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TRANSCRIPT
OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO RURAL RESEARCH AND DEVELOPMENT CORPORATIONS

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

TRANSCRIPT OF PROCEEDINGS

AT BRISBANE ON TUESDAY, 16 NOVEMBER 2010, AT 8.26 AM

Continued from 15/11/10 in Tamworth

INDEX

MR WEICKHARDT: Good morning, ladies and gentlemen. Welcome to the public hearings for 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, the associate commissioner. The purpose of this round of hearings is to facilitate public scrutiny of the commission's work and to give comment and feedback on the draft report, which was released in September. We've already had hearings in Canberra, Sydney, Melbourne and Tamworth and following these hearings in Brisbane, we'll have other hearings in Hobart, Adelaide, Perth and Mildura. We'll then be working towards completing our final report to the government in February 2011, having considered all the evidence presented at the hearings and in 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 the proceedings for the day, I'll provide an opportunity for any persons wishing to do so to make a brief presentation. Our time line is quite tight today. We've got a lot of participants who have registered, so I'm afraid I'm going to have to be quite disciplined in keeping people to their allotted times.

Participants are not required to take an oath, but should be truthful in their remarks. Participants are welcome to comment on the issues raised in other submissions. A transcript will be made available to participants and will be available from the commission's web site following the hearings. Submissions are also available on the web site. To comply with normal safety procedures, I'd like to advise people about the emergency assembly point. The exit is out this door. It's a fairly narrow passageway out of there, but it's out of there and out the front door, turn right and turn right down the stairs to ANZAC Square, which is the assembly point.

If you require any assistance, please speak to our staff member here, who is Aaron Maury, sitting at the back of the room. Finally can I also ask the audience to switch off their mobile phones or to turn them to silent mode please. I'd now like to welcome our first speaker and participant from Growcom. Please for the transcript if you could give your name and the capacity in which you're appearing today please.

MR LIVINGSTONE (G): Alex Livingstone. Chief executive officer of Growcom.

MR WEICKHARDT: Thank you. If you would like to outline what it is you want to cover this morning, it would be helpful. Thank you.

MR LIVINGSTONE (G): Thank you, commissioner. First of all, in terms of the context in which I'm offering these remarks, firstly as the CEO of Growcom or the old Queensland Fruit and Vegetable Growers, so we're coming specifically from a horticulture background. I'm not intending to make comments on any other agricultural industries or sectors. We represent over 650 direct producers in Queensland from a wide variety of commodity groups. We also represent the likes of the Bowen District Growers Association, Bundaberg Fruit and Vegetable and Mareeba growers. So those local producer areas are also members of us, so we have a pretty wide reach in the industry. Secondly, we are the peak industry body for the commodity of pineapples. It's about a $60-million plus a year industry. It currently collects each year about $150,000 for R and D levy, which, when matched by federal fundings, comes out to be $300,000 per annum.

We have been a levy-paying industry for just over 12 months, so we've just finished our first year. Also, Growcom is the largest B-class member of Horticulture Australia Ltd. We do a lot of voluntary contribution projects where we'll stump up a certain amount of capital and have it matched to do a project. I sit on their cross-industry committee looking at the across industry needs of the horticulture industry. A couple of remarks specifically about horticulture. It's an exceptionally fragmented industry. There's about 126 different commodities. It has a very distorted supply chain and the power in that supply chain resides at the retail end. We have a very perishable crop, so producers have no flexibility. When the crop is ready to be picked and packed, that's it. You have no choice.

The anecdotal evidence is that the dollar returns that growers are getting now are exactly the same as they were 15 years ago, so their productivity increases have been completely swallowed up by other people taking the benefit and the producers are still sitting on the same dollar return. You know what the rates of fuel and labour and things like that have gone up in the last 15 years. The growers haven't been able to pass that on. To that end it is, I suppose, one of the most almost brutal supply and demand markets in the country and needs to be recognised as such. In terms of future demands, there is a requirement to increase production by about 50 per cent in the next 30 years. If the worst of the climate change models actually come to pass, then we will need to increase production by more than that because we'll be losing a lot more crop.

We have a huge difficulty as a country creating new infrastructure, so new dams, new irrigation schemes, and horticulture is very dependent on water availability. Consequently, we have to produce more on what we've got now or less. Some of the constraints are reduced water from the Murray Darling area, 27 to 37 per cent reduction in water availability. We're going to have continually reduced access to chemicals. There are a number which are on the short list at the moment. We don't argue with some of those being taken off the market, but the fact is that that is going to have an impact on yields and productivity. There's continued increased pressure from retailers and there's increased pressure for imports and product substitution. So this all adds up to being a very difficult and fairly cut-throat market.

Coming now to some of the key points from the commission's review, the first one I'd like to talk about is the proposed reduction of 50 per cent in the matching research and development funds. I'd have to say that I think this is extremely short-sighted. It is certainly not in the national interest. If we start to look at issues like food security and food sovereignty - and I believe the South Australian Press is having a field day today about the level of imports in horticulture - cutting R and D is not a way to increase the productivity. If we have to produce 50 per cent more food off the same area with anything up to 37 per cent less water, it's not going to happen by itself and there's no magic bullet. This has got to be hard R and D work to overcome the shortfalls.

I think a very good example that we should be following is the international rice research institute, which started life back in the 50s or 60s, I believe. They have something over 1000 scientists working on rice and rice alone and they have managed to increase yields so much that all the widespread famine which was tipped for the 1970s, then 1980s and then the 1990s, they have managed to avoid by increasing yields. That's based on science, not on hope. Another issue that the commission has raised is about research that growers would do anyway and therefore why should the government be putting in any funds. In our industry, the average age is about 60 for the producers. That means they were born in 1950 and a lot of them were working on farm by the mid-60s, so that's pre-Woodstock, that's pre lunar landing. They have been working on-farm since then. They don't use Google, they don't Twitter, they don't use Skype. They work dawn till dusk and, as I say, they're in a pretty brutal market.

In a previous life with a high tech company, I have done a research and development grant application, managed the project, acquitted the grant and then done the research and development tax concession, and I can tell you that is not something that people in our industry can do. I think it's incredibly naive of people to suggest that farmers whose expertise is horticulture can then become chartered accountants and do these R and D tax concessions. It is not going to happen, I can assure you of that. The three assumptions that the commissioner has come up with that governments fund subsidised work that growers would have done anyway, in the horticulture industry it's highly unlikely because individually the growers are not strong enough; financially they're not strong enough. They don't have certainty of income and they're at the whims of weather and some pretty large retail outlets. So they can't do accurate cash flow forecasting because they just don't know what's coming around the corner. So to sign a contract with a research agency, whether it be DPI or something like that that might last three to five years is a very difficult ask for growers.

The commission says that growers' funds would fill the gap if government left. The difficulty there is getting coordination. There are some two and a half thousand growers around Queensland, as best we know. Trying to coordinate them by commodity group is going to be exceptionally difficult. The other thing is that you say that research is wasted to preserve existing industry structures. I think some people could take pretty severe exception to that remark. Another point that you've raised is to establish this Rural Research Australia. Really it looks a lot like the old Land and Water Australia and I don't know whether there's an intention for it to be that, but I think that in general it wouldn't be my favoured option.

I think $50 million is a lot of money to spend on getting some cross-industry projects. I think the organisation will always have a target on its chest and will be just waiting for some, you know, smart young guy or politician to come and close it down and make a name for themselves. But it also in the literature suggests that it could also source additional funds through working with other RDCs or with CSIRO and the likes, which can then lead to just being a cash grab and just running around trying to keep funds flowing into the organisation for the sake of it. I think there are better ways for us to get that across industry research that the government may want done. There is a bit of a problem here between the research agencies or the RDCs, as we have them at the moment. In horticulture the research priorities are set very much by the growers, who are on the ground. We have the industry advisory committees and these are the guys who know what is actually about to hit the industry in terms of chemicals and disease and bits and pieces over the next relatively short period, whereas things like the climate change research and whatever are much, much longer term. So sometimes when you talk to the growers they say, "Well, don't talk to me about climate change because I won't be here unless I can solve this problem today." So they have to focus on the problem which is giving them grief right now. So there is potentially a bit of conflict between the government's research priorities and the industry's research priorities, and the industry's research priorities are about surviving, about making product and getting it out. The government one can tend to be a lot long winded.

The final point I'd like to make is about the voluntary contribution funding that horticulture has. From our perspective we think it's necessary and essential. I will put this in practical application. We have currently a commodity group of about 35 growers who operate out near the St George area. There are some particular chemicals which they use to counteract fruit fly, which means they can export product to the southern markets. Those chemicals may be withdrawn. So about two years ago those growers got together and said, "We need to come up with an alternative, we need a project to do it," and they came to us and we developed a project with them. We put up some - well, the growers, through us, put up some voluntary contribution funding, got it matched and we're now going down the path of that project and, touch wood, it's looking okay.

The difficulty that that group of growers faced is that in that commodity group Australia wide they're only a fairly small group. So for them to be able to convince their national PIB of the requirement to put money into their area, it's not a national issue. It's actually an issue for 35 growers. So for the ability for them to access some additional funding to go and solve an acute production problem was very important. In our own instances in pineapples we've had a voluntary contribution project running for a number of years before the levy came up. We used that VC project to get about 115 growers. We set up 11 regional groups. We had study groups. The head of each of those study groups came together to form a national committee. That was funded by ourselves, Golden Circle and Queensland DPI. We came up with the VC, it was matched through HAL and that's what got the pineapple group up to where it is now, away from being totally dependent on Golden Circle as their only buyer through now to having what we think is a pretty vibrant future, and they agree with it.

We also run what we call a pest project where Growcom itself puts up some money and we have a pest expert that all of our members can use to access information about pests and chemicals and availability of those things. So those sorts of projects are of great value to the growers. For an organisation like us it's a strain. It's a strain to come up with that voluntary contribution but in terms of what we can do for our industry as a peak industry body we think it's exceptionally important. So that concludes my remarks this morning. Thank you for the opportunity.

MR WEICKHARDT: Okay, thank you, good.

DR SAMSON: Okay, Alex, thanks very much. I'll perhaps start towards the end of your presentation and we might move backwards. Absolutely agree with you, your analysis about producer, shorter-term, immediate on-farm benefit, focus of research, government long-term cross-commodity et cetera et cetera; absolutely agree. You've said in your presentation that that cross-industry research can be done without an RRA, there's a better way to do it. Can you just elaborate on your thinking there, what you think that better way is?

MR LIVINGSTONE (G): Well, to be honest I mean it probably wouldn't come down to one person but if you put say a very small team of two to three people in each RDC and their job was to coordinate across industry projects and look for commonality between potentially grains and horticulture or, you know, livestock and something else, whatever the commonalities are I think you could do that for a lot less than $50 million a year. I think the message is fairly clear for the RDCs and certainly we would agree with it that individual projects done by different RDCs looking at the same thing is very wasteful. We don't agree with that waste. We think that there should be a more efficient way. Just creating another RDC that's going to cost $50 million a year to my way of thinking is not the best way to go about it.

DR SAMSON: In terms of the benefits of R and D that accrue to your members, how visible, how transparent or indeed, how opaque, is the R and D and the benefits that accrue to your members?

MR LIVINGSTONE (G): Look, if I could take pineapples as a particular example. If we go back about less than 10 years, the cannery ran everything. They told the growers what to plant, when to plant it, how much to plant and when it would be harvested and the growers basically provided land and labour. As the cannery has changed hands and reduced its influence over the industry, the industry through first of all the study groups and now through the levy paying group have moved into new breeds, new marketing techniques, much more emphasis on fresh product rather than cannery product and they're looking at substantial improvement and increase in the dollar value of the industry.

So introducing new breeds. From the time you plant a pineapple till you harvest it, it's two years. So in two years you've got some times when the plant is at particular risk, very early on, you've got root rot, phytophthora-type problems, so they're the key ones now at the moment that we're trying to solve. As that becomes more successful, more people are involved, we're actually able to - under the levy we're able to pay somebody who had a great deal of pineapple knowledge that used to work in the cannery and now has retired - so he has come back out of retirement and has the wide respect of the industry - so we're accessing expertise that we would not otherwise have. He works through us for the benefit of the whole industry. So there's, I think, nothing opaque about that. The results that he is achieving and the other key research growers are doing are being widely distributed.

Probably contrary to some other commodity groups, the pineapple growers tend to work together and see themselves as a single entity rather than competing with their next-door neighbour, which is a really good thing, and they get a lot more done. But I think they have a very bright future and more importantly, they believe have a very bright future, yet they have been through trial by fire over the last five years, no doubt at all.

MR WEICKHARDT: Alex, perhaps I make a comment and then ask a question. You said that it was naive for us to believe that farmers such as the group you represent would use the R and D tax concession to do their own research. I don't think we ever implied that. If you think there is a section in our report where we did then please show it to me, because we would totally agree with you. I think it's impossible that farmers would do that. Indeed, most of the research that the RDCs sponsor probably wouldn't even meet the new enhanced definitions under the new proposed R and D concession scheme to get a project up. It would be seen as being sufficiently short-term and adaptive and not risky enough to meet the new R and D tax concession requirements. So that certainly was not in our mind. It was not in our mind that research would necessarily be cut back, although you've queried our judgment that ultimately growers would step up to the mark and fund research that was essential for their existence or their ongoing financial viability.

