitally interested in the application of science, where the only place you win is in the marketplace. We went into the auction system 40-odd years ago when recording of cattle was a no-no and there were death threats and all sorts of things running round. People are basically frightened of change. To give you some idea, and the previous speakers, of the productivity gains, in 1970 we would have been selling 26-month-old bulls that were 1100 pounds, now we have those cattle at that weight at 11 months.

Our food conversion has probably gone from eight to one and with early weaning we're probably at four to one, and some of the younger ones want to claim these cattle as greenhouse credits with the productivity gains that have occurred. So we have involved with the cutting edge of science and agriculture. We have also been, unfortunately, involved with two of the worst scientific operations in my lifetime, namely a Johne's program, which was appalling science.

**DR SAMSON:** The what?

**MR LAWSON:** The Johne's program, which has affected the sheep and cattle industry, and the dairy industry. The science behind that was fraudulent, in my opinion. It just happens we've had the pipeline to Melbourne through our farm as well. I never thought I'd see two appalling events in my lifetime. Everything I read about agriculture research indicates returns in the vicinity of 40 per cent. With an economist's hat on, that indicates not enough research has been done; returns should be brought back to 20 per cent. What I want to say today is I believe you've got the cart before the horse, because with what is going on in agriculture there is going to be no-one to do the research.

Over the last 18 months I have become aware of the critical nature of what is going on with young people in agriculture, and if this continues you'll probably only have Marcus Oldham and Charles Sturt in the south, that have a critical mass of students, to run a college. So there's going to be no-one to undertake the research currently. As I understand it, there are about 1500 students enrolled in the science

stream at Melbourne Uni this year, five of whom have indicated they are going into agriculture. So the real issue that I believe the Productivity Commission should be looking at is how we are going to get young people to enter agricultural science. A lot of them are opting to environmental science.

We conduct seminars for our clients. We just had one in Alice Springs. We happen to sell bulls around Australia, so we have a fairly broad client base and see the bigger picture. Our clients are now more interested in production, they realise they really can't control price. You may be able to get a slight premium if you happen to be in Waygu or Angus. I am aware of productivity gains of 20 per cent that exist on many properties right here today.

But we have still got people opposing BREEDPLAN. If it wasn't for our group in the BIA going into the marketplace, BREEDPLAN would never have been adopted by the industry. I'd like to tender for you to consider a paper that we had at the Young Agribusiness Leaders Summit in August by Prof Bill Malcolm on agriculture and agricultural science, "Where have all the young people gone?" I think it's a much bigger issue than research.

**MR WEICKHARDT:** Do you accept the fact that to a degree it's a question of the chicken or the egg here. If there were more funding for research and more demand for research, that would create in the marketplace a scarcity factor, which would increase salaries, which would maybe incentivise some of those people to move into the agricultural research area.

**MR LAWSON:** I'm also a director of the Australian Beef Industry Foundation, and I'll show you AGMARDT, the New Zealand system. One of the problems is that in Australia we have got the Gardiner Foundation, which is looking after the dairy industry; we have got the Nuffields for the over-30s, but that's not into research, that's sending people around the world. We basically, except in Tasmania, have no young farmer organisation that has got a balance sheet and any structure. Tasmania's Young Farmers are brilliant, they run the Agfest field day in Launceston, which attracts about 60,000 people.

The scholarships for PhDs are basically chicken feed, and why is someone going to take up a PhD for 15 or 20 thousand when they can be out working. I went to a seminar on the new degree at Melbourne Uni, and agricultural science now as the highest employment rate of any degree. One company alone at that meeting wanted 30 graduates, and there were 12 being turned out.

**MR WEICKHARDT:** Do you expect that that sort of demand-to-supply ratio will have effect?

**MR LAWSON:** The information that we got is there were 15,000 vacancies in

rural and regional Australia in agricultural. Having had tunnel vision on cattle till I spoke to David Minnis, who is also in ag science in my era, I didn't realise horticulture employed one in five or six in rural and regional Australia. Of the 15,000 jobs, there were 2000 young people trained. In my era, I would suggest, seven probably went to production and three to agribusiness; and now the ratio is three to production and two to agribusiness, because farmers now contract, get a lot more advice, etcetera. So that there are significant changes. The perception is we're pretty dumb in agriculture, and we have got to do something about the perception.

Having had the pipeline through our farm, they were a bit amazed when I told them we were just producing 3500 embryos this year and that Prof Trounson at Monash is actually an ag-scientist as well. So the whole IVF thing all evolved at the Royal Women's Hospital in Melbourne and the sheep industry at Jerilderie. That's point 1 I wish to bring to your attention, and I'll give you the paper, an excellent paper. But if we follow Bill Malcolm, roughly the picture is 20 per cent of the farmers are basically cooking on gas and can pay wages, 60 per cent are coasting for lifestyle and struggling and 20 per cent are going bankrupt at the moment. I have to say that people in agriculture are the last multi-skilled, highly intelligent group of people. You don't seem to be disagreeing.

**MR WEICKHARDT:** I'm listening.

**MR LAWSON:** So the next point I want to make is on industry bodies. I was involved with the initial National Beef Recording Scheme and closely involved with the changeover from the old board under Austin to the new one. I don't believe that the industry boards have got the capabilities to be doing R and D, marketing, promotion and extension, they're separate skills and they need separate boards, particularly with the livestock sector. We're applying an immense amount of dairy technology into our cattle, in the beef industry. I think there needs to be rationalisation of the research, because a lot of the basic soil, water, plant research applies right across the board. In the beef industry we use everything from the citrus to the sugar industry. The beef industry covers enormous complexity.

When I did economics, the theory, Thurlow, it bored us to tears. There were two things: economies of scale and diseconomies. Diseconomies apply in agriculture and no-one wants to talk about it. I believe small groups such as the Birchip Cropping Group are models at which the rural sector should be looking. The work they're doing is absolutely, for us in the beef industry, mind-boggling, they're brilliant - it also highlights, in my view, the lack of people with a BAgSci or MagSci; there happen to be four in our family operations - and are led by some pretty bright ag-scientist farmers in the Birchip area. I think the Birchip Cropping Group influences 60 per cent of Victoria's wheat crops now. I can't speak highly enough of it and I think it's a model that should be looked at. Big is not necessarily beautiful.

**MR WEICKHARDT:** A lot of people have commended their work, and we hope to talk to them when we go to Mildura, at the Mildura hearings.

**MR LAWSON:** My next point is infighting within the industry. We have compulsory levies for MLA, which I know more about than the others. I believe the fundamental issue is that in any compulsive levy organisation the levy payers should have the right to stand for the board. This has caused enormous problems in MLA. I think only 17 per cent of producers are now in agripolitical organisations, particularly in the beef industry, some producers were paying hundreds of thousands of dollars in levy and were disenfranchised.

So my belief is that every board should have its corporate governance and its board selection procedures, but anyone paying a levy should also have the right. Currently at MLA they have a board selection committee, mainly from people from various agripolitical bodies, and you are given nominations to vote for but you cannot stand against them. If that democratic right was introduced, I believe it would restore a lot of harmony within the beef industry.

**MR WEICKHARDT:** That process you're suggesting and commending I believe applies in the wool industry, and yet it doesn't seem to have restored any harmony at all in the wool industry.

**MR LAWSON:** It seems to apply in the dairy industry. The ABA initially started with all the major pastoral companies and bigger levy payers in Queensland. You had your Stanbrokes, AACo, Kidmans, Actons, Hughes, etcetera who were paying hundreds of thousands of dollars in levies and felt disenfranchised. Actually I was a party at a meeting in Sydney in the days of Crombie and Brooks where we put that proposal to get harmony and they never even came back to that, the group that met to try and resolve that issue. One thing has led to another and so I believe if people are paying a compulsory levy they should have the right to stand.

**MR WEICKHARDT:** Well, I sort of understand the concept that people should have the right to stand but I guess those people - - -

**MR LAWSON:** If they're paying a levy, that is.

**MR WEICKHARDT:** But those people have got the right to nominate for the MLA board, haven't they?

**MR LAWSON:** No, not really.

**MR WEICKHARDT:** Well, I think the MLA have to advertise.

**MR LAWSON:** They can but it's controlled by an in-house committee - - -

**MR WEICKHARDT:** Well, there's a selection panel.

**MR LAWSON:** A selection committee, and if you don't agree with that selection committee, that's it. You only get a yes-no vote for the people they put up. Whereas on the dairy model, as I read it, you've got the selection committee and you'd hope that in 99.9 per cent of the cases that people are happy with the selection committee; but that hasn't occurred in with the MLA, which is a bit sad.

I don't know whether the Productivity Commission is aware but I went to New Zealand last year sponsored by a group called AGMARDT, which I think is a great model, which actually led me to the New Zealand young farmers contest with the result we've had them over and we're looking to establish a contest based on the New Zealand model which ends up in a one hour quiz show - that cut out ages 30 because you've got enough people above it - who have now built it up to a one hour television quiz show on Saturday night which has repositioned young people in agriculture as multiskilled with a 100,000 first prize and total sponsorship of 1.4 million. The contest though have practical skills which in fact are 10 per cent but it's the fun bit and the television images. Then they have to do a business plan, an HR plan and a marketing plan, a speech and an interview and the final seven end up on this show. It has repositioned people in agriculture; nearly all the finalists that I went to had tertiary qualifications working in family business.

The AGMARDT is a result of the closure of the phosphate mines and the government in New Zealand put the money into this AGMARDT and it covers agribusiness innovation grants, conference support, leadership development programs and developing research expertise and capability. It's devoid of agripolitics. It's an independent not-for-profit organisation with a proven track record of making targeted investments that aim to make a positive contribution to agriculture, horticulture and forestry and have very common grounds in the basic science with all those industries. They are doing quite a lot of promotion of quite significant scholarships, PhDs or whatever. I think it's independent of agripolitics and I think it's something that Australia needs to be looking at.