The question, however, I wanted to ask you is that you said in both the notes your provided and also in your presentation that research is wasted - that we have made some comment that research is wasted to preserve existing industry structures. I'm mystified by that comment. What does that relate to?

MR LIVINGSTONE (G): There was something in our notes that - three assumptions that drove the recommendations that we found in your report is that - - -

MR WEICKHARDT: Well, I've read the words. I can't relate to this comment. So again, if you can show me where we've said something to that effect then that would be helpful, because it doesn't resonate with me at all.

MR LIVINGSTONE (G): Okay. Well, I'll find the reference to that and come back to you on that, if I could.

MR WEICKHARDT: Okay. Thank you, that would be certainly helpful. In terms of adoption you talked about before the fact that the research outputs are pretty visible and transparent to members. I mean what sort of rate of adoption do you see among your members of the work that comes out of the RDCs? Is it a very rapid uptake or there are a few early adopters and then a long list of people who you suggest are pretty busy and maybe aren't necessarily responsive to change because they've grown accustomed doing things the same way? I mean what is the situation?

MR LIVINGSTONE (G): Well, I'd specifically have to comment there in relation to pineapples, that the adoption rate has been pretty rapid, been very rapid. Again, we've only had one year as a levy-paying organisation, so most of the work has been done as a non-levy-paying organisation.

I think the rate of take-up can be very dependent on, I suppose, the end result. So if you're talking about chemicals that may be taken off the market and you can't use, depending on whether you use them as pre or post harvest and edible peel or non-edible peel will depend on what the impact is on your organisation. If you had to take up a new systems approach, for instance, because you don't have access to southern markets all of a sudden, then people take it up very quickly.

MR WEICKHARDT: You made some comments about RRA and said it looks a lot like LWA. I mean we specifically asked for input by people as to what the scope of RRA should look like, and we've already received some quite extensive suggestions about scope. If they were all part of the scope of RRA it wouldn't look very much like LWA at all, it would be a very much bigger organisation with enormous number of things that people who have been in the industry for a long time say are completely neglected, underfunded and ignored and yet they're vital to Australia's long-term agricultural future.

The issue before us is that many of those people who are concerned about those issues said to us despite the fact that this is, if you like, acknowledged or seen to be an issue by many in the industry: nobody is funding this stuff, nobody is doing this stuff. People are so preoccupied with the short term and survival that issues of biosecurity or looking at long-term issues of weed research or soil conditions or salinity or irrigation efficiency - people just aren't, according to these commentators, despite admonition from government, advice from academics, the RDCs have no funded this. So I hear your comment saying, "Well, you know, let's just get a few people together in each of the RDCs and they'll cooperate." 20 years of history suggests they haven't done it.

MR LIVINGSTONE (G):   Well, I mean how do you guarantee that RRA is going to survive?

MR WEICKHARDT: We can't guarantee anything. We're making recommendations and we certainly don't make any of the decisions associated with it. But we did note that a quadrennial funding arrangement such as applies to CSIRO or for some of the other long-term research organisations would be a pretty vital ingredient to try to actually make it survive. But ultimately these things will only survive if people look at them and think, "Gosh, that's a big organisation doing important work." So I guess the issue of its survival will depend upon whether or not in practice it turns out to be as critical and important and effective as we would hope it would be.

MR LIVINGSTONE (G):   Things you were mentioning, irrigation efficiency and things, we do irrigation efficiency projects now and the Reef Rescue project. So those things are being delivered, they're not being ignored. They're maybe not coming directly through the RDCs but they are there.

MR WEICKHARDT: Okay, all right. I suspect that people when referring to those sorts of things are talking about much bigger scale and cross-cutting type arrangements that I suspect none of the RDCs has the capacity to fund individually. Indeed, the biggest user of irrigation water in Australia, Dairy Australia, apparently consistently refused invitations by LWA to fund work on irrigation efficiency, which is somewhat counter-intuitive, but that's the sort of behaviour that has been witnessed in the past, which is why we've suggested the system doesn't seem to work the way you might anticipate it should.

MR LIVINGSTONE (G):   Look, I can't and won't comment on dairy but I can tell you that the Rural Water Use Efficiency program throughout Queensland has resulted in significant savings of water, massive, and actually more than the MDBA is looking for at the moment in the Murray Darling.

DR SAMSON: Alex, perhaps a final question from me, because I'm conscious of the time, we've acknowledged in the report that the model as it currently exists has many strengths.

MR LIVINGSTONE (G): Sorry, has?

DR SAMSON: The model has many strengths and serves industry very well in some ways. Inevitably those strengths revolve around the larger more established industries. We've heard from a few representatives of very small industries or new industries that they perhaps struggle a little bit within the model. The people you represent may fall into that category. If you had a magic wand and within broadly speaking the model as it currently exists you could significantly tweak a few things to perhaps increase the focus or increase the participation of the smaller industries, do you have any thoughts on that?

MR LIVINGSTONE (G): Well, I do, and as a matter of fact I'm having some discussions next week with some of the smaller commodity groups here in Queensland, because by being part of the RDC you access things and you get to talk to other commodity groups and you get to understand more of what is happening. But there is a significant overhead to that. A lot of the smaller groups, the people who come down to the meetings are volunteers. They're not getting paid and they're not taking anything out of the levy to do that. There is an overhead when you accept public money in terms of accounting for it, making sure that all of that is transparent and you can report back. So yes, the smaller groups do have difficulty with that.

If there was a way that that - if that burden could be - if they could be helped through that, certainly in the early days when they're fairly small, small groups, I think that would be a major benefit. Also, if the smaller groups can get together and get some economies of scale in terms of projects and interaction with the RDC - the RDC, we understand, has requirements to report back to DAFF in particular ways. They have to be open and transparent and accountable for their expenditure. Coming back down to the other end you're talking about people who are working at night doing this in their spare time and flying down to meetings and things like that. So if that not quite administrative burden but almost - if that could be eased, that would help the smaller groups significantly, I think, and it would leave - - -

MR WEICKHARDT: Unfortunately we're out of time, so we'll have to leave it there. Thank you very much indeed for your input. I appreciate your coming along.

MR LIVINGSTONE (G): Okay.

MR WEICKHARDT: Thank you. If I could invite our next participant, Canegrowers Australia, to come forward. Okay, thank you for coming along. If, for the transcript, you could give your name and the capacity in which you're appearing today, please.

MR MILFORD (C): Bernard Milford, senior policy manager of Canegrowers Australia.

MR MALES (ASMC): Warren Males, adviser, Australian Sugar Milling Council.

MR WEGNER: Malcolm Wegner, I'm a retired lecturer in agricultural economics at the University of Queensland. I've helped this RDC and this group with their initial submission and response to the inquiry. I'm not representing the University of Queensland.

MR WEICKHARDT: Thank you.

MR MILFORD (C): Commissioner, just to talk about the structure of our presentation, I'll give a round-up of the current industry situation. Warren Males will discuss the BSES model and its applicability in some of issues that it's currently facing and Malcolm will help us answer questions about any of the theoretical aspects of our submission. Just to mention that Canegrowers is a voluntary group that represents over 80 per cent of growers. We operate in a very wide, democratic, consultative manner. I think we have the ability to speak for the canegrowing section of the industry. The Australian Sugar Milling Council that Warren represents is a group of the millers in Australia and Warren will go through their structure.

I know that you're familiar with the other industry bodies in the industry since we actually met at the BSES headquarters, commissioner, but BSES Ltd is the sugar industry-funded and owned research body. SRDC, Sugar Research Development Council is our R and DC which is based her in Brisbane and Sugar Research Institute is a milling research group of consultants that operates out of QUT. Just to talk about some of the issues around BSES which, of course, was mentioned a number of times in the Productivity Commission draft report, what we're seeing there is crisis in funding. BSES is operating a deficit budget and has done for a couple of years. I've got a quote here from a report:

> As things stand, BSES cannot fund its normal operation from its recurring funding, let alone the necessarily investment in the DuPont joint venture -

which I will talk about in a minute.

The Australian sugar cane industry needs to remain competitive on the world stage. Australia has performed well in innovating in the past, but in recent years, confined by funding, has focused on a maintenance program. The necessity to remain internationally competitive and protect the future viability of everyone in the value chain into the future means that new and expensive technology needs to be deployed as a matter of urgency. Our international competitors are channelling huge resources into improving their position into the future and we need to do likewise not only to stay in, but to lead the game.

Just a little bit of history. The BSES had a compulsory levy in the last decade. That was sitting at around about 24 cents per tonne of cane. When the Sugar Research Corporation was set up, the predecessor of the current SRDC, that was reduced to 16 cents of which, and the funds through the SRC, eight cents of that went back to BSES. As time moved on, the SRDC changed its philosophy and the funding to BSES reduced and moved - it's fair to say I think the research offering of SRDC moved to a more public benefit rather than what the commissioner has called private benefit, although I personally disagree that there is such a thing as private benefit research in agriculture.

What that effectively meant over time and up until the present time is that a significant amount of industry funds have now been diverted into public research that were formally more directly involved in industry research and development requirements. At the same time the sugar cane crop dropped from 40 million tonnes to 30 million tonnes. The sugar price most of this decade was in the doldrums and the need to invest in GM research became apparent with our major competitor, Brazil, seeing huge influx of investment from the major GM R and D funders such as Monsanto, Syngenta, Dow and Bayer.

The response to this in recent months has been emergency funding from millers and growers to tide BSES over until a review of R and D has been completed and that amounts to approximately $10 million and the industry has hired Port Jackson Partners to do a comprehensive review of research structure and research priority-setting processes into the future. We see that as a very positive move on the industry looking at where it sits, what is required in terms of research and what will be required to fund that. That review is being carried out with consultation with all players, including SRDC, DAFF and DD.

A report has been prepared, what we're calling the stage 1 report, which is very broad and indicative but which sets some broad directions which will now be refined. Some of the outcomes of that would be that industry governance and priority-setting processes need to be improved. BSES needs to review its current activities with potential to contract to a number of core activities. Of course there will be a lot of debate and discussion within the industry to define what is a core activity. Look to local areas to make decisions on additional services and also over time to bring together BSES, SRDC and SRI to achieve common direction and economies in administration.

The industry at this stage has acknowledged that it is a difficult time and what they would want from a Productivity Commission report would be that there should be ongoing support for research in the industry and, as Warren will discuss, the need to ensure that there is a recognition of the public benefit in even what the commission's draft report refers to as private benefit research. There is a need to facilitate moves to streamline industry research structures. We certainly feel that there are benefits in bringing together the research bodies and the research funding bodies in terms of common direction and we believe it's appropriate that those structures be able to be put in place without significant government impediment.

I guess one of the reasons that we're going through this in some detail is to perhaps counter an impression that might have arisen from the commission's draft report that a model of grower-funded research or in this case industry-funded research such as BSES was an appropriate model. That model in the sugar industry at the moment is undergoing significant stress and I will hand over to Warren to discuss a little bit more some of the current BSES issues and some of those issues relating to what I see as false distinction between private research and public benefit.

MR MALES (ASMC): Thanks, commissioner. It's a pleasure to make these remarks this morning. Thank you for the opportunity to do so. As Bernard mentioned, the Australian Sugar Milling Council is a voluntary organisation, like Canegrowers. ASMC was established in 1987 to represent Australian raw sugar mill owners. It works with its members, with cane growers, with other industry organisations, with government and through the recently established Australian Sugar Industry Alliance to develop and to promote policies that enhance the commercial development of the sugar industry in Australia. It's this focus on enhancing the commercial development of the sugar industry in Australia that really was the focal point of our thinking as we reviewed the recommendations in your draft report.

Proposed changes to the research funding will make the task of enhancing the commercial development of the sugar industry more difficult if they become the final recommendations, and indeed if implemented. As you have mentioned, you make recommendations, somebody else makes decisions. We are concerned that the recommendations, if implemented, will result in less funding of R and D and will result in restructuring of the RDCs in a way that tries to disentangle the private and the public benefits from research in a way that is probably not easily done. As Bernie has described, under the current funding and operating model, BSES and sugar industry R and D is in crisis, and that crisis is there despite the fact that BSES relies on some 45 per cent of government funds for its income.

As Bernard has described, the model is broken. The industry recognises this and it is working to resolve the situation. It has put in place short-term funding arrangements so that BSES activities can continue in the next couple of years while a deeper review that the Australian Sugar Industry Alliance has commissioned Port Jackson Partners to undertake proceeds. The challenge for the industry moving forward will be to execute the reforms that are required quickly and carefully. Decisive action is what is needed. But, as I say, it will need to be done carefully. We are concerned that the Productivity Commission's draft recommendations, if carried through to the final report and implemented, will make that task of restructuring the R and D in our industry more difficult.