We don't have a fund, we're just - with the Beef Industry Foundation we're just going for DGR status and appointed trustees. Under the DGR tax regime we can't quite cover the AGMARDT things. We're going to have to be more involved with scholarships and education. The return - - -

**MR WEICKHARDT:** So just tell me how is this relevant to the RDCs?

**MR LAWSON:** Well, they are funding a lot of research through PhDs and they've developed - they are funding - one of their programs is developing research expertise and capability.

**MR WEICKHARDT:** Okay.

**MR LAWSON:** That's a key area of their - Beef Industry Foundation we've been sponsoring two scholarships to America and I don't think the return on capital is measurable. The people who have had scholarships have made a significant contribution within the beef industry, so we're in the process of trying to ramp that up and getting young people going around the world to South America, Canada, North America, UK, New Zealand and a couple of indigenous scholarships to the leadership course at Marcus Oldham. So you could say we're a fairly positive organisation.

**MR WEICKHARDT:** Sounds like it.

**MR LAWSON:** I think that's what agriculture needs instead of doom and gloom.

**MR WEICKHARDT:** Okay.

**MR LAWSON:** So they're my points.

**MR WEICKHARDT:** All right, thank you very much. Cliff, are you - - -

**DR SAMSON:** In terms of this issue of needing to get more students engaged in agriculture and research et cetera et cetera, a lot of the RDCs currently to varying degrees sponsor doctoral research, post-doctoral. Are you primarily saying they should do more of it or are there different things you would like to see them do?

**MR LAWSON:** Well, I'd say we've got to go even further than that. I did a submission to a federal government inquiry and I rang Mildura High that has about 1100 kids and I said, "What do you teach them about agriculture?" "Oh, we teach them about salinity and land degradation." I said, "My God. Do you realise how high tech our industry is?" You know, I've just picked up a load of sexed semen from America. When you start talking to kids about sexing semen their eyes light up, they sort of get a bit interested. That's the sort of - in the schools, it has got to start there if we're going to get some of the brighter kids coming in and then - my observation is the PhD scholarships are not sufficient to help a fellow through his PhD.

**DR SAMSON:** Right.

**MR LAWSON:** If we haven't got people coming through PhDs there's going to be no-one to go into the universities to teach. So it actually starts in almost early primary school right through that we have a problem. If we do believe that - I don't know if you're aware the Gates Foundation are convinced that agriculture is now a key thing and they're pulling all their money out of health and putting it into

agriculture. Again, I said, "Where are you going to get your people from?" Have woken up it's pointless spending money on health when the basic cause is nutrition. So Gates Foundation are planning to move about 450 to 500 million across into agriculture and say that Africa needs seven billion.

**DR SAMSON:** So as Philip said, you, like several other people we've talked to, are very complimentary about the Birchip Cropping Group. Fundamentally what do you see as being the basis for the success of a group like that in a systemic way?

**MR LAWSON:** Cut through the bureaucracy; it's hands-on, direct; got a big industry input from the farmers. I think one of the most under-estimated things in agriculture is the intellectual property of farmers. I used to manage Cobungra Station at Omeo and it only took six weeks for the people that bought it to muck it up. So that Birchip Cropping Group has got good hands-on leadership and a good hands-on board and attracting - and as they said to me they've actually increased the IQ of the Birchip district because in the old days it was a single school teacher from Ballarat or Bendigo went to the Mallee to teach the kids and never returned home, got married to a farmer, now they're attracting these - and there's - the big change in my lifetime is the number of girls doing ag science; so they're going to Birchip and never returning.

**MR WEICKHARDT:** Well look, thank you very much indeed, Don. Appreciate you coming along. Thank you, we'll read your interest with interest. We're going to adjourn now till 3.15. Thank you very much.

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**MR WEICKHARDT:** We're now going to resume the hearings. Our first participants after that break are Gene Ethics. In a moment I'll ask you to introduce yourself in the capacity in which you're appearing. But can I say - I have read your submission - a large chunk of your submission to the previous inquiry really is not relevant to our terms of reference. So I'd like you to confine your remarks to things that are directly relevant to our terms of reference. I mean, we could have a long and interesting discussion about genetic modifications, but that's not why we're here. Therefore I want you to confine your remarks, if you can, to the matters subject to this inquiry. So if you could introduce yourself, please.

**MR PHELPS (GE):** Bob Phelps, executive director, Gene Ethics.

**MR WEICKHARDT:** Thank you.

**MR PHELPS (GE):** I appreciate your point, commissioner, but I think that part of your scope is what research and development and rural Australia should look like, whether it be broad or narrow and who should do the work. So while I'll try to confine my remarks, I think there are some examples from the commitment of governments and research and development organisations to the genetic manipulation of crops and foods that are relevant as examples.

**MR WEICKHARDT:** Can I just correct you. Let's call it "gene modification," please, not "manipulation".

**MR PHELPS (GE):** Biotechnology Industry Organisation in the USA, of which our premier is a member, calls it genetic manipulation. Sorry to differ with you, but Monsanto has taken the view that we should call it "modification" because they want to argue that it's just an extension of traditional breeding, and it's a public relations term. It's not very descriptive of what really happens.

Your inquiry I think is about trying to scope out what rural research and development really means and who should do it, and we certainly agree that the long-term view of Australia's food future is crucially important. So our research and development should be a matter for the community as a whole. I draw to your attention Bob Katter's remarks in this week's Weekly Times. They're relevant because InterGrain, the Western Australian public breeder, 20 per cent of that, which was previously owned exclusively by one of the RDCs, Grains Research and Development Corporation, and the WA government, is now 20 per cent owned by Monsanto. So that sell-off of public resources does influence research and development priorities, and I think should be within your scope.

We agree with you that it appears that decisions concerning individual programs are often made without sufficient regard to what the policy framework as a whole is intended to achieve. Taking that long-term and very broad view is really

what I'd like to talk about today and how we arrive at the Australian public getting the benefits it wants from the very substantial federal government and state government investments in research and development. We have said in our submission, but I'll just quickly reiterate again, that healthy economies are based on healthy rural ecologies and communities and they're not produced in corporate laboratories.

Research and development should be simply complementary to valuing rural communities' provision of services, whether it's food and fibre production or looking after our environment, the fragile Australian environment, which is substantially covered by farming activities and rural and regional communities. It's claimed that these are non productivity related, but actually the environment, its assets, water and land are the basis of those productive activities, and without them our rural research and development would be irrelevant. So I don't think we can just focus on yield, that we can just focus on productivity and ignore that, we need to also nurture those resources on which that productivity and those yields are based.

I think that research and development has to really give quite a bit of its attention and quite a substantial amount of its resources to a focus on how we make farmers into wonderful land managers, how we reward them for looking after that asset base, for future generations as well as this one. It's really crucially important that that be done. In your discussion about setting up Rural Research Australia to replace CSIRO Land and Water you say that it should encompass energy use as well as land and water matters. But I think too that rural communities, the people who live in rural and regional Australia and how those assets are managed is also crucially important and that should be part of the research and development picture as well.

We are very concerned that you mention Rural Industries Research and Development Corporation, RIRDC. When we look at what RIRDC does, it's a very broad suite of community-related enterprises and concerns, and, if RRA is established, while some of the activities of RIRDC might be transferred across, we are absolutely adamant that RIRDC not go the way of CSIRO Land and Water, that it does survive and that it has a legitimate role and a very important role to play.

It's all very well for the Department of Agriculture, Forestry and Fisheries to say, "Well, 80 per cent of our production is done by 20 per cent of the farmers and those are the ones that we cater for and they are the ones that we look to," but the fact of the matter is that most Australians are directly fed not by the production of commodities for export but by that 80 per cent of farmers who produce good, fresh, clean, green food for consumption within Australia and they need research and development resources as well. At the moment, in our view, they are grossly uncatered for.

The development of the organic industry, for instance, needs to be a priority. Governments make various promises and noises about that, but they haven't so far delivered on seeing how we can make food which is not harnessed to the agribusiness industrial machine, the high input agriculture which is now going to be limited by the end of oil, the end of phosphates, and global climate change. Those constraints need to be dealt with and we need to be looking at organic and beyond organic to see how future generations of Australians are actually going to be fed, housed and clothed from the Australian environment. I think that's the broad challenge and the long-term challenge.

We just made a submission - which I have given you a copy of - to the Grains Research and Development Corporation on their allocation of research, development and extension resources, and the development of these services for farmers and land managers to permanently and sustainably cope with adapting to and mitigating the effects of global climate change and resource depletion issues: oil, phosphates; synthetic chemicals, herbicides and pesticides, have got astronomically expensive and soon may not even be available; farm fuels as oil runs out will become more expensive and it will also be a challenge to run farms, certainly not in the way they are at the moment.

So we need to be researching and developing a transition to a different kind of agriculture for Australia and we need to begin that right now. In your thinking about this it would be good if you could bring that into the equation. One of the things in our submission to the Grains Research and Development Corporation concerned the knowledge that already exists. Farmers, particularly elderly farmers - and most of them are over 50 or 60 - are a repository of an enormous amount of information which is not readily available to anybody else.

The National Broadband Network I think should be part of your thinking as well, about how information is provided, not only from the official research and development side, which will feed into that and make available to farmers online, though NBN, information, but also be a way of gathering the collective knowledge and wisdom of the Australian rural and regional communities and making that available, particularly on a regional basis, to other growers and producers, people who are value-adding the produce that's actually grown. This is going to be a lot better than trying to continue producing mass commodities primarily for export.

It's grand that we mine Australia soils to feed 60 million people by sending vast quantities of unprocessed commodities overseas, but it's a bit like mining out minerals - you know, it has got a limited life, it's a limited resource - and we are going to be much better off thinking strategically about food sovereignty for Australians for the future as well. We need real solutions for family farmers, land managers and other producers, not false promises. So we agree with you that it appears likely that the government's very significant funding contribution has

induced only a modest overall level of genuinely additional research. I think that is really true.

The research and development that farmers and land managers could actually do needs to be nurtured as well and needs to be taken into account in this while mix. I think the official stream of money for research and development is often poorly spent and, you could say, wasted perhaps. As an example, one of the problems of course is the intrusion of corporations into this equation, as I have just mentioned a minute ago with InterGrain in Western Australia. Monsanto has got 20 per cent, the government has still got 54 per cent, but Monsanto is committed to buying up to 26 per cent, which, between GRDC and Monsanto would give them a majority if they chose to exercise it against the interests of the government in Western Australia.

Relevant to genetic manipulation is the observation by Prof Adrienne Clarke of Melbourne University, who says that foreign seed, chemical and food processing giants already own the patents on most of the genes of interest for crop development. This is why we feel pouring more money into a technology which has primarily corporate goals rather than into the interests of farmers is a waste. Billions of dollars have been spent over the last 25 years by Australian governments. Just one example was Warren Truss between 2003 and 2005 saying that some \$1.29 billion had been spent on gene-manipulation research and development in that period alone. So an enormous amount of money has been invested or spent; I would say wasted.

However, there is no mechanism for reality testing this, because governments have decided that gene technology, and now nanotechnology, are engines of economic activity; and that mantra remains unquestioned, it seems. It's picking winners. It's what you actually counselled against on page 19 of your taper, where you say, "The risk that governments will assume too great a role in directing outcomes, or attempt to 'pick winners'."

That is the problem with the current situation with the current funding arrangements, that they have picked winners and they have got a loser on their hands in gene manipulation and they, somehow or other, have never reality tested it and can't see that the money that's going to it is wasted, because it's still being driven along by false promises of things like drought tolerance, salt tolerance, more nutritious food, nitrogen fixation and grains, and a whole raft of other promises, which, in our view, cannot come true because they are multigenic traits, they depend on a relationship of genes and the simple cut and paste gene manipulation does which has delivered Roundup tolerance and Bt single genes transfer cannot work for multigenic trades.

**MR WEICKHARDT:** If I could just ask you to bear in mind that not all the money that's being invested in this area is being invested directly by government. Quite a lot of it is being invested by RDCs, and those RDCs have presumably decided,

because they're being directed by their levy payers that it is worthwhile putting some money into this area.

**MR PHELPS (GE):** Not only their levy payers, they all have partnerships, contractual partnerships with gene manipulation companies. So that's I think where the push comes from. When we look at it in fact we see - from the figures that you provide in your paper - that as little as 7.1 per cent of the research and development budget, after tax concessions, is actually contributed by corporations. But I dare to say in the case of GM cotton and now GM canola that the vast majority of the benefits actually accrue to those corporations, even though all they did was provide the rights to their genes, which were then incorporated into local varieties by Australian researchers using Australian research and development money, and then the companies have the hide to charge a technology fee to the seed, require people to use their chemicals and then charge an end-point royalty on the harvest as well. So the research and development is being skewed.

**MR WEICKHARDT:** I invite you to read the transcript of Cotton Australia, who appeared in Canberra - or Sydney, I've forgotten which - and the Cotton RDC submission. Both of them would say that GM cotton has been the salvation of their industry, it wouldn't be here if it were not for that, and they seem entirely happy with the outcome that they have received.

**MR PHELPS (GE):** Right, so their farmers don't mind paying \$315 a hectare end-point royalty to Monsanto?

**MR WEICKHARDT:** They didn't say that. They said their industry wouldn't exist if it weren't for that.

**MR PHELPS (GE):** Yes, because they were polluting the Australian environment with synthetic chemicals and they needed to do something about it.

**MR WEICKHARDT:** Correct.

**MR PHELPS (GE):** Which they have done in the short term. We'll see whether it's sustainable or not. Another point that you make, with which we very, very strongly agree, is that:

As a condition of receiving government funding, RDCs should use government funding solely for R and D and related extension purposes and not for any marketing, industry representation or agripolitical activities.

That is spot-on. That is what the principles should include. We strongly support it.

But the situation now - hopefully it can become like that - is that this year the federal government has put \$38.2 million into NETS, the National Enabling Technology Strategy, to promote gene technology and nanotechnology. Agrifood Awareness was set up a decade ago jointly by the Grains Research and Development Corporation which puts \$100,000 a year at least - that was the initial figure - into Agrifood Awareness which is purely for promoting gene manipulation. It is done jointly with CropLife which is the peak body of the agrichemical and GM industries and the National Farmers Federation and I think that that is an irresponsible use of research and development resources to promote a technology to try to back winners;, that's really what they've done. The things that you've counselled against, another example, AusBiotech which used to be the Australian Biotechnology Association, which is a scientific organisation, was transformed into a promotional body for GM, \$450,000 of federal government money was allocated to the establishment of that organisation and I'm sure that they continue to be supported and so on.

The Victorian and Queensland premiers' offices both belong to the group, Biotechnology Industry Organisation based in Washington DC that promotes GM worldwide on behalf of the US government and US corporations. Our premiers are full members of that organisation and an organisation which uses the term "gene manipulation" not modification. So we strongly support and back your principles for moving in the direction of research and development meaning that and not meaning backing winners and not meaning promoting particular technologies politically and through the public domain.

You also say, and again we support these things, "Invest in a balanced portfolio, including longer-term, riskier and potentially higher reward research." That's really what we would take to mean those things about the environment, communities and the other things that support farmers out on the land to actually do what they do and we really want to emphasise that at the long term, sustainable and - we have a responsibility to bequeath to future generations this environment, even in a better condition than we found it, if we can, and I think that should be a substantial function of our research and development push.

Timely adoption of research results - to come back to our presentation to the Grains Research and Development Corporation - the national broadband, Wiki sites which allow people to actually post information to debate, to put ideas up there, real community engagement, that's how we're going to get good research and development priorities set and real good outcomes that can be implemented by rural communities on behalf of the whole community. There's an enormous amount of interest now in food and farming issues and I think that some kind of vehicle like that - the National Broadband Network is promising rural communities access, it's going to be fast. What's it going to be used for? Getting that information out there and up there and into people's hands where they can really use it and where it can be tested and subject to debate and so on. That, I think, will be really, really good for the

future.

You mentioned promoting effective communication with industry stakeholders, research and the government. The interested public needs to be factored in there too, please. We are paying for it and we need to be engaged. You also say, "Information on private funding for rural research and development is particularly limited," and we agree again that needs to be remedied. It's very small at the moment but in our view the corporate partners of the people who are doing the research and development are disproportionately the beneficiaries of this. You say also:

Whatever the total funding commitment, using that funding solely to support the activities of industry-specific RDCs is highly unlikely to provide the best return to the community."

Yes, again, that's why we support the establishment of a new research organisation and it's funding, but again qualified by saying that the Rural Industries Research Development Corporation which has primarily a public-good charter needs to be kept there as well. Please don't give our government an excuse to shut down another important research and development organisation, as they did virtually unilaterally with CSIRO Land and Water.

Community engagement, yes. If the public is not heard, then the lessons won't be learnt. I think that's the thing, this community, we are a scientific community, science is highly valued but, as we mention at the end - and this is a problem - those corporate partners, as has been found in the USA extensively, can influence priorities and can squelch findings that are not to their liking. Both the Nature Biotechnology and Scientific American, as we quote there in my notes, wrote editorials and extensive informational pieces last year showing that the constraints imposed on, for instance, access to genetically-manipulated seed for independent research purposes was meaning that the information about biosafety and environmental impacts simply wasn't becoming available. What little research was being done was finding negative impacts, but wherever it could, the GM industry was denying people access to the materials they needed to do the research and, secondly, if the research findings weren't to their liking, were denying them the right to publish.

Now, I'm not saying that that is happening in Australia, but I think that these are the kinds of influences which we maybe don't hear much about unless a group of very brave scientists speak up; that we are not hearing or getting the full picture about not only that, but other technologies. I think of no till, for example, which is now starting to fall over in the USA, still being embraced by a lot of farmers here and we haven't yet realised the negatives on that. We need to be looking at the environmental and public-health impacts as things as a part of our normal research and development priorities and funding, as well as looking at whether something works, whether it's productive and effective or not. We need a much broader suite of

criteria when we're considering whether research and development is needed or should be done. Thank you.

**MR WEICKHARDT:** Thank you very much indeed.

**DR SAMSON:** I'll just focus this question on the GRDC because it's the organisation you've referenced the most and it is typical in its structure and its operation of the statutory corporations. In terms of our inquiry, do you feel there is something inherent in the structure and the operation of an entity like the GRDC that is producing skewed outcomes or are we saying that the existence of a skills based independent board comprising a whole cross-section of expertise is simply producing answers you don't like?

**MR PHELPS (GE):** They need to be open to public critique. They are publicly funded and they're not open to public critique. The reason we made comments, even though we have been engaging with them for the last 20 years and getting their publication every two months and seeing that Agrifood Awareness gets a page every edition to put its point of view in favour of GM that they are locked into relationships with corporations and with interests that have made a commitment to promote gene-manipulation technologies, for instance, without challenge or discussion. Recently, of course, with your inquiry going on and with other questions about research and development coming up in the public domain, they finally have put out a discussion paper which we have responded to and we appreciate the opportunity to have done that.

But that should have happened all along and we should have been able to engage. We never were. The doors have been shut to us constantly. I think that is what needs to be remedied, that we need to breathe a breath of fresh air through all these institutions. I could mention the place at Bundoora, the state government, we want to go and meet Herman Spangenberg and his collaborators there. We can't get an invite. They won't answer our calls. We have sought to meet the people at GRDC. We have had a couple of meetings with the NFF who are also committed to this and are a sponsor of Agrifood Awareness but in very limited ways. It just needs to be opened up so that all this public money which is being spent has some priorities attached to it that the community has a say.