If I can just digress for a moment, it's clear that rural industry R and D has helped Australian agriculture become a world leader in a number of industries. In no industry is this more apparent than the Australian sugar industry. Our industry is a leader in plant breeding and variety selection; farm layout and design, whether that's in the dry tropics or the wet tropics; precision agriculture; harvesting technology; cane transport, the cane transport task of delivering some 30 to 40 million tonnes of biomass to the factories, it is a larger transport task than in the Australian cereals industries; we are also a world leader in factory performance, crop brought to the storage and handling. These technologies in each of those segments of the value chains have been developed over 100 years.

The industry has led the way and does lead the way and is recognised internationally as a world leader. BSES and the Sugar Research Institute have been the central contributors to this outcome. BSES's funding, as Bernard has described, has been squeezed in recent years. The genesis of the change was in the initial funding of an SRDC. As Bernard described, initially a third of industry funds provided to BSES were diverted to SRDC, along with additional industry money, to be matched by funds from the federal government. At the time the SRDC committed to return the funds to BSES in untied funding, plus funds won competitively from their R and D rounds.

By 2003 SRDC had unilaterally changed these arrangements. SRDC had switched its priorities from development of new crop, new varieties, crop management and protection to value chain integration, human resource development and changed management; quite a sharp change in focus. A key driver of SRDC's research priorities became the national research priorities laid down by the federal government. Industry priorities appeared to be given less significance. A quote from the SRDC annual report of 2008-2009 illustrates this, it says, "In addition to the national R and D priorities, SRDC is also guided by industry priorities."

We agree that there are both public and private benefits from research, I don't think that's in doubt. The sugar industry recognises this, it values both and is working to ensure the long-term viability of the sugar industry's R and D structures.

Private benefits and public benefits cannot easily be disentangled. Improved varieties, farm management practice, fertiliser use, chemical use, et cetera deliver huge community and environmental benefits, as well as the obviously private gains. An area of significant investment going forward is the development of GM cane varieties. GM sugar beet is a reality in North America, and our competitors are investing heavily in GM cane research and development.

Australia simply cannot be left behind, and funding of BSES and the DuPont activities and others is an important area of concern for the industry moving forward. The industry is of course rising to meet the challenges, as evidenced by the Port Jackson Partners review of R and D. Plans for restructuring the industry's R and D activities are being developed, in consultation with all parties in the industries. Those final structures are to be agreed. But the structures, the priorities and the fundings need to be aligned. Not all Australian agricultural industries are the same, that is quite clear.

They all meet their own challenges in different ways and by doing so they contribute effectively to the national R and D priorities and deliver both public and private benefits. The challenge for government and the Productivity Commission in this review is to recognise the diversity in Australian agriculture, the integrated nature of the private and public benefits and the different pathways forward; and to develop a set of recommendations that will facilitate change, not stifle it.

MR WEICKHARDT: Thank you very much indeed. I'll just make a couple of quick comments, then we'll move to some questions. You said several times that you want recognition from the Productivity Commission about the fact that most research and agriculture has a mixture of private and public benefits. I think, in the extreme, you said, "There are no private benefits in agriculture."

MR MILFORD (C): I stand by that one.

MR WEICKHARDT: Well, we could have a long argument about that, but I think the evaluation work that has been carried out by almost any economist would point to very large private benefits which have been accrued. We accept the fact that there's a mixture of private and public benefits, we haven't disputed that at; we are in heated agreement with you. In fact it's a good thing there is a mixture of private and public benefits.

The issue we tried to tease out in the draft report was the concept of additionality. What we're saying is the government only has a limited amount of money to spend and government should spend money where it and only it really would fund a set of research, and, if there are good reasons why industry could or should fund that research, government funding that area is really not using our taxpayer money wisely. So that was an essential point to which we were trying to get. The issue however that you might like to comment on - you say that in your view the concern from our recommendations is that there will be less money available for sugar research and industry-specific sugar research, and I think I'm right in broad order of magnitude that the sugar industry estimates it spends about $60 million a year on total R and D.

MR MALES (ASMC):   That's correct.

MR WEICKHARDT: At the moment I think the levy from the government is about $5 million a year.

MR MALES (ASMC):   Five or six, yes.

MR WEICKHARDT: So what is at risk here, potentially, is two and a half million dollars a year. For that what we're saying is that the RDC should be able to focus on things that are of industry-specific benefit to it. It should be capable of looking to this new organisation, RRA, to do some of the cross-cutting longer-term social and environmental good work that would not be funded otherwise by industry. So I would have thought that two and a half million dollars is a lot of upside, potentially, from the situation you described as existing in SRDC at the moment. However, the more critical issue to me, and you might like to comment on this, is here you've had BSES funded mainly by levy payers and you suggest its in crisis and its priority setting has not worked well. I mean there's a fundamental issue in terms of governance assumed by the RDC model that the industry will actually work in its own self-interest and will set priorities and do work, both short term and long term, that actually helps the industry. So why has this failed, do you believe?

MR MALES (ASMC):   Perhaps I could start at the beginning of that: no private to public benefit. I guess my comment there was really not that there is no public benefit and no private benefit. I hundred per cent accept that. I would argue though that wherever there is a private benefit in agriculture there is also a public benefit.

MR WEICKHARDT: And I suspect vice versa often applies.

MR MALES (ASMC):   I actually couldn't agree more - and that's not the point that I'd like to come to. Yes, I mean if we were to have a scale of one to 10 with this is pure private and this is pure public I believe that the outcome from almost any research that I can think of - it sits somewhere between seven and three.

MR WEICKHARDT: We're probably in heated agreement on that.

MR MALES (ASMC):   Terrific. You've asked about the impact of SRDC I guess being freed up, if you like, from current requirements for public research but facing a future with a smaller amount of government money. The question then is would industry funds be available to match that. I think really one of the issues that makes the position that you take difficult is the issue of what is an industry and how does an industry make decisions? An industry is not a single economic entity. An industry is not a single corporation that can make the sort of rational decisions that BHP and Woodside always make.

MR WEICKHARDT: I don't know whether they always make them either.

MR MALES (ASMC): An industry is a large number of people that have to come to a collective position through representative bodies, in some cases, in other cases directly through voting on a levy increase, for instance. I think it's fair to say that it is very difficult to get farmers, industry, growers, producers to all agree to a particular set of funding arrangements, for instance, for all of the reasons that argue against growers - total funding of research: its long-term nature, its riskiness, the issue of the free riders and so on.

You asked a question to the previous speaker, Mr Commissioner, about can they name - could you name - are growers conscious of the value of research? I would say in the sugar industry a lot of growers are conscious of the value of successful research. What they are not necessarily conscious of or sometimes very painfully conscious of is the results of unsuccessful research either through stuff that they've never seen that they've paid for or through stuff that comes out and later on turns out to be not such a good idea after all. So you know, there is that enormous difficulty of making a rational decision about how much should be spent on research when there is so much unknown and at risk in that situation.

I think your question about how has the industry got itself into this situation - what we have is a couple of bodies that fund research and do research that are not, at the present time, well coordinated in terms of industry priority setting. I see that as the fault of the industry, not necessarily of those bodies, and I look you in the eye and say we have not been successful as an industry in being able to articulate where we see the industry going and what we want - you know, where we want the industry to be in 20 years and what therefore want the researchers to be doing now. That is an issue that we are addressing through this current review process. It was an issue that came up in the development of the national sugar industry research plan. I think we can develop the proposals that are in that plan to a higher level of acceptance and participation than we have at the moment.

But I do think that illustrates, once again, the difficulty of an industry like ours making a decision and deciding to spend on research until marginal cost equals marginal revenue, which we'd all agree is the appropriate amount, because there's so much we don't know about marginal revenue and a fair bit we don't know about marginal cost.

MR WEICKHARDT: And research is inherently uncertain and risky.

MR MALES (ASMC): For those reasons, yes.

MR WEICKHARDT: Cliff?

DR SAMSON: Bernie, I think it was you who said that agriculture is a very diverse sector and that no industries are particularly the same. We'd absolutely agree with you. We've said in the draft report that one of the strengths of the current model is the ability of the commodity-based RDCs to deal with their levy payers, hence we still have in the draft report 15 RDCs. I think people forget that when we went into this exercise there was a fairly strong expectation that we would come out of it with a number less than 15.

MR MILFORD (C): We're pretty grateful for that. Just thank you, for the record.

DR SAMSON: But look, coming back to the back of the envelope arithmetic that Philip and you guys just did on the 60 million total spend and the government contribution, I mean just to get real about this, we accept that your industry is looking very hard at alternative ways to manage its R and D, given the circumstances you find yourself in. But the reality is if our draft recommendations, if they became final recommendations, if the government accepted them, we are talking about a reduction over a 10-year period of two and a half million dollars. Now, are you really saying - sorry, I won't put words in your mouth. What would be the real impact on where you think you want to go in this rationalisation of the R and D effort off a base of roughly $60 million of a reduction over 10 years at two and a half million? Can you help us - one of the things that we're very conscious of and we're seeking not to do is to generate a whole set of unintended negative consequences of our recommendations. So it is very important for us to get people like yourselves to help us really sort of ground truth - if this happened, given your understanding of the industry, what's the real impact at the end of the day?

MR MALES (ASMC): If I could make some comments on that. The work that Port Jackson Partners has done when they're looking at BSES's funding structures over the long term - have identified a very significant funding shortfall that is emerging. That's, if I recall correctly, in the order of 50 or 60 million dollars over the course of the next three of four years. The two and a half million dollars that you're talking about withdrawing from SRDC would be funds that would be not able to be allocated in whatever way the SRDC determined to research in the Australian sugar industry. It would clearly make the task in front of us more difficult, because it's not just BSES that requires R and D funding, we're looking at how BSES works with its fellow institute, the Sugar Research Institute, and SRDC together, getting alignment of research priorities across our industry, getting spending and funding coordinated, so that we are meeting the range of requirements that lie ahead.

The funding requirement for BSES that I've described is made all the more severe if we account for some additional requirements that may be needed for the joint venture that they have with DuPont. So we're talking about significant dollars. We are talking about a majoring restructuring that is required in the sector. Two and a half million dollars I guess if you say it quickly sounds like a small part of 65 million, but you know it's still getting on to be four and a half or 5 per cent in total. So it is a significant change in total funding going to our industry.

Coming back to a point that you made earlier about all the agricultural industries being different; they are. The sugar industry quite clearly has its own challenges, in terms of environmental management, simply its location in the tropics and where it is means that almost on a daily basis it's dealing with social issues as well as the private issues of profitability and productivity on the farm. I don't want to say anything against any of the other agricultural R and D corporations, but I suspect the sugar industry research activities deliver probably more social and public benefits. It certainly has a strong focus on delivery of social benefits, in terms of managing the environment, and more risks associated with that than many of the other agricultural industries.

When you're looking at moving funds from the sugar industry into another RRA, maybe that's sensible from an abstract and from a theoretical perspective, but when you're talking a practical perspective of moneys spent in an industry, given the sensitivities of the industry, given its locations, I think there are very strong arguments for looking at these RDCs differently, one from another, and perhaps seeing that, if an RRA is a good idea, maybe the funds should be coming from another source, rather than "robbing Peter to pay Paul".

MR WEICKHARDT: Thank you very much. I suspect we could continue for at least another hour on this. There are some very big issues you've raised, and extremely interesting. The benefit is we have got I think two further participants talking about sugar; so maybe if you are able to stay around, even over a cup of coffee, we'll talk a bit further about this. But thank you very much indeed for coming along.

MR WEICKHARDT: If we could ask the SRDC participant, please. Welcome. If you could give your name and the role in which you're appearing today, for the transcript, please.

MR CAUSLEY (SRDC): Thank you, commissioner. My name is Ian Causley. I'm the recently-appointed chairman of the Sugar Research and Development Corporation.

MS SUGDEN (SRDC): Annette Sugden, executive director.

MR WEICKHARDT: Okay, over to you.

MR CAUSLEY (SRDC): Thank you for the opportunity to give some evidence before the commission. I suppose I should say that I've had a lifetime in the sugar industry, and, given the grey hair, that has been a few years. Also, I did spend some 25 years in both state and federal politics, so maybe I could make some comment on the social public good and political issues that might be involved in some of this. First of all, could I say that you have acknowledged the importance of research, there's no doubt about that. I think the sugar industry has been a very good example over the years of the benefits of research.

There's no doubt that the industry has always been able to maintain its very high standards with the research that has been done over the years. I can remember most of the programs and most of the people who did them and the implementation of them. So it has kept Australia right to the fore as far as competitiveness and is probably one of the most efficient industries in the world. But in this world if you let down your guard then someone else is going to take over, and that's probably where we stand at the present time.

The fact that there is money available from government to help in research I think is very important, in Australia in particular. I do recall when the program was initiated. The carrot at that particular time to producers to pay a levy - which is another form of tax - was that the government would make a contribution towards it as well. I think that contribution from the Australian government is very important, because we live in a fairly affluent society, but along with that goes high costs. Because of the egalitarian society we live in and the high wages we pay, there are significant costs.

The only way that the Australian industries can keep ahead of that is to make sure that they are efficient and that they are able to produce at a competitive price. If you look around the world of course there's plenty of evidence where other producers are subsidised or protected. We have never had that, even though we do get this support from government, which I daresay could be classified in that area.

MR WEICKHARDT: I think "never" would be an incorrect statement.

MR CAUSLEY (SRDC): I'm sure the Americans would say it was a subsidy, yes. But it's in that sort of scheme of things that we have to look at it. I would see any reduction in the amount of support that is given to industry as being fairly negative at the present time, probably even to the extent that it would put us in a very significant situation, as far as competitiveness is concerned. Other industries in the world are catching up fast.

Brazil, which is a very big player in this game at the present time, is fast closing that gap. So Australia has to be well aware of that and maintain a very competitive position. Also you have to understand that the sugar industry to Queensland is a very vital industry, it is the big coastal industry in Queensland, and any detrimental effect on that industry would have huge social implications right along the eastern coast. So we have to keep that in mind I think in saying that that's why it's so imperative that we support the industry.

You have said in your report that you believe that there wasn't enough so-called "blue sky" research, and I think you probably just heard from the other side of the industry that they think that the SRDC does too much of that. Some 19 per cent of budget goes to projects that would be considered I think in this category. The fact is if you look a multiplier effect, over five years the multiplier is probably 2.5 to one; over 10 years it's five to one; and if you go out further to probably 20 years, it's about ten to one. So it's a significant support for the industry, the help that it gets there.

If you're a grower, or maybe even a miller, you look at what you can get in one or two years. Unfortunately, research is not like that, and, because we have had productivity gains over the years, it's probably even more difficult to get those percentage gains now. With the research that you put in from time to time you mightn't see the benefits for a while, but those benefits, if they come through of course, give you a competitive edge. So I think it's something we really have to keep in mind, the fact that this is important.

The other area, with SRDC, you said that there are probably too many small projects. There's not a big funding in a lot of those small projects. Most of the innovative ideas in agriculture in Australia has come from farmers. The mechanical cane-harvesting machine came from a farmer, your combines in wheat came from a farmer, the stump-jump plough, the list goes on. So those small projects often give some good returns. Also if you look at scholarships, particularly in the area of research, it is difficult to get students these days to get involved in science. So scholarships, I think, are important for our long-term future as far as the research and development in the country. It is something, I suppose, you could be criticised for but you really need to look closely at the results, I suppose, at the time.

Questions have been asked about research and how quickly is it implemented in industry. I'd have to say to you that in my time in the sugar industry that farmers are fairly quick to pick up anything that's going to give them a return. If they see something, even their neighbour something that's successful, they'll copy it. If research indicates a certain variety or a certain method is going to give them a return, they will soon implement that. They are very quick and very adaptive. So I'm not so concerned about how quickly it's adapted, if it's successful research, if it shows returns, it will be adapted very quickly.

The comment you made earlier that unnamed people were saying that there was certain research not done here and not done there and weeds et cetera et cetera, can I say to you that in the past that type of research which growers would see not giving them an immediate return, even though it might fall on them later, that research was done by funding of CSIRO through government or funding of the state departments of agriculture. The bean counters have cut that out. That, I think, is putting a fair bit of pressure on research in these areas and it probably is reasonable to say that some of that research isn't being done because it's not giving or can't be seen to be giving an immediate return.

The so-called public good which is something that is fascinating a lot of people, as far as I'm concerned and I probably come from a different generation, but food is public good to me. Export income is public good because it's all spread throughout the community. But if the government believes there is not enough money being spent on their idea of public good, in my experience as a minister you have to identify what the public good is. What do they want research done on? Make it very, very clear. I'm sure that industry and especially SRDC, which is government money, would certainly take into consideration the needs of the government in that area. Now, if it's levy payers paying for what could be seen to be political public good, then I think there would be a bit of a rebellion. But, I mean. that's the politics of it and governments have to face up to that. If they want certain research done, then they have to identify what that research is.

As far as some of the research and the RRA, I'm very concerned about setting up new bureaucracies. I can see the argument and I think that there are areas that there could be collaboration. There is no doubt that plant physiology, soil, maybe some of the biochar and that type of thing would be across industries. Surely the RDCs can get together and agree to go out and do that research if it's necessary if there are benefits across the board. I don't think there's a need for another RDC or another bureaucracy, I think that's apparent.

Just quickly on some of the comments earlier from Canegrowers and the sugar millers, there's no doubt there's got to be some rationalisation of the organisation in Queensland. Of course, New South Wales is tagged in that, they're 5 per cent of the industry. The BSES has served the industry well, no doubt about that. But we live in a different world today and I am a little bit disappointed with the report from Port Jackson Partners. I think that it's not a good consultant's report. It doesn't identify alternative structures and I think a consultant should have looked at other industries around the world or even other industries in Australia and come up with a model that they thought would work. They have not identified savings, I think they've identified savings of $800,000. That's not going to solve the problem.

I think the industry has to come with a clean sheet of paper and leave some of the historic prejudices behind them behind them and start again because I think there are some definite areas that can be agreed on. There's no doubt that there should be partnerships either with some of the research organisations in Australia or the private sector and BSES then has to come back to say, "What is absolutely important? Research that someone else won't do? What is absolutely important for BSES to do to serve the sugar industry." I will leave it at that, Mr Chairman, unless Annette wants to add anything?

DR SAMSON: Thanks very much, Ian, for that contribution. As we've said before, just to try and explain a bit of where we're coming from on some of the issues that you raised, we have acknowledged that all of the 15 RDCs are unique. We have been very conscious of not trying to impose what we believe is an appropriate solution for, say, a problem in one of those RDCs on the other 14. So we've tried to adopt a principle based approach to our recommendations and we accept that a principle can be operationalised in many different ways and those different ways can reflect the genuine differences in the RDCs. If the principles are skill based board or they're a valuation process or how you separate R and D from marketing, we think those are the things that need to be done. How you as an RDC choose to operationalise that legitimately, that's your concern. So I think we're not far apart in respect of that.

But we don't resile from the belief that across the board the government has become increasingly focused on what it's getting for its return on investment. I absolutely agree with you, I don't think that the governments have been particularly good at articulating what they want and 20-odd years of operation of the model seems to demonstrate that that tension is not going to go away through anything that is currently happening and is probably going to get worse. Hence we came up with a notion of an RRA or something of that ilk to try and deal with that tension and allow the RDCs to get on with what we think they do extremely well, which is deal with their industry, and you know all that.

But we are very open to - if people have any other suggestions of how to deal with what we believe is a growing tension between the levy payer driven research and the not particularly well-articulated wishes of government - if people have better ideas, we'd love to hear from you. But "if well-meaning people get together and talk about it, collaboration will ensue" - we have to say after 20-odd years that doesn't seem to be the case. So we are genuinely interested, we believe it's a real issue, that tension. I have seen the RDCs in the last five years spend more and more time trying to deal with that tension and with a lot of good will but often told at the end of it by government, "Well, that's not what we wanted." I know it's frustrating, but it's not going to go away.

Hence our solution is an RRA. If people have modifications on an RRA or a different way, but it's going to have to be, I think, a bit more detailed and flesh on the bones than "well-meaning people will get together" because there is a spectrum, as I'm sure, even in your short time in this area - almost another issue. With 15 entities there is always a spectrum of enthusiasm to engage, if I can put it that way. So I'm afraid that was a bit of a diatribe but it's clear, really, if subsequently you are prepared to put anything - another submission in or whatever, we would really welcome any ideas.

MR CAUSLEY (SRDC): Well, I dare say I started 40 years ago in the Sugar Industry Organisation, so I've seen most of the arguments over the years. But what you were saying, I think, really comes back down to money, because if you did set up another RRA then there's going to be money involved, there's no doubt it's going to go there. My experience in government is if the government had an organisation such like that they would put their government money there. It wouldn't be necessarily coming back as support subsidy or support levies to the industry.

Now, if they want that sort of research, and even if it is agricultural research, I still see that as being very important for Australia. Over the years CSIRO, funded through the government, has done a lot of good research for agriculture in Australia, a lot of good research. So it comes back to money and whether the finance ministers and the Treasury - and I've fought with Treasury for some years - is that whether they're prepared to fund it. That's what it really comes back to, I suppose. The only cross-sectional research - if the RDCs can't get together well then that has to be funded some other way, probably, but I wouldn't take the money from the RDCs.

MS SUGDEN (SRDC): I wonder if I might add a point there. There's an ongoing argument that the rural R and Ds don't collaborate. In fact, they do. They have done for quite a long time. That's very strongly evidenced by things such as the national program for sustainable irrigation, farm health and safety initiative, capacity-building programs that have been out there before - there are many of them. They don't all go for a long time because it's about delivering something that's timely and targeted and really relevant. I think we need to keep in mind that research is an ever-changing spectrum and that one of the better options is to embed a flexibility within our research collaborations and to make it an opportunity there for annual prioritised and timely research to be done. I don't think an RRA is going to achieve that. I think we're putting in another layer of overheads there. Within our current structures we already have a very strongly functioning council of R and D chairs and we also have a very strong group of business managers and research managers who do work together. Enhancement of those structures would be much more cost effective and more relevant.

MR WEICKHARDT: Okay. Thank you for your comment.

MR CAUSLEY (SRDC): Just quickly, I forgot to mention earlier that on the issue of funding that if you have a look at the real dollar value today of the funding that's coming through it's much less than what it was originally, because - just the depreciation. I would argue that in fact if anything that the government should go back to the real value of the dollar that was put in in the first place.

DR SAMSON: It's interesting because when John Kerin, of course, first introduced this model a rarely quoted part of the introduction was the intention of the government at the time that over time the government's contribution would reduce; but that's a rarely quoted part of the second reading speech.

MR CAUSLEY (SRDC): It probably wasn't a political imperative for him.

MR WEICKHARDT: Could be. But I mean the issue of the real value of the government contribution is to a degree a feature of the way the levy is constructed, which is to a degree driven by the industry. Some industries like the grains research people have a percentage of GDP. So to the extent that GDP reflects the value of the crop it doesn't necessarily inflate at the same rate as inflation because of course the price of a commodity is also being pressured downwards. But that has a different effect than the effect of some that are - a levy per goat or per sheep.

But can I come back to a couple of comments you made. You raised the issue that we commented on about blue sky research. I think in the way I heard you anyway, there's a bit of confusion about blue sky versus public benefit research. The point we were making is that even if the commodity-specific RDCs were to focus on things that were productivity enhancing for that particular RDC or that industry, because they still would be receiving - even if our recommendations were accepted they still would be receiving a relatively generous contribution from government. There would be a responsibility for them to do some longer-term what we call blue sky deal changing type of research as opposed to a multitude of very short term cross-cutting research. I think what I heard the previous participant say is that the industry hasn't been doing enough of that deal changing sort of breakthrough type of research. It may be has been - through SRDC, you might dispute this - but it may have been doing too much public-good research.

The issue of public-good research of course is an area that's hotly debated. I think as a generalisation the agricultural industry has a view that if they do things that most people in the world would see as part of the responsibility of the industry to continue to operate in an ethical and sensible manner in a sustainable manner - the agricultural industry seems to say, "Oh gosh, that's public-good work." I mean avoiding poisoning the Barrier Reef or poisoning a creek might, in the view of a farmer, be public-good work, but I think most people would see it as the moral obligation of the industry. It's almost a community right-to-operate deal.

I'm sure BP, when they were being asked to stop the oil leaking out in the gulf didn't say, "Oh look, we're only doing this because of the public good." Their whole company was at threat because of the moral indignation that they were doing something wrong. Of course that's a very dramatic example but I think often there's a confusion because people in agriculture see anything that has some sort of implied benefit for society is somebody else's - you know, they're doing it just for that reason. They're not. They're doing it because quite frankly if they didn't do it they wouldn't operate. The cotton industry we were speaking to yesterday would concede they probably wouldn't be in business had they not attended to the issue of contamination of waterways and things of that sort.

I guess then if I can come to a specific question. The previous participants spoke about, and I think you alluded to, the Port Jackson Partners report recommending some form of integration between SRDC and BSES. I recognise this is still early days but is there any concept that you've got at this stage of what then the RDC for sugar would look like? Would it become an industry-owned corporation? Do you see it still being a PIERD Act organisation or is this still very premature in terms of the sort of discussions going on?

MR CAUSLEY (SRDC):   Well, it hasn't really been discussed but it could be either, I would suspect. The fact is that there has got to be some - I mean we tend to think, I suppose, in the past and say, "Well, how do we support the finances of BSES," but there are other players in the field. As I said, I think that you've got to sit down and work out exactly what you want BSES to do, what others can do, what can the private sector do - and they probably will do. So you separate up those areas. I think that it can be done but what I did say was that I don't think the model put forward by Port Jackson Partners is the model. I think there's a lot of discussion that needs to go into that before we come to any conclusions there.

Now, just quickly going back, and I won't let you get away with this - where you said that if you're poisoning a creek or poisoning a reef. Well, I say show me the science, because it might be a good headline for a newspaper but often there's no real science to back up some of these statements.