Ultimately, we're the ones, not only paying, of course, but who also have the benefit of the outcomes of the productive activity and I think we're partners in that way and should be partners in all aspects. The plant function or genomics centre in Adelaide is another one that we've tried to engage with without too much success, although, again, about a month ago we got a response finally and an invite to actually go and meet the people there, which is good. So there is a new breath of fresh air and you're part of that and I think that a report which emphasised community benefit, community engagement and participation would be really very helpful. Did I answer

the question?

**DR SAMSON:** I guess I'm still not sure - if you had a magic wand, in terms of how the RDCs are structured, how the boards, at least of the statutory ones, are comprised, is there anything in the organisation and structure that you will change or is what you're looking for a behavioural change of the existing structure?

**MR PHELPS (GE):** It's a mind-set change and a behavioural change. These organisations all have their critics and we see, of course, the pushing and shoving about wool at the moment and wheat with AWB being sold off and so on. There are all sorts of debates and discussions but none of them are really open. You've got decisions being made by small coteries of people who have particular interests who are able to exclude their critics and it's not healthy.

**MR WEICKHARDT:** You mentioned no-till farming falling over in the United States. We would have had multiple people referring to no-till farming in Australia as being one of the greatest steps forward and innovations that has occurred. What do you say it's falling over and what are the lessons?

**MR PHELPS (GE):** There has just started to be a discussion and debate about what really is going on. But one of the problems appears to be, of course, as usual, overdoing a good thing. If you go spraying the same chemical year after year, as you do on GM crops if you've got Roundup Ready, you keep spraying Roundup, then you get resistant weeds. In Southern USA they've now got weeds that break farm machinery, they're pulling them out with grubbers and their hands, for instance. The perturbations and soil microflora, blooms of all sorts of pathogens as a result of just doing the same thing time after time. But, of course, you're right, these things take time to come undone, to be seen to do the damage that they do. But we ought to get warnings. Chris Preston, weed scientist from Adelaide, is now talking every couple of weeks in the rural media about which rye grasses or other plants are resistant to a whole raft of different chemical herbicides.

These are expensive problems. Australia spends something of the order of \$5 billion a year on weed management, most of it on synthetic chemicals at the moment. That option won't be available after a while or it will become astronomically more expensive than it is at the moment. We have no way of, for instance - he can give all the advice he likes but many farmers ignore it. They will, because it's easy, to put in the herbicide-tolerant crop and just spray the same chemical. That's the signal that the system sends, you know, "Here we've got a great answer to your weed problems, all you have to do is spray everything out and then you're home free." Ecological systems are not that simple and yet people, because they are marginalised," as Bob Katter says real farm incomes have halved over the last 30 years. People are at the end of, "What can I do next to try and survive out here?" So here's something that promises to be easy and trouble-free but the trouble

has come along later.

We now know from North American experience since 1996 that these things do have dramatic impacts after a while. You don't see them straight away, that's the thing. But we should be knowing that. That information should be available.

**MR WEICKHARDT:** I accept that cautionary tale. Of course, that applies to any change, including some of the ones you're advocating, so I guess it does suggest that you proceed cautiously, you experiment and you observe over a long period of time.

**MR PHELPS (GE):** Yes, and you use the collective wisdom of those people who have already been doing it for a long, long time, all their working lives, perhaps. If you can collect that and make that available somewhere - that's why I'm passionately keen on this idea of using the Internet for that purpose. Getting this every couple of months is helpful and they have a lot of other stuff, but if there was a truly interactional situation and rural people didn't feel so isolated - that's why the government is so keen, I think, to get the national broadband going and that we could have a real debate and discussion, both in the cities and in the country, about what should be happening, it would be, I think, a breath of fresh air.

In the discussion about the population of Australia, we might also think about making a priority category a new wave of those small-scale producers who came in the 50s and 60s and went on the land and value added products and are still - I go to the farmers markets, half the people there are those older folk who have been doing that agricultural activity for all that time sustainably, value adding their products, producing a great product and now marketing it direct to their customers and we need them to be replaced. Most of the people in the city are not interested in going and being a farmer but there are plenty of people around the world that's their life, that's their expertise and maybe we need a new influx of people to populate rural regions to do science based, well thought out activities that will feed and clothe and house future generations of Australians without wrecking the environment and having a good future for Australia. We need that big picture goal in order to see where we should go, whereas at the moment the agenda is more yield, more productivity, more inputs, how do we deal with the higher prices of the scarcer inputs - like the fertiliser price goes up 500 per cent, what do we do?

Those are the practical things that research and development could try to look to and there are many ideas: natural sequence farming, keyline even which has been around for a long time which hasn't had much attention. Maarten Stapper, ex-CSIRO, working on soil organisms and other laboratories doing soil testing to get people's soil right, you know, to get those resources really working for us without being dependent on inputs of synthetic chemicals, fertilisers, herbicides and pesticides. We need a vision.

**MR WEICKHARDT:** Thank you very much indeed for your input. I appreciate you taking the trouble to come along.

**MR PHELPS (GE):** I hope it was helpful. Thank you very much.

**MR WEICKHARDT:** Our next participants are Southern Farming Systems. If you could each individually give your name and your role and the capacity in which you're appearing and then we can move on and have a discussion.

**MR MIDWOOD (SFS):** I'll start. I'm Jon Midwood, I'm the CEO of Southern Farming Systems.

**MR NEVILLE (SFS):** I'm Michael Neville, I'm a non-executive director of Southern Farming Systems.

**MR KENT (SFS):** Tony Kent, I'm an adviser to the board.

**MR WEICKHARDT:** Thank you. Over to you.

**MR NEVILLE (SFS):** On behalf of Southern Farming Systems, I'd like to thank the Australian government Productivity Commission for having us and listening to us. We hope that you had time to read our report that we sent; unfortunately, it was late but it got sent in.

**MR WEICKHARDT:** Yes.

**MR NEVILLE (SFS):** I'd like to give a brief background of who we are and what we're going to say for the next five minutes and lead in from there. Southern Farming Systems was formed in 1995 and now boasts nearly 600 members in five branches across two states. It maintains international affiliations and has a strong link with the Foundation for Arable Research in New Zealand. Southern Farming Systems is one of the largest farm system groups in Victoria, now recognised as a premier source of grower-driven independent research centred on the high rainfall zones of southern Victoria.

Our objectives are to research, develop and communicate the best use of resources, new techniques and technologies for more profitable agriculture with a specific mission to increase farm profitability and sustainability. Our aim is to achieve its missions by developing more efficient and better adapted farming systems, while SFS maintains strong partnerships with research and extension agencies and with agribusiness. The information provided to its members is highly valued for its quality and independence.

**MR WEICKHARDT:** Just to put that in context, would you describe yourself as an analogous organisation to the Birchip Cropping Group and if you're different in a generic sense, how so?

**MR NEVILLE (SFS):** We differ to the Birchip Cropping Group because we operate in a high rainfall zone environment.

**MR WEICKHARDT:** Sure, I understand you're in a different region. Is the concept, the way you exist, the sorts of stuff you do analogous to the sort of thing that the Birchip Cropping Group do?

**MR MIDWOOD (SFS):** Absolutely. We're a grower-funded group. Some of our major stakeholder funding comes from the likes of GRDC. We also have quite a large sponsorship base. In terms of the project work we're doing, it's similar to the type of work that the Birchip Cropping Group would be looking at but, I guess, as Mike said, it's very much with a focus on higher rainfall issues which are pretty different from some of the issues that Birchip are looking at. Probably Birchip has slightly more of a community-funding focus because they are so far inland and they're trying to maintain the community there. There is very much a community spirit, whereas we're in a different region, closer to the coast than Geelong so we don't perhaps have the community directly as Birchip does but still it's a very important grower group for the farming communities across the Western District and into Gippsland and Tasmania.

**MR WEICKHARDT:** In terms of the membership size, the levies you collect from members or the membership fees and the amount of money you get from the GRDC, how does that total quantum of revenues compare to the size of the Birchip Cropping Group?

**MR MIDWOOD (SFS):** I think the Birchip group is pretty similar in membership size. I'm actually reasonably new to the job so I perhaps don't have the figures quite to hand. But their membership base is pretty similar.

**MR WEICKHARDT:** What's yours, just to give us feel for that.

**MR MIDWOOD (SFS):** We're about 560 members, the bulk of that being in the Western District across three branches which are basically centred around Hamilton, Streatham and Geelong and then we would have a small membership base in Gippsland which is a new and emerging area and down in Tasmania.

**MR WEICKHARDT:** So Tasmania is the second state, not South Australia?

**MR MIDWOOD (SFS):** Yes.

**MR NEVILLE (SFS):** South Australia were part of us originally but they tended to move away and I think at the last invitation they were looking to come back this way, but we haven't followed that up yet.

**MR WEICKHARDT:** Thank you.

**MR NEVILLE (SFS):** Contrary to widely perceptions, the grain production is a complex, high technological industry. Managers operating the high rainfall zone farming systems in the area use a range of advanced technology, some of which are unique to the HRZ because of our systems are high input by nature. Our grower members need a strong and well-funded R and D sector to manage these high input systems which are key factor in our enterprises remaining viable and competitive. I suppose to lead in from that, it's the cost of producing grain. Roughly in our systems, which we don't consider to be that high input, but it's costing us around \$138 a tonne to grow grain in our regions and for what we're receiving for product it is a very tight margin. I suppose the average yield or cereal yield in the high rainfall zone is around three and a half tonne which has probably improved by a maximum of a tonne over the last five years. So we are getting increases through research and development on what we've been doing.

**MR WEICKHARDT:** Who is carrying out this research and development or are you piggy-backing off research and development commission by people like the GRDC and then helping people apply that and adopt that in your area?

**MR NEVILLE (SFS):** When we started in 1995 we virtually took a role in from the DPI. We're funding five permanent staff and doing our own research in five different areas. We're doing it in the Gippsland, Tasmania, the Streatham region, Hamilton Region, so they're the sites we're trying to maintain and plus all the satellite sites around those main sites.

**MR WEICKHARDT:** So this is what, trials with new varieties?

**MR NEVILLE (SFS):** New varieties. The NVT which is based from the GRDC is part of our contract. We're also doing a lot of satellite trials, farmer-driven trials and that was the whole reason that the organisation started so the farmers could speak up and say, "Why don't we go down this path?" So we gave everybody the opportunity and that's done via the branch network and then that's fed back to the Geelong office. The satellite stuff is done on farms. For example, I run a 3000-hectare operation. We do a lot of satellite stuff for SFS and have done over the years in a production state so it's not in a replicated state. SFS oversee that or local agronomists oversee it, so we try to come out with results.

For example, the latest one we're doing is silver nitrogen, so we're trying to match that up on mineralisation. So at a farm level we've done it with satellite technology, we're using soil tests, 40-centimetre soil tests, and matching it up with soil temperature and trying to get a trend over time. Those types of things are happening all the time, other than what's happening in those main sites or branches. Like, I say it's member driven, so it's got a fair focus to it.

**MR KENT (SFS):** I think the breakdown by dollars of the different areas would be

somewhere between 50 and 60 per cent was funds coming in in projects, as you say, commissioned by GRDC and DAFF and probably another 20, 25 per cent is contract work that is private contracts where a private input supplier contracts with SFS and then the balance would be these farmer trials which are really paid for by membership.

**DR SAMSON:** If I understand you correctly, one of your concerns is if our draft recommendations became final recommendations and if the government accepted them - so there are a lot of ifs along that pathway - your concern is that faced with a reduction in its funding the GRDC may choose not to fund your sorts of activities.

**MR MIDWOOD (SFS):** That has been based, I think, on the proportional area that we're looking at and in terms of growers, if you're doing it directly on - if the GRDC budget is cut and they decide that they're going to put that money back out to the specific areas and tonnages that are produced around Australia, the high rainfall zone is a pretty small player in terms of area and hence there could be potential issues with us getting a reduction in funding.

**MR WEICKHARDT:** Is it higher yielding, therefore, higher in terms of output because surely the GRDC would be responsive, I would have thought, instinctively to the quantum of the levy as opposed to the area.

**MR MIDWOOD (SFS):** Yes. I think the point we're making - and correct me if I'm wrong - was that isn't there something that has been written from Western Australia, an alliance or something where they were saying that if the levy was reduced to such an extent that they wanted to take the whole levy situation into their own hands, as an example WA is such a vast area and they - I don't know what the percentage is.

**MR NEVILLE (SFS):** It's 47.

**MR MIDWOOD (SFS):** They produce a large amount of the crop. I think the high rainfall zone, probably if you take it right from south-western Western Australia across, including Tasmania it's probably 4 or 5 per cent at most. The big thing is the reliability and the quality of the produce that comes from that area and I think the point we were trying to just make is that if there are reductions made somewhere along the line people have to make adjustments to account for that and if it came to the point of GRDC looking at the area and the tonnages that came through that was provided in their levy funding, then we wouldn't want to be the ones that may have our payment cut because of an area - - -

**MR NEVILLE (SFS):** The actual area at the moment in the high rainfall zone is about 3 per cent with the scope of doubling.

**DR SAMSON:** A couple of points there. If the government were to accept our recommendations, yes, the GRDC would receive potentially less direct funding from government but also some of the things that it currently does it would no longer be required to do because this new body would be doing it, so it's not possible to precisely model it but it wouldn't be as crude as if the GRDC's funding from government went down by 25 per cent they would do 25 per cent less applied research. I think I can say I think their investment strategies is a little bit more sophisticated than just, "Where does the levy money come from," and that's where the research will be directed. I think it's a more slightly complicated world in a positive way I think than your worst case scenario.

**MR KENT (SFS):** We would hope that would be the case. We read the West Australian Grain Group's letter and it was pretty clear, "We grow 40 per cent of the crop. We pay 40 per cent of the levies. We want 40 per cent of the money here," and the issue that's worrying SFS and the HRZ growers is that if that happens, the only reliable developing part of the whole grain belt is going to be starved because of the politics of levy allocation will overcome that sophisticated project priority process.

**MR NEVILLE (SFS):** I think the mining industry has been mirroring that behaviour so that's why it's been brought about as an issue.

**MR WEICKHARDT:** There are lots of noises made from the west. They're not always, I have to say, automatically followed by organisations which is probably why the amplitude of the noise goes up.

**MR KENT (SFS):** I think we could probably expect a similar sort of reaction from the Victorian Mallee to funding of the south of the divide research. In some ways you can see it's a reasonable thing for people to think, "Well, we're paying all the levies, why shouldn't we get involved with the research."

**DR SAMSON:** But hopefully what in part mitigates against that and, again the GRDC is the example with their regional panels and very much a focus on regional priorities, you would hope would mitigate against the noise from the west somewhat in your favour.

**MR KENT (SFS):** I think I guess hope is what we're suggesting, but that's not a good way to actually start, just hoping.

**MR WEICKHARDT:** The other issue is that everyone has automatically assumed that if the government cap on funding is reduced that that means that the total funds that the GRDC spends will go down. That's not the implicit assumption we're starting with. The assumption we're starting with is the because the work of the GRDC on balance has productivity benefits that, in the first instance, growers and

farmers experience that there may be a high motivation and instinct over time for the GRDC to increase the levy and therefore for the value of research to be maintained or indeed increased. You may claim we're dreaming or we've been smoking illegal substances but we remain to be convinced that there isn't a lot of self-interest that would motivate grain growers to consider that as a real option.

**MR MIDWOOD (SFS):** I guess what our overall concern is a drop in funding for what is an emerging region within Australia. There was a clause cited by Alston recently which I'm sure you're familiar with, with the falling investment in R and D and how that has caused a decline in productivity.

**MR WEICKHARDT:** That is, I guess, a conclusion which we note and which we have thought about quite carefully. We're not entirely convinced that that correlation does hold in Australia. It needs to be viewed with some caution is the point that we'd made and, at the end of the day, I'm sure you'd accept that pouring lots of money into useless research is going to have no benefit whatsoever.

**MR MIDWOOD (SFS):** Absolutely.

**MR WEICKHARDT:** So the point we're making is even if that were true in the past, and there has to be some health warning about the modelling because the quality of the data that has gone into that modelling is inherently suspect and we sympathise with the people who have tried to do that because it's very complex collecting the data because of the difficulties of double counting or the risks of double counting and the issues of categorising what's rural R and D research or was it climate change research or environmental research, these are all great difficulties. But even if it were true a hundred per cent in the past, it doesn't guarantee that future returns will be the same.

So our point was any automatic reflex to simply say, "Well, that means you've got to pull the level of increased R and D funding today and in 30 years' time automatically will pop out increased productivity," is a naive belief. If, on the other hand, we focus on funding good quality R and D, recognising it's always risky, you can't be certain of the results but if you do the right sort of due diligence on what you fund and think about short term and long term and all those sort of issues, then it's probable that you will get good outcomes. But don't just say X amount of money is what require.

**MR MIDWOOD (SFS):** When you look at the commission and the basis of it is looking at a 50 per cent reduction in what you're matching to the levy that comes in from GRDC, in essence that's a starting point, isn't it?

**MR WEICKHARDT:** That was the conclusion we put forward in our draft report which lots of people are vigorously pushing back against, but not unexpectedly.

**MR MIDWOOD (SFS):** That is really all that we've got to go on and so why we're here and why we're telling the things we're telling you is because our perception is that that could result, and I would like to think it doesn't, but it could result in reduced funding. What we're voicing to you is our concerns on what that reduced funding would impact on Southern Farming Systems.

**MR WEICKHARDT:** Okay.

**DR SAMSON:** One of the things you say in your paper, on page 3, I think, actually goes to the heart of what we're trying to grapple with. You talk about seeing RRA as predominantly an NRM-type entity and all the baggage that might come with that, given what's been done over the last 10 years or so, and I can understand that. We'll come back to it, if you like, but we actually see RRA as being a lot different than just an NRM entity. But the thing that stood out when I read your paper, you say that not surprisingly government objectives are not seen by your members as being core business and I can accept that absolutely.

But therein lies to a large part the reason we are here today because the government stakeholder who puts in close to 50 per cent of the money in the RDC model perceives they are not getting a return on that investment in terms of their objectives and it's what we've always said from day one, what commodity based RDCs do extremely well is deal with those commodity based levy payers. Through the GRDC, the panel system, you get a very bottom-up approach to the research portfolio which ensures that it is all very much seen as relevant by the levy payers. It inevitably tends to operate round on-farm productivity gain or cost reduction, people see the benefits relatively immediately and are happy to do it. But all of that is absolutely legitimate and is great and it's what's helped rural productivity over the years.

But there is another stakeholder. There's another stakeholder that puts in almost 50 per cent of the money and what we have concluded, having listened to an awful lot of people is that in meeting the needs of that other stakeholder that is not the current model's strength. Many people have said, "Well, you can tell the current 15 to put more effort into doing these" - what are usually characterised as cross-commodity, larger scale, national interest, things like climate change, water usage, things like that, biosecurity, all of which are very relevant to producers but don't have that immediacy of the on-farm productivity.

So that is what we have grappled with and that is why we have included at this draft stage the way to focus the attention on what that other stakeholder wants is to create this new entity, this RRA. So that the words that you've got here I think are absolutely right and they just, to me, highlight largely why we're here today to actually deal with that issue. I'm sorry, I don't think there was a question in there.

**MR KENT (SFS):** It's probably worth saying the way I became involved with SSF was I did a review of the organisation and I think it's fair to say that other large organisations of a similar nature, and we don't have to name them, have had exactly the same sort of issues facing them, declining membership engagement et cetera et cetera and this thing that came through really strongly was the question of being pushed off into non-core areas because the funds that were available from the productivity RDCs were not coming through in projects that were going to be able to sustain the organisation and its operations, particularly while we had this drought going on.