MR WEICKHARDT: Well, you can't claim that you've done good by stopping doing this if you're saying that you didn't really believe it should have been done in the first place. So I think the submission by the sugar industry has alleged this is a great example of a public-good work that has been done. So I'm only quoting your own example.

MR CAUSLEY (SRDC): I think there's no doubt that farmers accept that they have to do the right thing. They accept that, I mean generally accept that. But sometimes the public image that comes through from government forces them to do things too.

MS SUGDEN (SRDC): The other thing we need to realise is that farmers have a very strong interest in sustainability because it's their livelihood and their families' to come.

MR WEICKHARDT: Sure. There should be a coincidence of self-interest there.

MS SUGDEN (SRDC): There should be, but again it's a long-term vision. It's not just doing things for public good or for private good.

MR WEICKHARDT: Okay. Cliff?

DR SAMSON: No, I'm pretty good, thanks.

MR WEICKHARDT: Well, may I thank you and other people from the sugar industry who have submitted to this inquiry and hopefully will continue to do so. This is a general comment but the input from the sugar industry has been very helpful. It is an industry that has over a large number of years demonstrated its belief in the importance of research and has a track record to show that and interestingly is an industry that has personally paid - if you like individually the industry has paid for a lot of that R and D without necessarily always expecting the government to put its money out. That's a good example, I think, of what we're trying to tease out in this area.

There are some of the industries we've spoken to here who would say, "Unless the government put a dollar in I won't put a cent in." Sugar, understandably, will say, "No, we wouldn't like the government to pull any money out of this." But the input we received from you about your thinking and development and the Port Jackson Partners work is a good example of the industry I guess taking responsibility for its own future and thinking through the issues that are impacting it. So any further work you can give us or progress reports you can give us of your thinking in this area generally will be very helpful. Much appreciated. Thank you.

We're going to adjourn briefly now and we are breaking till quarter past 10. Thank you.

MR WEICKHARDT: Our next participant is the Australian Cane Farmers. If you could give your name and the capacity in which you're appearing please.

MR RYAN (ACFA): Stephen Ryan, general manager, Australian Cane Farmers.

MR WEICKHARDT: Over to you.

MR RYAN (ACFA): As one of the three rep bodies under the EPPRD, we wanted to take this opportunity to register some of our thoughts and comments. So I'm speaking on behalf of the board of the Australian Cane Farmers. The Australian Cane Farmers - the ACFA, as we abbreviate - has a strong mandate to increase innovation and productivity in the industry and we strongly support R and Ds, the mechanism to do so.

Contemporary debate is focusing on the strategic importance of Australia's food production and issues of public good such as Australia's water resources. I'd like to note that on 9 November this year the Australian government in its 2010-2011 midyear economic fiscal outlook announced $1.5 million to develop a national food plan. That heads up the issue that this concentration of focus on food and agricultural assets points to an increasing commitment to the sector in the national interest. Responding to the comments by the Productivity Commission, we believe that government should continue the arrangement that was originally agreed in 1989.

We think that the current model offers an impartial and transparent and competitiveness and equitable mechanism for all investment activities and investors and that it encourages a forward-thinking and long-term vision, and that the current model supports investment across a broad range of areas, including some of the more blue sky research, allowing risk-sharing and in doing so also encouraging commercial investment.

Regarding a reduction in government contributions, we do not support this. Australian industries, as was mentioned previously, do have to keep up a very competitive edge in a heavily subsidised environment. It's not always easy to do so, so we need to innovate, and we believe that there is a strong and ongoing role of government required to assist in that. Also, this year our industry is receiving some very high prices, which provides an opportunity for stakeholders to think about the future.

However, this particular season is pretty much a disaster, and so the funding for RD and E will be affected at the end of this year, the accounting in arrears will be sadly affected, and also probably the next two years will be quite severely affected because of damage to return crops and probably a failure to complete harvest in many places. Also, the planning regimes are drastically reduced and that will have an ongoing effect on the yield, and subsequent income.

Regarding support for a cross-sectorial research investment, we think that this brings both leverage and opportunity to learn from other industries and that it should be undertaken on a cooperative rather than a compulsory basis, allowing each sector to choose areas of the greatest potential industry and community benefits, as they see them. Perhaps this could be achieved through, for example, a panel of RDCs, industry and government, meeting to determine the priorities for that and the delivery agents and funding for that cross-sectorial activity.

Regarding an establishment of a Rural Research Australia, we do not support that. I think that it partially overlooks the work of the Rural Industries Research and Development Corporation, which does deal with some of these issues, as previously noted by other speakers; and that there is evidence that programs such as managing climatic variability and farm health and safety which have been long-running and successful activities and which have used inter-RDC capacity to achieve outcomes.

Regarding ongoing review, we support the proposal that regular reviews be taken; however, noting that that should be commensurate with the size and budget of the organisation, and in recognition that there's already a large number of checks and balances in place to monitor and manage that investment and that the review process should be driven by the timing of five-year plans with reviews appropriately midway and just before the end. Regarding maintaining the current model, the ACFA has confidence in the current structure and the current model and we think it's working well for the sugar industry in particular, according to the needs of our industry and the original intent of the PIERD Act.

Optimising the model for a particular industry is the responsibility of the stakeholders of that industry, not necessarily an overarching model and that if the model is to be improved with respect to the sugar industry, that it's probably best up to the stakeholders to plot the appropriate course, not necessarily change the vehicle, which may or may not be appropriate for other industries. So at present we're happy with the structure and in particular happy at present with the SRDC structure as it is, answerable to the Australian sugar industry.

So can I just conclude that contemporary political thought is indicating an increasing role for government commitment to the sector and the national interest. The RDC model is working well and the original intent should be maintained. The RDC model is transparent and competitive, optimising the model for a particular industry and its stakeholders. The ACFA supports cross-sectoral research and investment and does not support the establishment of a new RDC focused on public good research. We provide in principle support for ongoing reviews and the structure should be retained as a separate entity servicing and answerable to our industry.

The government's contribution should be maximised. A forward-thinking industry will need all possible R and D funding in order to remain competitive in a highly subsidised world market. We are playing almost entirely in a globalised market. We urge the Productivity Commission to think of the longer term and of the impact that the industry's restructure of milling research has had on the industry capacity in recent times and also just to note a caveat that changes could also result in a loss of momentum when we can least afford to have that.

DR SAMSON: Thanks very much, Stephen. If I could just sort of pose the same question to you that I did to the SRDC to Ian and Annette in regard to this establishment of an RRA or whatever. I mean, that was our attempt to deal with an issue which we think is a real issue. I acknowledge what you said and what Annette said that you can point to examples under the current system of collaboration, but there aren't as many examples as there should be and some of those examples that have happened have had an extraordinarily painful birthing process. It does not come naturally under the current model, I'd suggest, and we perhaps should reflect why we're here. We're here in part because the government stakeholder is not happy with the system. So almost you could say the status quo is implied not to be an option at the end of the day. So we are genuinely looking at ways of how to deal with that.

So, as I asked Ian, if there is any thinking that you have or you could develop about in more - the answer needs to be more, in our view, than saying, "Yes, the 15 RDCs hear the message. We'll do better. We will collaborate more in the future." I'm afraid after 22 years that's not going to be enough to carry that idea over the line. So there needs to be a bit more meat on how that will happen. So if you have any thoughts now, great, but certainly we would encourage you, as we have asked others to do, to give some thought to that.

MR RYAN (ACFA):   I'll just say I don't think very many people would argue against trying to achieve those objectives, probably more the concern is just with what was outlined and I realise that was only something in the first instance as a schematic but most probably it needs a lot further thought and industry involvement really and not the subject of another inquiry but certainly another process of involvement to achieve those objectives.

DR SAMSON: If those close to how the system currently works are best placed to come up with the most workable solution often, and so we're just putting it out there, if people have got specific ideas about how that might happen, we would appreciate it.

MR WEICKHARDT: Stephen, you, in your wrapping-up comments, made a slightly enigmatic statement, "The government's contribution should be maximised." What is it that you mean by maximised? Do you that they should suddenly pour

$100 million into the sugar industry RDC? 200, 300, 500? What does "maximise" in your mind mean?

MR RYAN (ACFA): Or do we want 10 to one funding from the government? No, it just means that we're happy with the fifty-fifty and that matching funding as a means to maximise the funding has been agreed previously in 1989.

MR WEICKHARDT: Going back to 1989, as Cliff has indicated, if you read John Kerin's second reading speech carefully he says in part of that speech:

> This funding is seed money to encourage the industry to understand the importance of R and D and the ambition is that industry should contribute more over time as they realise the benefits of R and D to their industry.

Sugar has been doing that for a long while so I don't want to point the bone at Sugar in that regard. But let me come back to the issue of the motivations that drive levy payers. If hypothetically the government said, "We'll match every dollar that levy payers put in but it will have no cap, so you keep on getting a dollar if you contribute a dollar," what behaviour change do you think that might induce in your members? Would they say, "Well, okay, if the government is prepared to match every dollar we put in with no cap, we'll put in twice as much as we put in now"? What impact would it have, do you think?

MR RYAN (ACFA): I would say that it would have to depend on what the objectives were for the investment, what the targets were.

MR WEICKHARDT: The industry drives the objectives, so you speak for the levy payers.

MR RYAN (ACFA): If you propose that sort of thing, then the objectives may be tailored to suit that proposal, so that's really a hypothetical I couldn't answer here.

MR WEICKHARDT: So you don't have a feel for the degree to which - it's interesting to ask that in some of the RDCs industry overcontributed above the matching dollar, in some they exactly hug the matching dollar and I think there should be an example of that - into the RDC itself, not overall - and in the case of some of the industries, MLA would be an example I think, they undercontribute. So we're a bit mystified when people say "the matching dollar from the government is critical". We're a bit mystified as to what actual motivational effect and behaviour change effect it really does have on levy payers.

MR RYAN (ACFA): I'm not really aware of what other industries do, I only speak for our industry, for our organisation as part of our industry. So I think that like with any budget really, funding something to no objective is futile. You really have to have objectives that you're going to fund. Otherwise, like any business proposal, you need to have a plan and then you should know what you need to require to fund that and then you can argue over who is going to contribute what. But we're happy with the current system to achieve our objectives.

MR WEICKHARDT: Okay.

DR SAMSON: Stephen, one of the things we've looked at with some of the other industries, at the moment one area of the model has three elements and you have some corporations that do purely research and development which are the PIERD Act ones, if you go to the industry-owned companies, there are three variations in there: I guess, pure research, some corporations do research and marketing and a couple even do research, marketing and are the industry representative body. Do you have a view for your industry, the appropriateness of the current configuration of that?

MR RYAN (ACFA): Yes, well, we certainly don't involve marketing exercises in that, so for our industry we keep that out. The mix as it is really depends on the five-year plan and what we're trying to achieve within that five-year plan. That's why we - well, it's not why but government requires that but that's how we approach it.

MR WEICKHARDT: You say in your comments that your organisation has confidence in the current structure of the SRDC and the SRDC is working well for the sugar industry according to the needs of the injury and the original tenet of the act. I detected in the comments that our first participant made that there was some concern by some sectors of the industry that perhaps the SRDC had taken the encouragement by government to work on cross-cutting issues or public good issues too seriously which is in contrast to some of the other RDCs and that the needs of the industry itself were not being given sufficient voice or focus. Do you not share those views?

MR RYAN (ACFA): We don't share those views because we find that SRDC is very consultative and very engaging and that if the industry forms a view that the SRDC will respond to that view and that primarily the industry - we understand, we're all aware that there is a process going on at the moment, we're all waiting for the outcome of that process and respect that that process is going on. But as far as SRDC goes, our organisation doesn't believe that it's SRDC's fault if it hasn't achieved always exactly what everybody wants. We do think that it's the responsibility of industry to communicate to SRDC exactly what industry requires.

MR WEICKHARDT: Do you think they're doing that well?

MR RYAN (ACFA): I think we could have done that better as an industry. Not SRCD, but I think we could have engaged better with SRDC.

MR WEICKHARDT: How would you see that being improved in the future, recognising, as a couple of participants have already said, you're dealing with a large number of growers and they don't always have exactly the same sort of ideas, concepts, pressures or financial capacity? How do you see the industry being able to better communicate with the research providers and managers?

MR RYAN (ACFA): The official rep bodies under the PIERD Act sit around the table with SRDC several times a year and we are asked to comment on SRDC's plans and direction. There is no reason why the rep bodies - and from our respective constituencies there's no reason why we can't form an opinion of what is required for R and D in our industry and communicate that to our research development extension bodies, especially in this context to SRDC. There is absolutely no reason why that couldn't be done. I have been sitting around that table for 10 years.

MR WEICKHARDT: Why do you think it hasn't happened as well as it should have?

MR RYAN (ACFA): I just think for some reason there has been a lack of coming together.