I think the thing that was really interesting, and we talked about it later, but we've going to meetings over the last six months or so with DPI in negotiations with the Federal Agricultural - AFA - - -

**DR SAMSON:** DAFF.

**MR MIDWOOD (SFS):** DAFF or whatever it is now. They're telling SFS and other grower organisations that they want us to take over the frontline roles they've been adopting and this is the whole PISC strategy. So we're seeing this worrying couple of recommendations at the same time as another part of the federal government, "We want you to do all these things." Even last week, I think, Jon was involved in a discussion with Joe Ludwig regarding the NRM model and that probably goes all the way back to the National Soil Conversation Program where getting traction on these objectives or community-good conservation and the other similar sort of objectives has been a real problem.

So we're talking 25, 30 years of trying to find a solution and now ministers are saying, "Well, we see you people as part of the solution so we're going to come and use you as our vehicle and help us sort this out." I guess for a board and a management team, where does that leave them? It's a very challenging situation.

**MR WEICKHARDT:** Are you saying that's very challenging because you see none of those outputs having any benefit to your members?

**MR MIDWOOD (SFS):** That's not what I'm saying. What I'm saying is the members, their perception is that when a management team and a board go off chasing LWRDC or whatever funding, NRM funding, they start to scratch their heads and wonder whether this is really what they joined up for.

**MR WEICKHARDT:** I can understand if that were all they got but if they get some productivity-enhancing stuff from you guys and they're also given some stuff that has environmental and other benefits which also hopefully have some private benefits, community right to operate type benefits and do the right thing type

benefits. If they get a mix of all those things, would they be unhappy?

**MR NEVILLE (SFS):** I think that's all taken on board. We're happy with all that. We're getting some really good climate stuff. I think some of it has probably gone - the debate as in Australia in general has gone far to one side. The rainfall particularly in this year has brought us back to where we thought it was going to be in the long-term trends and I think one thing we tend to get misled in agriculture is it's all about long-term trends in what's happening, whether it be soil, climate, productivity. We're rainfall driven, unfortunately, but that's the environment we live in. We open to all those things and we do get benefit out of them, there's no doubt about that.

**MR WEICKHARDT:** All right. We're really out of time but let me just make a quick comment about the final point in your paper which was about free riding on rural research and development corporations and I think you have asserted that there are people down the value chain or up the value chain - it depends on which way you're looking at this - but people who are closer to the customer who are free riding on the growers. I guess in normal situations I think you would find that those individuals closer to the customer were also spending some of their own R and D and, indeed, there is some evidence from R and D tax claims that that is the case. In their situations it's likely that they're much more able to capture the benefits of that R and D themselves and therefore there's much lesser case for the government to give them any special support over and above the general R and D tax claims that they can make and do the consumers benefit?

Of course the consumers benefit from better quality food. You, I think, talk about lower price food. I suspect that in the main the price of food is driven by international price trends and therefore, to the extent that the cost of production is lowered by R and D that's done by growers here, I would hope that growers in the main get to put some of that in their pocket. Of course, the flip side exists, if international prices go down, the growers get squeezed. But we're conscious of the fact that these arguments do exist of looking at the totality of the value chain and some people have argued the RDCs should be investing further down the value chain. Our view would be that in the main processes should look after their own R and D and they should make their own investment in that but the majority of the work that the RDCs look at should be related to on-farm productivity and let people further down closer to the plate look after themselves.

**MR NEVILLE (SFS):** Can I just make one comment and just brief one and it's very simplistic economics and it's about stakeholders, recognising that you're saying that the government is one of the biggest stakeholders in the R and D environment, and I just want to go back to very local case scenario that I've done and worked on in our region which is the Beaufort, Ararat, Skipton region. We've got a grain receival centre that's only emerged in the last six years on our boundary. It takes an average

of 150,000 tonne of grain and we're just doing some very easy modelling on taxation taken from that enterprise. So at \$250 a tonne that grain that's going in and taxed at 10 per cent, the farm cost per tonne produced - - -

**MR WEICKHARDT:** Who is taxing you at 10 per cent?

**MR NEVILLE (SFS):** This is the government, this is just a very simplistic model about taxes collected from - so it's grain sold per tonne plus GST, so it's collected by the government.

**MR WEICKHARDT:** Okay.

**MR NEVILLE (SFS):** What I'm trying to do is come up with a figure and I've come up with a figure of \$43 a tonne collected by the Australian Taxation Office per tonne of grain produced in that area which is over 150,000 tonne. So leading onto that then you go into the stakeholders that are involved in that whole process and I've just got a quick list here which I'll just read off: businesses, accommodation, meals, fuel, hardware, shopping, everything in that area involved with those enterprises, employment at the sites and local farms, we've got harvesting, planting and haulage contractors, we've got major input suppliers, we've got grain handling systems, we've got port facilities, we've got up-country haulage, we've got the road implications and we've got malt barley end users, we've got the millers in Ballarat, in Geelong, Melbourne and the flour millers in Ballarat. So there are a lot of stakeholders out there involved in the whole grain system and the whole value chain before it get to the consumers.

**MR WEICKHARDT:** Yes.

**MR NEVILLE (SFS):** I'd just like that to be recognised.

**MR WEICKHARDT:** I understand. Thank you very much indeed for appearing and than you for your input. Is this now a formal submission or are you going to make it a formal submission?

**MR KENT (SFS):** I think it is.

**MR WEICKHARDT:** Thank you very much indeed.

**MR WEICKHARDT:** Our next participant is John Wallace. John, if you could just introduce yourself and the capacity in which you're appearing it would be helpful.

**MR WALLACE:** John Wallace is my name. I'm the director of a number of companies which are my family companies which I've set up over a number of years and one of those is involved and has been involved in farming for at least the last 40 years. I bought my first property at Stawell, 500 acres, built it up to 4500 acres, sold out and, for family reasons, the education and future of my kids, bought another property north of Ballarat between Creswick and Clunes. At Stawell we were mixed farmers, cropping, cattle, sheep, 6500 sheep, 1100 head of cattle, 800 acres of cropping and in those earlier days I didn't have the time and probably the ability to see beyond the farm gate because you're pretty busy.

I do appreciate the opportunity of addressing some of the matters contained in the draft report which I found very challenging and interesting and, at times, contradictory. My background is that I went to an agricultural college. I'm a fellow of RMIT University, I've been a valuer and property consultant for many years. Just dealing with something that one of the prior speakers spoke about, young people and their opportunities and PhD people and so on. If I can give you the experience that I have had as chairman of the course advisory board in the faculty of business in RMIT, teaching and directing people in their career development needs supporting characteristics or variables, if you like, and one of them is certainty of opportunity.

When young people are studying and then they find that they go into areas where it may be popular or it may be partly funded but only on a short-term basis, that isn't the career they want. The certainty and the opportunity is short-lived and that's why they turn away. It's not that they're ignorant or uninformed, they make these inquiries and they know that there are difficulties within certain occupations, and one of them is the research and development area.

Research and development has common characteristics, whether we're talking about farming or other areas as well: the lag period, the outlay and the return. That's one of the reasons why in the report I can't understand the 50 million. 50 million in the scope of an economy like Australia and in relation to primary production and the size of the country and all the variables that need to take place is a tiny amount. I acted as the consultant for Exxon Mobil from 1967. When the wellhead pricing policy came into effect on offshore reserves of oil and gas, that money was to go into infrastructure, it went into the pot, and the same with the levy on diesel fuel, petrol and the like, and it gets lost in the mire of government and priorities and so on.

50 million is less than the value of 10 properties in the high rainfall area. The presentation by those people who have just spoken to you didn't talk about capacity. The interesting thing about what they have done over a short period of time is that

they have generated a pick-up by people other than their members showing an increase in the area under crop and productivity; in the last three years it's 38 per cent, and that is supported by the publication put together and known as the South West Farm Monitor Project, Summary of Results, and the Livestock Farm Monitor Project, Summary of Results for 2009-2010.

The 2008-2009 publication has a profile going back some 25 to 30 years, in terms of earnings, productivity mix, cost of production and so on. A very useful document. We have used those sort of documents, plus additional information provided by MLA, the Department of Agriculture, seed producers, service providers and so on. So we have been members and active in LandCheck, Best Wool, EverGraze, Tips and Tools; member of the Victorian Farmers for a few years, but we stopped, we thought it was too political. We have been in weather and wool trials and competitions with cattle, live and over the hooks, judging; and members of the Mackinnon Project. Mackinnon Project is run by the Melbourne University's veterinary school, and they gather lots of producers and clever ideas.

I wanted to express in a very succinct way the managerial concept of the life of an idea. The idea is there, there is a lag before it picks up and a time to be with it, increase productivity, and then the gains tend to plateau out. When I went to Longerenong and after leaving there the story in the late 50s was trace elements, coastal country; the application of small amounts of molybdenum and copper and cobalt. So that's what we looked for. Strangely, now that the cost of superphosphate and other fertilisers has gone up we are looking at again the health and the trace element mix and so on. So it's back in vogue and it has this new life, if you like, and is very important.

The other thing has been in terms of the government funding and the facilities, the research and the focus that it can therefore bring from private enterprise, and the further support, it helps producers like us gain knowledge and skills and competency and making good decisions. I think the government has been terrific in doing that, but it's not producing the sort of mentors that we used to have. I was very fortunate in having a mentor who was an agrostologist, an expert on soils and pastures, growing grass to meet production and so on, and those sort of people aren't there any more. You have got to seek the extension work, but when you do seek it it's terrific.

I value highly our membership of the Grassland Society. Every year we have a two to three-day conference. At the Grassland Society conference you get representatives from the Department of Agriculture, seed producers, MLA and so on, and it's terrific, everybody is tuned up, farm walks, application and so on. The reason for mentioning these two reports to you - and you may already know about them - is they're definitive; the table of contents, the executive summary, the whole farm state analysis, the enterprise costs, gross farm income. It shows, as Mr Lawson said, that in fact there is this 20 to 25 per cent top tier and there are those down on

the bottom at 20.