DR SAMSON: Stephen, I'm not sure you're the best person to answer this, but I think from memory somebody said New South Wales produces about 5 per cent of the industry overall. How do they buy into this process? When you say you as one of the rep bodies sit down frequently with the SRDC and talk about priority setting et cetera. The New South Wales guys, are they part of that process?

MR RYAN (ACFA): The New South Wales industry is consulted directly by SRDC. However, the New South Wales industry does have representation - I'm not sure about the milling council, I think they may have recently rejoined but they do have representation through Canegrowers Australia and through our organisation as well. We have a significant membership in New South Wales so there's no reason why the New South Wales industry should be not considered and certainly they're consulted directly.

MR WEICKHARDT: You made some comments about the five-yearly plan and the review process that we had spoken about in our draft report. Clearly we weren't wanting to impose a huge impost on the RDCs but nonetheless we were conscious of the facts that some RDCs and their levy payers have expressed concerns about the way the review process works at the moment. So we recommended a three-yearly review which took a form that included an independent reviewer, that took account of the scientific merit of the research that was going on and was a way of, I guess, the RDC and the levy payers and the government receiving some feedback about the overall balance and merit of the work that was going on, the balance between short-term and long-term work.

You have commented and say a review half way through the five-year plan. Do you mean a two and a half yearly review or do you mean a five-yearly review that's sequenced halfway between the five-year plans.

MR RYAN (ACFA): I guess it was really just a notional sort of idea. I guess three years would seem okay. The main issue is that it's not an onerous or some sort of debilitating process that has a onerous cost regime attached to it.

MR WEICKHARDT: It wouldn't be debilitating unless it was a very negative review, I guess. We certainly weren't suggesting that it paralyse the RDC or its activities.

MR RYAN (ACFA): I was thinking of unnecessarily bureaucratic.

MR WEICKHARDT: We're open to input from the RDCs or the representative bodies into how that should be made most effective. But these are bodies that are working in areas where, as many people have pointed out, returns are uncertain, research is not a guaranteed pathway to success, levy payers are being taxed to give their money to the RDC and government is taxing you and me to give money to the RDCs, there's a responsibility that the RDCs demonstrate they're using that money wisely and appropriately. Certainly there seemed to be feedback from a number of the participants in the inquiries we've made that this review process could be improved.

MR RYAN (ACFA): I probably won't comment any further. I should talk more with SRDC on that.

MR WEICKHARDT: All right.

DR SAMSON: One of the major differences between the PIERD Act statutory authority corporations of which SRDC is one and the industry-owned companies are the way the boards are selected and going back to our notion of trying to approach this on a principle base, we enunciate a principle in the draft report that we believe boards should be selected on the boards on the basis of skill and, as you know, under the PIERD Act there is a very prescribed process by which that skill based board is selected. Do you have any comments regarding that? Of the IOCs there's a whole range of different methods that in our view may or may not coincidentally result in a skill based board or not.

MR RYAN (ACFA): Usually the discussions are in the context of skills base versus representative from the stakeholders and they shouldn't be mutually exclusive, of course, but skills are necessary for the board and a skills based board is important. However, you also need people with skills in the game and that doesn't mean that you need a massive board, but there should be some ability for people from the stakeholdership to be involved in that board as well but they should also have appropriate skills.

DR SAMSON: So if you had the proverbial magic wand, is there anything you would want to change with the current process for board selection, or are you happy with it as it stands?

MR RYAN (ACFA): We're reasonably happy with the current process. It may be able to be improved, but we don't think that there is anything seriously wrong with it.

MR WEICKHARDT: Just in that context, some have put it to us that they accept the minister's involvement in nominating the person to chair the selection committee, and the process of the directors being, if you like, put forward to the minister and approved by the minister, but some have put it to us that they think that, that having been done, the minister should butt out and leave the board to choose their chairman, which would be a pretty typical process in many other board structures. At the moment the minister chooses the chairman. Do you have a view on whether or not that would be an improvement or whether you'd support such a change?

MR RYAN (ACFA): We don't really have any issues with either mechanism.

MR WEICKHARDT: All right. Thank you very much indeed for coming along.

MR WEICKHARDT: We will now move to our next participant, Grain Producers Australia. If you could give your name and the capacity in which you're appearing, please.

MR MAILLER (GPA): Yes, Pete Mailler. I'm the chairman of Grain Producers Australia.

MR WEICKHARDT: Over to you.

MR MAILLER (GPA): Just off the cuff, I'd like to extend my thanks to the commissioners and their team for allowing me a spot at very late notice. We're in the middle of harvest in the north. A dark cloud made me available for today. Anyway, we won't take too much of your time. Just very quickly, Grain Producers Australia is the new prescribed representative body for the GRDC. We have superseded Grains Council as of early September this year.

So we're still in the formative stage of getting the company up and running effectively. GPA represents the complete change in the way that levy payers will be represented. I guess our responsibilities under the PIERD Act was one of the major drivers for that change, to try and improve the accountability and influence, provide some rigour into that system and depoliticise the grains industry representative model to some extent. Lofty aspirations. So wish us luck. As I said, oversight and accountability mechanism is one of our key drivers.

Where do I start? As I said, I've been sitting on a header for a few days. So just bear with me. The most important thing that we wanted to bring to the table today is that we have some major concerns about the methodology used by the commissioners to draw their recommendations; and there's no point beating around the bush, we'll come out and discuss it. I guess we're concerned with the weight of evidence that was presented through all the presentations and really we're struggling to find how you can justify the position that says that there's no enough public good, and the key recommendation to reduce government co-funding is probably our biggest concern.

At the moment some of the feedback we have been getting from across the industry - not just in the grains industry, across all sectors - is that the position isn't justifiable, it's probably reflecting more on the process now than it is on the RDCs in the wider community, and I think it's important that you guys are aware that there is a fair bit of angst about that. You probably are aware of it, but we want to get it on the record. What we have seen is that there's a lot of research that has been put forward, cited and referenced - eminent economists and scientists have put forward very detailed submissions, a lot of the information has been peer-reviewed, the methodology is good, it stands scrutiny, it's rigorous - and we're really struggling to understand how you can essentially reject that in your assessment.

I have concerns about the idea that what we're seeing here is a judgment based recommendation. We'd like to see a lot more rigour in it, we'd like to see your methodology, really understand it a little bit more. At the moment the recommendations of the commission, to be frank, have far-reaching consequences that aren't tested correctly. I don't think that your assessment of what is going to happen into the future if we wind back government co-investment is well tested.

The core here to me is that we were looking at three issues: there's the return on investment - which I think we all think is a given, there is a good return on investment for R and D in the rural sector; the second issue is who gets that benefit, where does it flow to - and I think that's our point of contention at the moment, and I'll discuss that a little bit more; and the final section of that is who should pay for it once you determine where that sits. One of the things that I throw out as a challenge and fundamental to all of this situation at the moment is that there is a social expectation that food should be produced cheaply and safely, it should be available to consumers without fear or favour and at a cost that's acceptable.

Agriculture generally is a price taker. We do not have the ability to set our price. As such, most of the rural research that goes on is driving productivity gains so that we can try and stay ahead of a decline, in terms of trade, by increasing our productivity capacity. That is in fact a public good. There is no way that you can argue around that, the fact that we are currently getting prices for our commodities that have not significantly changed in the last 30 years, in terms of the unit price, and the only thing keeping the agriculture sector moving forward at this point is increase in productivity.

Decline in that investment ultimately flows into two things: one is you have a bit of a catastrophe in the economic basis of the rural sector; or, alternatively, prices of food go up. Personally, I'd be much happier producing less product that's worth more money; so bring it on. I just don't think there'd be many people who could handle the pain when it happens. We are effectively export parity driven, so our prices are determined by what the international market does. There is an international expectation that food should be cheap and healthy. Two of the major political powers have very entrenched agriculture policies built around the social expectation that cheap, healthy food is a right. For Australia to ignore that, to me again is unjustifiable.

So when it comes back to, "Who should pay?" ultimately, as producers, we 're in a business, we choose to be there, we're doing everything we can to keep that business moving forward, but there is a raft of social expectations over the top of that - not just in terms of the food, but also the stewardship issues - that can't be addressed just by us, it's just not there in the capacity. Farmers' terms of trade have been declining steadily. Currently our business is moving backwards at about

1 per cent a year. Productivity growth has stalled. So we're on a very shaky ship at the moment, and the recommendation that you should decline public investment at this point is, to my way of thinking, quite irresponsible.

I guess that leads into discussion about additionality. First of all, the way that you proposed additionality, or that you justified it, to me, seems to be incorrect. Asking people after the event whether they would have been funded is probably not the right way to go about it. The second part of that is that additionality has already failed. The state governments have been declining investment for an extended period of time. We haven't seen that money flow in from anywhere else. It's not coming back; the money has gone, it has declined. So we are in the process now of a national RD and E strategy to try and work out how to get more out of an already declining bucket; that's a given, and at that point additionality has already failed.

The second part of that equation is that in real terms, in the grain sector in particular, our investment has been declining over the last 20 years, the levy rate has not increased, it's fixed at a percentage of gross value of product. The gross value of the product has not increased with CPI. The cost of doing research has increased with CPI. The cost of every other part or section of our supply chain has increased, but the gross value of our product has not increased in the same increment. Therefore we have got a problem, in that the government co-investment capped at .5 per cent of GVP, the real value of GVP, has been declining over time, that extra money hasn't flowed into the business. Again additionality has failed.

So we have got a major problem in the theory that says if you reduce government co-investment the money will flow from somewhere else. It will not. If money comes into the industry, if you take government co-investment out, it will be more targeted at the agricultural-production side of the business, or other commercial objectives and imperatives. So the public good will decline disproportionately. Flowing out of that, for the grains industry in particular, reducing to a quarter of GVP co-funding with the company, will take $20 million out of the GRDC budget. That's not inconsequential, that's a massive amount of money, in terms of how we run our business.

GRDC accounts for a quarter of the RDC budget at the moment, it's the biggest. Growers currently put in twice as much as the government. We're already topped up to the max. At the moment we have got issues in our industry where growers don't feel that the research and the investment they make is well enough targeted to their specific issues and their own personal gain. One of the fundamental problems you have here is that there's a lag period between research and the return on it; it's a long lag. So if you want growers, who are under pressure now, to start determining objectives without government stability, what you'll find is far less long-term, strategic investment and a lot more reactive work, and the industry will actually hit a brick wall. It's quite a dangerous position in which to be. We can come back to that and you ask questions, if you like.

I'd really like to see work from the commission, to go out and quantify at this point, as to what state governments will do, if you take $20 million out of the equation for GRDC what is going to happen to the co-investment that they make, because ultimately GRDC funds provide the operational money, if you like, to a lot of the state work that's done, so there's an in-kind, or the background investment that's there, they maintain the capacity and the operational funds come from GRDC in relation to grains research. If you take $20 million out, the ultimate effect of that is that you'll see researchers retrenched, you'll see whole projects and business lines cease, and it will be a lever for further reductions in state government funding, because at the moment they provide the capacity, not the actual operational expense.

I think there's some major problems there, in terms of where we're going. We have grave concerns about the recommendations on that basis. We are making a submission, which will deal with a raft of the other issues and recommendations you have made, but fundamentally we are at a complete loss to understand how you have come to the conclusion that it's justifiable to reduce the government co-investment at this point.

MR WEICKHARDT: Thank you.

MR MAILLER (GPA): Can I ask one question. In the context of the next little bit, I'd really like to know what capacity you have to adjust your position between now and the final report, because it's fundamental to where we're going. It's a critical issue for us. So as we go forward, I might see if you can - - -

MR WEICKHARDT: I can quickly answer that question. We have no constraint about adjusting our position. But we'll only adjust our position on the basis of well-justified rational argument. Assertions, table-thumping, hand-waving won't get anyone anywhere.

MR MAILLER (GPA): I quite agree. I guess that's one of the things we certainly can see, that some of the supporting data that we haven't seen considered needs to come to the table, and certainly I think that the theory around additionality needs to be re-examined pretty fast.

MR WEICKHARDT: Okay, well, we'll come back to that.

MR SAMSON: Pete, in regard to money first, there are two elements I guess of our draft recommendations, one is the re-allocation of money from the current 15 RDCs to create the funding base for this new Rural Research Australia, you didn't really talk about that entity as such; and then there's a following reduction in government contribution, which you have fairly comprehensively addressed. With the RRA, do you see any merit in this attempt to deal with the tension, the separation of - you know, what the RDCs allegedly do very well, though you raise some issues bout the GRDC doing it well - that grower-driven, on-farm productivity cost-reduction research and the sort of cross-commodity, larger scale national-interest type work on which the government is focused?

MR MAILLER (GPA): My initial response to that is that I don't see justification for the RRA. I have some questions around how you fund it; I mean, if you take it just out of the government funds, so you take the government co-contribution and just pour that into the RRA and you don't take levy money from the RDCs but ultimately you're still taking money out of the industry RDCs. Land and Water Australia didn't work. Essentially its job was to do a similar thing. The cross-sectoral RDC model hasn't functioned well with the industry RDC as well. I don't see why you want to increase or replicate administrative costs; there's a bureaucratic process involved in that.

The minister currently signs off on work plans for the RDCs. I know the GRDC goes to an enormous amount of trouble to report and comply against the government's stakeholder requirements and aspirations for the money that they spend. I think that if you want to deal with cross-sectoral issues, deal with it in the work plans, don't set up a new RDC. There's certainly enough leverage there for the government to ensure that that happens. I appreciate your earlier comments that that can be a painful process, but I certainly don't believe that there's a need or real merit in setting up a new RDC model.

MR WEICKHARDT: Peter, let's talk about money in another way. In the draft report we made a recommendation that industry representative bodies should be sufficiently independent and that they be in a position to oversight the RDC for which they were responsible in an independent way rather than being beholden to that RDC. We were specifically very concerned by your predecessor organisation whose only financial support basically came from the GRDC; a complete conflict of interest. Are you in a situation where your financial independence does not require any money from the GRDC?

MR MAILLER (GPA): Under the PIERD Act there are activities which are permitted to be covered in terms of oversight of GRDC. Now, the problem we have had in the past, there are allowances under the PIERD for industry - - -

MR WEICKHARDT: I understand that.

MR MAILLER (GPA): No, sorry, to get back to the point. The problem has been that sometimes that has been seen as discretionary. So the reality is that there is a pool of money there. It's difficult to make growers pay twice to do the same job. At the moment some functions in regards to the costs of attending consultations in

Canberra with the GRDC are met out of PIERD funding in an agreed contract. I have no problem with that aspect of what goes on. Grain Producers Australia ostensibly is about establishing an operating framework which is very easily scrutinised, very accountable.

Fundamentally, we look to be funded by our membership revenue as we build it, going forward. In the meantime, we have sourced project funds from a range of sources to make sure that we can deliver against our core function. I don't see that there's any conflict at all in the way we're going about our business, and there's no need for financial separation provided there is clear accountability in the relationship. Previously GRDC and GCA's relationship was a bit cloudy.

MR WEICKHARDT: You might not see a conflict, but we clearly did see a conflict, in an organisation that receives most of its money from the organisation that it's supposed to be reviewing. I think 99.9 per cent of Australians would see a conflict in that. I accept the fact that legitimate expenses are allowed under the PIERD Act, but the point - - -

MR MAILLER (GPA): That is the limit and the extent to which we are supported by the PIERD funds, that is the limit.

MR WEICKHARDT: But what percentage of your overall funding comes from that source?

MR MAILLER (GPA): In our budget?

MR WEICKHARDT: Yes.

MR MAILLER (GPA): Given that we are in a formative stage and have been in existence now for two months, in our budget it's about 1 per cent.

MR WEICKHARDT: All right.

MR MAILLER (GPA): If you want to reference that, the budget is on our web site at gpau.com.au.

MR WEICKHARDT: At 1 per cent we wouldn't have an issue. Now, you asked several times how could we possibly justify our recommendations and said that we had disregarded a multitude of peer-reviewed literature and there has been quite a lot of selective quotation from the peer-reviewed literature. That's not surprising; most people selectively quote stuff.

One of the people who has been frequently quoted is Julian Alston, who has done a lot of work in this area. He co-authored a paper with John Freeburn from

Melbourne University some years ago which looked at industries that are like the industry to which you just referred, that applies in the grains area, where pricing is mainly set on an export parity basis. There's a lot of Greek symbols in this and stuff, but basically they came to the conclusion in that sort of industry that, because the cost-savings from research flow mainly to the producers because price is not affected by that research, producers don't pass back the cost-savings in the price because the price is set by export parity, and they argued in that case that the optimum government contribution would be zero.

So let me say we have not disregarded the work that has gone on. We have carefully read all the work, we have carefully thought about this, and we have a responsibility under our act to all taxpayers.

MR MAILLER (GPA): Granted. All taxpayers benefit from an export parity price, which is manipulated by a social expectation that food should be cheap. We can sit here and debate that, and I don't want to get into the syntax. I understand that you've rebutted that and that we don't have a responsibility to feed the world - that's a point of view, an opinion, and it's a judgment, but at the end of the day, that export parity price is not determined by a free market. Australian consumers of food all benefit directly from the fact that wheat, beef, sugar and milk are all operating in heavily-subsidised environments and they are artificially low.

MR WEICKHARDT: All right. Well, as you say, we won't debate that. Just let me put on the record that I disagree with your - - -

MR MAILLER (GPA): I accept that. I think at the moment we have a situation where there are two opinions. Our concern is that the overwhelming weight of evidence presented has been contrary to the position that you've arrived at, and we need to understand that. I guess the concern is that we have got a predetermined outcome, not a process of discovery, and we want to be involved in that and we want to step up.

MR WEICKHARDT: We don't have any predetermined outcome. We have a responsibility to discharge a critical analysis of the issue under our terms of reference, and that's what we're engaged in doing. But we don't weigh the number of pages that say a certain thing, we carefully try and analyse the arguments and we look at the facts and we look at the evidence. On that score, you said additionality has failed, and, for example, you cited the state governments pulling money out of supporting agriculture, and you say no money has come in.

MR MAILLER (GPA): It hasn't been replaced, is what I said; it hasn't flowed back in.

MR WEICKHARDT: Okay, let's talk about that. A lot of the state government money went into extension. We received multiple evidence from people talking about private agronomists and grower groups that have stepped into the void that the state governments have left.

MR MAILLER (GPA): We have also have now a new discussion about a national framework to try and address the critical shortage in extension services. So it hasn't been replaced entirely. There has been some effort and some investment to make that happen, but it hasn't been replaced entirely. My answer to that is that if you step back now on, say, the extension side of it, which is a bit of a stretch, because the national framework wants to deal with extensions separate to R and D, the RDCs have certainly got a major headache now about how they fill the void. I know, dealing with GRDC, it's a major issue about how we actually step up now and actually make sure that that is covered, because there is still market failure in a range of areas in Australia with regard to extension.

MR WEICKHARDT: What is the market failure you see?

MR MAILLER (GPA): I might make a quick reference here that I'm also the chairman of Conservation Farmers - and Michael will make a submission in a minute. That business is about farmer extension. We are not funded. We are doing that now. That funding has declined and disappeared. So there's a difficulty now, in terms of where that space is.

MR WEICKHARDT: But what is the market failure?

MR MAILLER (GPA): There aren't extension services operating. Growers aren't getting access to - - -

MR WEICKHARDT: But market failure refers to an issue where the market does not actually arrive at the right answer, it doesn't guarantee that things will be funded.

MR MAILLER (GPA): Okay, there's market failure and there's a service that's not being provided.

MR WEICKHARDT: But that might be because the people who would otherwise pay for the service don't value it. That's not market failure.

MR MAILLER (GPA): We can sit and debate the tin tacks of that all day, but the reality is that extension has declined, there hasn't been a flow of resources in to replace that extension.

MR WEICKHARDT: In some areas there clearly has been.

MR MAILLER (GPA): In some areas there has, but it's not universal, and the problem we have is - - -

MR WEICKHARDT: So if I can clarify that. Why is it that in some areas it has flowed in and in other areas it hasn't? To an outside observer, the response to that might be it hasn't flowed in to some areas because the growers aren't prepared to pay for that. If they're not prepared to pay for it, why is that so?

MR MAILLER (GPA): In some areas you'll find that the GRDC support to extension services has been better targeted. The GRDC has in fact picked up the tab in those areas. Some of the best extension organisations around are funded heavily by GRDC - the national strategy for GRDC. Again we're talking about erosion of the money available to research, because that's coming out of the same pool of money that's not growing as fast as the cost of delivering the services that it previously did. So the money hasn't really flowed back in.

MR WEICKHARDT: It may have in some cases come out of the RDC and therefore you might argue it's sort of robbing Peter to pay Paul, but - - -

MR MAILLER (GPA): I won't "might", I do argue that.

MR WEICKHARDT: We received a large number of submissions where people talked about private agronomists being paid directly by farmers.

MR MAILLER (GPA): They certainly are.

MR WEICKHARDT: Okay, well, that's not coming out of - - -

MR MAILLER (GPA): Those private agronomists are also resourced to a large extent similarly by GRDC. They wouldn't be there and able to deliver the service if the RDCs weren't picking up the tab the state governments used to. So I'm sorry, but that's actually the case. I engage a private agronomist, and he's heavily subsidised and funded, in the background information that he receives and some of the work that they do, through GRDC.

MR WEICKHARDT: Of course they receive information from the RDCs, that's - - -

MR MAILLER (GPA): They also get money from the RDC to conduct research, so that they can develop answers for people quickly. So that money is coming out of the RDC model that used to come more from the state governments. Look, I can sit here and debate this all day. The reality is that if you take $20 million out of the budget today, for one, growers are unlikely to put more money in at that point - I'll guarantee you won't get an increase in levies from growers at that point; the second part is that it's a justification for the state governments to pull their funding out, because if you argue that there is no public good or not enough public good to justify the investment, or see a further decline in state government investment - because it's a simple argument - the result is that we get a declining service delivery to agriculture.

MR WEICKHARDT: The state governments have been pulling their money out before the government even started.

MR MAILLER (GPA): Granted. That's quite right. So the argument then is that if you're going to truly talk about additionality and the amount of public money that's going to agriculture, there's probably justification for increasing the government co-contribution, not decreasing it.

MR SAMSON: This issue of what functions an RDC should perform over and above R and D - obviously in your industry there has been quite a turmoil in recent years, where the marketing function, if you like, on behalf of the industry, and AWB would have done a significant part of that, which now is not the case - do you have a view of the desirability/appropriateness/practicability of the GRDC being able to fill that space?

MR MAILLER (GPA): Under the PIERD Act, the current act, GRDC can't engage in marketing. They can provide technical support at some level to consumers in terms of the utilisation of product and various other technical services that AWB used to supply. I think if you're going to increase the scope of GRDC's work then we need to talk about how to increase the funding to GRDC, by whatever means that may be. We haven't consulted wide enough to give you a recommendation from GPA's perspective as to where that money should come from but there are a couple of suggestions in the submissions that put forward some ideas about where there may be some additional funds come in.

I have no problem with GRDC being involved in technical support. In the grains industry there other players prepared to play in that space to some extent. So, you know, it's a bit too early for us to have an opinion on that because we haven't had any proper discussion. I don't think there's a need to change the RDC model at this point personally. The premise for establishing GPO, the way that we have done that, is to provide a much more accountable, representative structure to provide oversight to GRDC and get more rigour and ownership of that organisation to growers without actually exposing it to the risks of making it into an industry-owned corporation. So what we're trying to do is mirror the representative processes, but not destabilise the RDC. So I guess what we're suggesting is that just at the moment we'd like to see the status quo maintained. To some extent there are some changes we would like to see but I don't think we want to take GRDC to a marketing platform.

DR SAMSON: Can I just pick up on something you said you want to avoid exposing GRDC to some of the problems - I forget what word you used - of the industry-owned corporations. What are those in general that you see as being the downside of the industry-owned corporation model vis-a-vis the statutory authority?

MR MAILLER (GPA): That's a good question. I guess ultimately what we see is the trade-off between representative pressure and leadership. So it just becomes overpoliticised and we don't have good process in there. So GPA is fundamentally striving to achieve a governance platform that will manage that process well.

DR SAMSON: In that regard, your support for the state authority model - we've talked with others about the selection of boards, the skills base, the actual process Phil raised, that some people have said to us that custom and practice and the broader society would be that, once constituted, a board would elect their chair rather than - - -

MR MAILLER (GPA): I would agree with that. In my view that's best practice and that's what we would like to see. We haven't canvassed that specifically but my personal view is that that is probably the case, that would be a better system. I think that government appointments are difficult. We would like to take a bit more ownership of that but it's not to say that government appointments aren't successful or don't do the right things. We certainly rate most people. I think the skills based aspect of that is absolutely critical. There is a problem in probably articulating to the broader community what the skills are that are required; a better understanding, that would be useful.

But, look, as I said, we will make a submission against some of the recommendations that have been put. We had limited time so we really came to, I guess, raise our concerns about the methodology that we've seen. It's not to say there hasn't been a lot of work or you can't justify the position you've got but at the moment it's a judgment and our judgment is quite different and it's not because we just want the money, it's because we hold grave concerns about the future of the RDC and the future of the industry.

MR WEICKHARDT: I hear that. You mentioned that growers today contribute over and above the capped government contribution, which we understand. But you also said that there are growers in some regions who do not see themselves getting sufficient benefits and certainly we're going to Western Australia in a couple of weeks' time and I'm almost certain we'll be told by some people there - - -

MR MAILLER (GPA): I'm sure you will.

MR WEICKHARDT: - - - that they're not getting the benefits that they think they deserve. If - and this is a hypothetical - the government contribution remained exactly as it is today and there were a vote Australia-wide of the levy payers in the grains area, do you think the current rate of levy would be supported or an increased levy or a reduced levy?