The thing to remember about those 20 at the bottom is that they tend to have a different view, they have a view of, if you like, a jewellery term. There's the underlying, whether they make dollars. There is the secondary turn, which is capital appreciation based upon the asset and the management or caretaking of that asset, and it should always be remembered that farming has that opportunity, because it involves substantial real estate and the use of land and the adoption of the environment to the best use of the land. When you go through these reports it will show you that the distinguishing feature of the top 20 is not only variables like climate, farm size, state and stage of development, clearly they are well informed and they use research.

Why don't those sort of considerations become more widely understood? One of the reasons is that we all vary in our state and stage of development and capacity to put aside the money to apply these things. We are known as conservative. I tried to summarise it on a simple definition as to attitude: the disposition, the mood, the outlook, the approach, the opinion, the frame of mind that people have. Sometimes - and particularly over the last nine years - the opportunity hasn't been there because they have been driven by considerations such as drought, lack of rainfall and so on. But it's the way the person, or society, views something or tends to behave towards what they are considering in an evaluative way.

Therefore when we look through your recommendations and we look at the question of marketing, I would support the marketing of the research and the outreach and the application of the research. If marketing needs to go further it should be by the processes and to the consumer. I have experienced marketing with wool and found that very disappointing and in many cases irrelevant, and I don't want to spend 8 per cent of my wool cheque in promoting that sort of view of marketing. Dealing specifically with your report, the draft recommendations at a glance, where your dollar point begins, "progressively build up government funding," I regard the government funding as a catalyst which will draw other things to it.

I am aware that at the London University they had difficulty in getting funding for property research, and yet there were large property companies and superannuation funds making a great deal of money out of property. So what they did was they presented a number of areas of possible research to property companies and said, "Okay, we will look at this and we will report to you, and you have sole use of all that information and research for 12 months, then it goes into the wider community." Suddenly these people found that they had a core of very capable people within a university who could do things for them and research opportunities for them on which they could capitalise almost on an exclusive basis. The outstanding one was not site finding and the highest and best use in the form of development, not a physical building, but the application of depreciation allowances

on buildings in terms of functional obsolescence, remaining effective life et cetera. Now, we don't see enough of that and I think it's a great opportunity.

Within my family, I set up an education and research foundation and I was spending eight and a half to 10 thousand a year, which isn't much, but it was very focused because I put it in the right spot, so I paid for the upgrading of a senior lecturer's position for three years, around about 55 to 60 thousand a year. The next point, Principles to Guide the Future Operation:

Implement a set of principles setting out the conditions that should attach to public funding -

we tend not to tell the public how good research can be, so they don't quite get the story across about how clever and smart it can be. I grew up in a period where the CSIRO was an icon. We had a very, very high regard for its applied research. We don't seem to have that mind-set any more. We're urbanised and rather conditioned on "me" and "me too". The last part on your column:

Recommendation: defer assessment of whether industry representation should be generally allowable -

why defer that when you could set down a criteria so that you get a person who is really competent rather than an agripolitical type person? They have to bring skills and knowledge. A lot of these people before me, the southern cropping group, they have done it. They're clever people. What's going to happen to them, using my analogy of the life of the idea, as it becomes more apparent and the climate change seems to favour cropping in the high rainfall areas? They've educated a lot of people and you don't have to be a member to gain access to all the info. It's the same thing that's happening with the Birchip Cropping Group. The recommendation on the next page where you talk about:

Require all RDCs to participate in a regular, comprehensive and transparent program-wide project evaluation -

absolutely agree. It's got to happen. How is the money spent and is it getting out there and who is doing it?

Portfolios between short-term and longer-term research; the scientific merit of the research and whether research outcomes have been sufficiently accessible to all levy payers and to other researchers.

I really believe that the availability of information by other researchers is very basic and very necessary and I also think that there are certain characteristics of research which are going to be longer term and therefore need longer support. So the

longer-term benefits which can be captured and the wider benefits to the community in increased productivity and taxable income can flow. But to talk about racing fast cars around Albert Park and we'll give them so many millions - but why haven't we got top people in Ballarat in the Department of Primary Industry? We've got good people, but not the top.

The page where you talk about draft recommendation 6.1, Changes to the Configuration and Funding, on the next page:

RRA should be created as a statutory research and development corporation -

and then you go down and then you say:

In consequence, the funding contribution from the Australian government for all of the existing RDCs, except for the Fisheries RDC, shall be gradually reduced.

I don't agree with that. I think that you've got to check the integrity of the research before you make that decision. In other words, is your remit or point of reference enabling you to make that assessment? So I say no to that. I'm not sure it's going to work unless there are very good reasons which would substantiate that recommendation. Capturing the benefits, the draft recommendation 8.5:

All RDCs are required to participate in a regular, transparent and comprehensive program-wide project evaluation process, such as that currently facilitated by the Council of Rural Research and Development Corporation.

I think that is sound, but I don't think that the criteria is spelt out. So what's the criteria that is going to be applied to the evaluation process? We need to know that, because depending upon the life of the idea, we might be just building up to the point of relevance for reasons other than that. It may appear to be irrelevant.

The further review, draft recommendation 9.5, does this form part of the final report; in other words the report that you're producing as a result of considering the submissions after the draft report or is it a new further review?

**MR WEICKHARDT:** It's a new further review in 10 years' time and our lifetime inquiry on this matter has got a drop-dead date of February next year.

**MR WALLACE:** Why 10 years? Too much is happening. Every year for the last 18 years, I've given prizes at our local show on machinery exhibits and how clever people can be. When you look at a dinosaur like me who is a creature of the 50s, 60s

and 70s, you see the marvellous advances that have been made in plant and operating machinery and farming systems, 10 years is too long.

**MR WEICKHARDT:** The reason we selected 10 years was that the package of recommendations we had put forward will require time, if they were accepted and implemented, in order to judge what sort of impact they have had because there will be many moving parts. The reaction of the individual growers to reduced government funding will be one important component of that; the issues that are going on in terms of the private sector and how much money they're likely to invest; the other parts of the whole government investment in R and D, whether through CSIRO, whether through state governments, there's a lot of moving parts in this, and trying to assess whether or not the package of recommendations we've put forward is having a beneficial or deleterious effect is not something you can do immediately.

Is 10 years a magic number? No, it was a notional idea of about the sort of time you'd need to wait before you could really have a good read on what sort of impact you were having. I take your point, things are changing rapidly, but in the rural sector, I guess you've got lots of short-term perturbations, whether it's climatic or whether it's pests or whether it's international currency changes.

**MR WALLACE:** Global markets.

**MR WEICKHARDT:** Yes, it's hard to look through all that and get a read of what is happening when you are doing it on a short-term basis.

**MR WALLACE:** A company earning a lot of money, by operating in Australia, is spending \$380 million a year on research and development. It's able to do it because it's tax-deductible and there will be an end benefit. We don't have that sort of cash flow, that sort of money, but the government does from its tax take. I certainly pay tax, you pay tax and he pays tax, and a lot of it. It's an allocation of a priority and a responsibility, because we are talking about the wider community and the benefits. The Productivity Commission did a report in relation to the sustainability of the countryside, if you like, where you looked at the way in which the country had lessened its population and its influence and the capacity to pay in terms of income for infrastructure services, all the things.

We know with the increasing urbanising effect for the development of the major cities and the coast that we are drawing the skills and the abilities of people from the country, and there is an overemphasis. If it's regarded as socially desirable to halt that, one of the best ways is to support more funding for research, and then the application of the research. So in a wider context, I consider that it needs a sympathetic government that is more aware than the are at the present time.

We are already discounting the rural areas because of the number of members

of parliament, and we are therefore pretending that we should have less to say, for the bulk of the productive areas for food in Australia. That's a reality, isn't it? So there is a change in the mindset, in terms of being more socially responsible, rather than just talking about rural research. They have an obligation to see that it happens and to think about the 20s and 30s and what our fathers and grandfathers did in putting everything together. Letting it drift, without the focus that we need to bring back to it, is going to create great difficulties. That chap was speaking about some of them before. So I hand you those two reports.

**MR WEICKHARDT:** Cliff, have you got any questions?

**DR SAMSON:** No, I'm fine.

**MR WEICKHARDT:** Thank you very much indeed. We appreciate you coming along.

**MR WALLACE:** Thank you for your time.

**MR WEICKHARDT:** For the record, Dr Samson has now had to leave, and we welcome our next participant, Robert Ingram. Robert, thank you for coming along. Thank you for your points that you've raised and for your earlier submission. You raise a number of provocative and interesting issues. For the transcript, if you could just give your name and the capacity in which you're appearing here today, please.

**MR INGRAM:** My name is Robert Ingram. I appear here today on behalf of myself. I am a farmer. I am an innovator, particularly involved in electronic identification in the sheep industry. My family have operated farms and I continue to operate those farms since 1884 at Delegate, on the Southern Monaro. I am very proud of that heritage.

**MR WEICKHARDT:** Thank you very much indeed. Assume we have read your submission.

**MR INGRAM:** Let me make a brief statement which summarises that one page and a bit of notes. As I said, there are three problems that are insufficiently appreciated by the community. The first one is crowding-out. That is an issue, a common problem, in all public investments, which also afflicts the public rural research and development corporations. Given the cost of raising government revenue, there is an undoubted cause of social waste.

The second point that I'd like to make is that, as people in the know are aware, RDCs regularly pinch ideas from local innovators and then recycle them as R and D investments, and I have personal experience of that. It's not good for innovators. It has been happening for years. I have seen it for 30 years. It's a veil for corporate laziness. What it means is that the research focus is not on those genuine areas of market failure.

The R and D corporations should be addressing those areas of where there are genuine market failures and let the private sector move on with those areas of on-farm research and implementing research and programs about which we know. So what I am saying is that they should focus not on genuine areas but on areas which are already private goods. The subsidy culture causes a loss of focus and this can be seen especially when levy payers meet and make excuses for poor investments, a problem which I think is discussed well in your draft. In view of those three points above, I don't understand why the Productivity Commission propose a 25 per cent subsidy recommendation. What is it, half of 50 per cent?

**MR WEICKHARDT:** I think, mathematically, that's correct.

**MR INGRAM:** How did we get that? For the last 20 years a 50 per cent rate of subsidisation for the pig and chicken industries is just an excess.

**MR WEICKHARDT:** So I take it from that you'd be going to zero, would you?

**MR INGRAM:** Yes. I mean, why not zero as an appropriate default in 2010? The faster you move there, the quicker you get rationalisation within the industries; movement forward, productivity gains.

**MR WEICKHARDT:** You have talked about the free-rider effect of the RDCs, picking up the ideas from the innovative farmers. But do you accept that there's a scale effect here, that it's only the large farmers that can afford to do enough of their own trialing so that they are innovative.

**MR INGRAM:** No, I'd disagree with that.

**MR WEICKHARDT:** You think small farmers fund enough of their own R and D to be self-sufficient and not require some form of collective levy to give them some scale and ability to do longer-term, deal-changing type research?

**MR INGRAM:** There is a caveat, from my perspective. I'm a small farmer. I'm highly innovative. I mean, this modern phone, I can monitor all my operations of my farm, my electronic marketing, control my irrigation systems from my office here in Melbourne. But the reason I can do that is because I'm educated, so the caveat is education.

My perspective is that from somebody like myself and my ilk, we have the comparative advantage of that knowledge and it gives us a comparative advantage, but we are worked against by the R and D system because we go and seek our knowledge and implement it and test it. My objective through that comparative advantage that I have is to increase my scale so that I become more competitive. From my perspective, to me that's the logical way to take the whole industry.

**MR WEICKHARDT:** In terms of I guess the tendency you talked about of the RDCs to pinch good ideas from local innovators, in your experience it only goes one way. Do you also pinch some ideas from some other good local innovators?

**MR INGRAM:** That's a really interesting point. I'm extremely lucky, in that what I've done for the last 30 years is to implement large agricultural projects for the likes of the World Bank and the Asian Development Bank and the Australian government in the Third World, a large number of projects, a huge range of experience. My agricultural education has been subsidised by the Australian aid program to an extent.

**MR WEICKHARDT:** Is this for ASEA you've done this work?

**MR INGRAM:** No, for private companies.

**MR WEICKHARDT:** Okay.

**MR INGRAM:** And I ran my own company for some time. What that has allowed me to do is to see a whole range of farming systems worldwide and out of that, I have been able to adapt technologies from other parts of the world to our farming system in southern New South Wales. I don't see it as pinching researchers' ideas; what I've done is I've taken ideas from other farmers out of other systems and adapted them to our systems. To that extent, I'm then copied.

**MR WEICKHARDT:** What about the whole issue of, if we go to, for example, grains or sugar, the issue of new varieties? Lots of people have said to us, "You can't just import overseas varieties. You've got to do a lot of work to adapt them to local circumstances and local conditions and this requires multiple years of work. It's quite intensive work that requires a lot of funds and it's not the sort of thing that any individual farmer can afford to support by themselves." How would you see that work done in your model?

**MR INGRAM:** Have plant variety rights failed? I don't think so.

**MR WEICKHARDT:** Okay. So you think there's enough IP protection now that the private sector would step up to that mark by themselves?

**MR INGRAM:** I think if you look at the work in Australia and in particular you look at what's happened in the Third World, particularly say Brazil and Thailand, plant variety rights have an enormous impact on the productivity of those countries because of the big agribusiness genetics companies being able to protect their IP. I mean, Thailand has a classic example with hybrid corn. It's well documented in the literature. If you want, I can send you the paper.

**MR WEICKHARDT:** Okay.

**MR INGRAM:** Would you like that?

**MR WEICKHARDT:** If it's a brief paper, yes.

**MR INGRAM:** It's about two paragraphs in a 16-page document and I can highlight it for you.

**MR WEICKHARDT:** Okay, thank you. That would be helpful. You might like to speculate why it is you're a fairly lone voice in this debate recommending what you have. Is it that you think you're a pretty unusual beast in the agricultural sector as a farmer?

**MR INGRAM:** Yes, borne about by my broad experience worldwide, my education, and because of the work that I've done - I mean, when I got into a new agricultural system in the Third World, my first thing is to look at a system and say, "Why are they doing that?" So I'm continually questioning, "Why? Why? Why?" What's the response? What's happening here? Because farmers always do things rationally, particularly poor farmers. We did some work in Thailand back in the early 80s where we drove some, God forbid, linear programming models and we built these really elaborate models. We said, "This is the way the economists told me - this is what we should be recommending." What I did to test the models was I kept on putting pressure on the models to push them back to see whether they replicated the existing farming system because then I would have some faith that the models were reasonably accurate. What was really assuring was that when we did put all the economic pressure on the models, it went back to what the farmers were doing which demonstrated to me that the farmers were doing something which is rational and economically sensible.

So that experience just says to me - okay, I have a comparative advantage. I want to drive this system, but then when I look at them in the whole context, as I have been recently, involved in some advisory boards to industry committees, the inefficiencies in our industry, the degradation of our environment, the destruction of our social services and social fabric of our communities, all links to the inefficiencies which surround the industry. So we have to attack these inefficiencies in every way possible, rural reconstruction, drought relief, and in this case, the subsidised public research for the public good.

**MR WEICKHARDT:** I sort of gather that part of your thesis is that the natural selection process of the strong getting stronger and the weak getting weaker is being interfered with in this farming environment which you're operating in at the moment.

**MR INGRAM:** No, what I would say is that the system that we operate in doesn't allow the natural efficiencies that can occur to occur. That will, as you pointed out, end up in - those that have sought knowledge, have better systems, developed scale, will be the ones that survive. There's a whole social argument which goes with that.

**MR WEICKHARDT:** If you were a benevolent dictator of Australia for a moment, what would you do to encourage more farmers or how would you get more farmers to be like you, to be able to be self-innovative, self-sufficient and grow and survive and get stronger?

**MR INGRAM:** That's a very difficult question to answer because I just think I've been a lucky individual. But there are other people that I know of that are of a similar ilk and what we have is we have a broad base of education and we have an extensive, broad experience in agriculture in Australia and many of us overseas. We have this experience of questioning, trying to improve the system. I mean, as

consultants to these organisations, our whole basis of being there is to improve the system, to take people out of poverty. In many of those countries, the resources that you have available to do that in terms of government resources are extremely weak. It's only in the last 10 years that people have started to realise that if you look really hard the private sector system - your economic infrastructure, your social infrastructure, that fits around agriculture - is actually very resilient and very strong, and if you focus on supporting that whole system you can get enormous gains in productivity and reduce poverty. It's that experience and it's those type of people that I see that have that ability.

So it goes back to education and broad experience. When I say to people my age who grew up in the same valley as me and left high school at 16, for example, that I don't even go to the ram sales, that I select them all on EBVs and buy them either online at an electronic auction or buy them over the phone, they look at me as if I'm absolutely mad; and yet I've got measured productivity gains on-farm of around two to two and a half per cent per year whereas they are at a quarter per cent.

**MR WEICKHARDT:** You've suggested that in your world the government co-contribution should go to zero. If the majority of the producers in an industry voted in favour of continuing a compulsory levy, would you be against that, or would you prefer there be absolutely no levy on producers too?

**MR INGRAM:** I think that's really easily resolved and I would revert there to what has happened in America. You would leave it to the High Court.

**MR WEICKHARDT:** You'd challenge the right of the government to collect a compulsory levy, you mean?

**MR INGRAM:** There are groups in Australia, in the wool industry in particular, and some of them highly successful, that have their own very highly successful targeted marketing campaigns for their wools, which bring them higher returns than any of the marketing campaigns provided by the RDC. So the argument would be that those type of people would then say, "Well, I already have a marketing program which is highly successful in returning funds to my collective," whatever that collective be, individual or a number of farmers, "I don't want to pay another levy that everybody sits on the back of."

**MR WEICKHARDT:** Just indulge me for a moment. Let's assume the High Court affirmed the government's ability to collect a compulsory levy and the government said, "If a majority of the levy payers vote in favour of it, we will continue to collect it for you," would you be against that? Would you say, "I am going to agitate to elect politicians who are going to legislatively remove this process," or do you accept the if the majority of levy payers said, "We think it's a good idea," you'd go along with it?

**MR INGRAM:** Depends how I woke on the Monday morning. Difficult. In putting those dot points together today, with a number of colleagues, that question was raised. I mean, it's like conscription, isn't it, really? If the government mandates that that's the way it is, you either change the government and change the law or you go along with it. The position I'd adopt at the moment? I'd probably vote to change the government.

**MR WEICKHARDT:** All right. Look, thank you very much indeed. Is there anything else you want to tell us? You have given us some pretty thought-provoking stuff. Are you going to condense this into a formal submission at this stage? You have made a submission to the first part of the - - -

**MR INGRAM:** Yes. I could then summarise those three points that I made as a summary over the top of these. These 12 or 15 points here are the detail of what I have spoken to. I can pretty easily formalise that into another submission, if you like.

**MR WEICKHARDT:** I think that would be helpful, if you're prepared to do that.

**MR INGRAM:** Yes.

**MR WEICKHARDT:** Thank you very much indeed. Thanks for appearing. That concludes today's proceeding. For the record, is there anyone who wants to appear today before the commission? In that case, I adjourn these proceedings. The commission will resume next Monday in Tamworth, 15 November 2010.

AT 5.20 PM THE INQUIRY WAS ADJOURNED UNTIL  
MONDAY, 15 NOVEMBER 2010