MR MAILLER (GPA): My observation of the industry at the current time is that in the current circumstance it's unlikely to change. There would be a fairly vocal discussion about it. I think that if we can rebuild confidence in the representative process a lot of that noise will actually quieten down a bit. A lot of the people who have a strong view, have been excluded from discussions and consultation with GRDC through the previous representative structure. GPA is really running an external engagement process so we expect to engage well beyond our membership with all other representative bodies as well. That hasn't been the case in the past. That's not to say there aren't operational aspects and administrative processes that we would like to see change at GRDC, there are things that we want to improve and we certainly want a bit more rigour about the strategic direction of the company.

GRDC is just about to start its next strategic planning process and we will engage heavily in that process and consult widely to get that to go forward. Most growers I see and speak to rationally say, "WE need to spend more money on research." I don't think there's many growers around who don't think we should be spending more money on research. The mechanism is problematic. When you understand, as you do, the PIERD Act and the aspiration in terms of accountability and industry engagement and consultation, if that process works well, I don't see a need to change it. In fact it can work very well, but it is heavily reliant on an effective representative structure and the objectivity you talked about is critically important to the success of that and the structure the GPA has proposed and what we're trying to achieve goes directly to that issue. That's really what the whole structure is about.

To answer your question, I don't think it will change. I know a lot of people who will contribute more at this time. At the same time they'll say, "We need to increase investment," but they just aren't happy with the current framework. Again, I see that as a failure of the representative body, not necessarily the RDC. It's very easy to throw stones at the RDC because they've got a lot of money and they're investing it and a lot of growers say, "I can't see the return." But when you understand the lag issues and a whole bunch of other aspects of it, it's probably dangerous to tamper with that at the moment. We would be better fixing our representative structure and having a much better managed process for the negotiation of change.

To us it's probably very unfortunate that GPA has arrived on the scene in September in the middle of an RDC review. It's a great opportunity for change and it's a great opportunity to move forward. But, as I said, the most important critical aspect of what you've recommended to us is absolutely - we just cannot justify it and we can't endorse that recommendation at any point.

MR WEICKHARDT: In terms of the benefits that the levy payers receive from the GRDC, we've asked a number of people to what degree are the different views among levy payers influenced by the fact that to some of them the outcomes of the research are not very visible or to what degree it's a matter of whether or not the work is adopted. We had one contributor to our Melbourne public hearings who alleged or recommended that the government contribution should be put to zero because he said, "All the government contribution is doing is paying for feather bedding of farmers to adopt work." There's, his point was, a multitude of good practice out there and good farmers will pick it up anyway and the bad farmers that don't should go to the wall. That is a fairly extreme point of view, but it's one of the points of view that was input.

You say we don't listen to stuff, let me say that we try and listen to everyone and I'm just saying there are some people with different points of view. But my question is: those people who are the moment have a slightly jaundiced view about the value of GRDC, is it because they're not picking up the work that GRDC have done, are they not adopting and they're not utilising the benefits that already exist there

MR MAILLER (GPA): Again, my observation in talking to people across the country at the moment they see problems that affected their production now and they don't see GRDC responding to their production issues per se. A good example in the west would be frost risk. So they have major concerns regionally about what's going on and they don't see enough money floating back to that. The problem that I have with the reaction - and that's a reaction to the problem - is that there is an overarching strategy to maximise the value of the money that is available in the situation where the amount of money is declining in real terms. If a tonne of wheat was worth $900 a tonne instead of $250, then we wouldn't be talking about a decline in real investment because in the late 70s or the late 80s a tonne of wheat was worth 200 bucks. It's still worth 200 bucks. That's the core of the issue. It's not that GRDC aren't trying to do the job, it's just that they've got less and less resources available and they can't do all things at once.

What we also see is national strategies creeping in where GRDC are saying, "Okay, we're going to set up a senate to deal with frost, but it's not in Western Australia. West Australian growers don't feel confidence in that. I'm not saying that the Western Australia growers are wrong. What I'm saying is that the dissatisfaction is not a simple process to manage. If we say, "We don't want to give you the money and that will make you more accountable," it certainly will make them more accountable but the reality is what will happen is that we won't have any research being well targeted, not the public good investment that needs to be done.

The view that says you should let farmers go broke, ask me that at a different time of the day when I'm tired and cranky and I might have a different view. But the reality is it's not that simple because in regional Australia you take out a farm family, there's a flow-on effect to five businesses. It's not that simple. There's nothing linear about this job. We've got to think a little bit more carefully about managing and supporting agriculture as a means of the broader community. I also understand that you have a view on that but in answering your question, farmers are becoming much more reactive. The balancing of long-term, strategic investment and research to deliver long-term gains is being seriously eroded by people's short-term concerns and tactical responses to emerging issues.

We talked before about market failure and extension. In the northern region for GRDC there are a range of organisations and a major part of the strategy for investment now is in tactical response to production issues as a major investment from GRDC. That comes at a cost of long-term strategic investment and longer-term breeding outcomes and other issues that are far more important to us in the medium to long term.

MR WEICKHARDT: I don't know whether you were here this morning but the sugar industry were talking this morning and they were basically saying, "Our biggest problem is that not enough money has gone into long-term, deal-changing research."

MR MAILLER (GPA): That's the danger we're facing now and as you cut the funds back, growers become more attuned to what's happening today and as their margins are tighter, they're not as interested in 20 years' time, they're worried about how they're going to get through the next 12 to 18 months. This is the pressure that you're facing with growers who are saying, "I see my GRDC levy contribution coming out of my chequebook here and I'm struggling with the frost risk and I haven't had a variety in 10 years that's going to give me a better outcome." So that's the pressure we're seeing and it all comes down to terms of trade.

MR WEICKHARDT: Sure. We've all got pressures on us and government have pressure on them too but at the end of the day it's not a very rational response to say, "I will cut back on long-term research and only focus on tactical research," because that's the road to ruin, isn't it?

MR MAILLER (GPA): That would be my challenge to you now, that's actually the situation we're faced with as the industry comes under more and more pressure and because there's been a decline in real investment and that money hasn't flowed back in from different sources, there's increasing pressure.

DR SAMSON: Part of the response to that - I know it's difficult to, but just park the dollars aside for the moment and just look at the model. It's for exactly the sort of scenario you outlined that we believe the way to deal with that pressure of growers increasingly wanting their RDC to do that on-farm productivity work - - -

MR MAILLER (GPA): That's the work that used to be done by the states.

DR SAMSON: Because that is real pressure and because we believe strategically there needs to be still maintained a focus on the longer term blue sky. That's why we believe we've got to a point where we have to seriously look at a separation of those two responsibilities because it's getting harder and harder for the RDCs, for a variety of reasons, to manage both in the one - - -

MR MAILLER (GPA): The problem I see is that RRA doesn't do that and I don't see where in your recommendations you achieve that. That's the drama. I mean, this is fundamentally a shortage of money. Cutting funds doesn't solve that problem to me and building confidence from growers to actually invest more isn't going to be achieved by cutting the co-contribution. You asked a question earlier, "If government didn't cap the investment, would there be more investment from the sector?" My instinct is if you actually could measure the real investment in research and development and extension in the industry and matched it, it would be a bit of a different story.

The real contribution to growers to research now driven more by short-term pressure and the amount of tactical issues they've got to deal with, I don't see it being reflected anywhere. It's a massive investment from the industry now that goes on in in-kind support land, real research on farm, the whole bit that's going - where there's desperate paddling underneath the surface to get this thing to go forward. There is no doubt that a decline in the real value, the real investment in research has led to a slowing in productivity growth. Climate change and a range of other things, weather variability, are having an impact on that as well but again the solution is not to cut funds. We need to increase the investment in research.

MR WEICKHARDT: It may not be, but as you said before there are three questions: what are the returns; who get the returns and who pay for them?

MR MAILLER (GPA): And my strong assertion still is that if consumers generally want to keep the cost of food low and it's regarded as a sacred cow in the circles, then they get a benefit from increases in productivity; they get a direct benefit.

MR WEICKHARDT: I don't think we're arguing that there should be any sacred cows here. What we need to do is go through a rational analysis of all those questions and in terms of some of the industry long-term research that's directly productivity enhancing, like new varieties, our position would be that the industry should pay its fair share of that.

MR MAILLER (GPA): My answer to that is that I think industry is paying that already, and some. I think that the additionality argument is seriously undermined at the moment because the track record says that the money is not going to flow from elsewhere if you cut it. That's one of the things that I saw as potentially disappointing in the view, that there is not really an exploration of how to increase funds and where it should come from. I still maintain that at every point of the value chain and because - I don't know if you do or don't eat bread, I'm sure you consume some grain products, I'm sure you eat - - -

MR WEICKHARDT: Certainly do.

MR MAILLER (GPA): So are you are part of the supply chain.

MR WEICKHARDT: I think I'm part of the consuming chain.

MR MAILLER (GPA): Well, you're part of the value chain, let's get the terminology right. You're part of the value chain. At no point in the value chain, until you get to the retail sector, do you pay or contribute to what we do. At the retail end of that - - -

MR WEICKHARDT: Forgive me, but my taxes go into the government contribution.

MR MAILLER (GPA): Aside from the government co-investment, I'm just talking about the value chain here for a second. So when you get your loaf or bread or drink your beer or whatever it is that you do, right, at, to me, a ridiculously low price, there is no way that you directly feed back into the research except through the government at the moment.

MR WEICKHARDT: When you buy your television set, how do you contribute to the research in the television industry or your computer or your tractor?

MR MAILLER (GPA): Well, I pay an awful lot for my tractor and the terms of trade and the value - - -

MR WEICKHARDT: Do you - - -

MR MAILLER (GPA): Hang you, you asked me a question.

MR WEICKHARDT: - - - contribute directly to the research?

MR MAILLER (GPA): You asked me a question. The cost of that product is set by the manufacturer and not by the consumer. There's competition which affects that, but to a large extent it's actually set by the manufacturer. If I can't afford a tractor, I don't get one. It's pretty simple. But everyone expects to be able to eat bread or consume food. There's a very fundamental difference in the system here. I can't afford a plasma telly, I'm just a farmer.

MR WEICKHARDT: I think we probably should stop there. Thank you very much indeed for your input.

MR WEICKHARDT: We will move now to Conservation Farmers. If you could give your name and the capacity in which you're appearing, please.

MR BURGIS (CFI): Michael Burgis, Conservation Farmers. I'm the executive officer. We have about 500 members across Queensland and northern New South Wales. We regularly engage with probably 3500 people within the industry in those two states during the course of the year. We engage with growers, scientists, commercial companies, government agencies. I'd like to put on record that we do not receive any benefits or any subsidies from GRDC at the moment. We're not engaged in any project for that. I guess one of your aims is to identify whether there is any public benefit for some of the research that's being done and I guess I'd like to reiterate that I assume you drink beer, you drink wine, bread, milk all of those things. At the end of the day there's a public benefit going forward for that investment in research.

We are of the opinion that research is the key plank for any industry to go forward. If you don't have research, I don't believe you have a business, and having worked in the commercial world where there were companies where they were putting a lot of investment in and the ones that weren't putting investment in and you could see who was actually making the money. The generic companies were just followers and sold everything on price. I guess the agriculture industry is a price taker and that's a fundamental difference from a lot of industries that we work with, so support from a government perspective is necessary to at least have some steadying influence on the marketplace, whether it's providing research or investment for us to go forward on.

I have listed some points. You've got my brief paper there. I knew there was others going to establish more arguments and more researched arguments than myself. I guess I would like to reiterate that in the grain industry the RD and E is roughly split between two-thirds from the industry and one-third from the government. I would consider that was a considerable investment on behalf of farmers and the grain industry and the suggestions or the inference in the report about further investment from growers would appear risky, particularly at this given time with the amount of financial stress and mental stress that farmers are going under at the moment and I think that has been well documented through the various media outlets.

Of course we've got climate change which is staring us in the face constantly. We have a poor quality regional infrastructure and an eroding base of community services and antiquated communication services which we all expected as farmers, or as an industry, to use and utilise to provide services back to Australians and around the world. I guess there's many, many issues there. So on that point I would like to extend an invitation to you both for two days to come and show you and share with you some of these things I've just suggested that people have to engage with constantly. I think you might get a little bit broader understanding of some of the issues that are facing farming families, not just based on research, but they all come in and they all compound. So at any stage I invite you to come back and I'm willing to share with you a road trip to expand your views and share some ideas.

I guess from Conservation Farmers' perspective I'd like to say that conservation farming is a bit of a broad brush to lots of things, but one of the key planks for our organisation has been the development of zero till. It's been a practice that has evolved over the last 20 or 30 years and the research effort has been immense, not only from farmers but also from the research industry and they have basically changed soil erosion in the north from up to a 50-fold change in soil erosion through the adoption of the zero till. They have had a huge impact on the environment and the economic impacts and I'd like to say, for example, the quality of water entering the river systems, this is being reused or used by many communities. This has an impact on weed management, of which there is many exotic weeds around but even the general weeds which are impacting the farming system are being managed a lot better.

Our research capacity has enabled farmers to become more productive, more efficient and in turn that has impacted on many of the rural communities. In towns like Toowoomba, Dalby, Goondiwindi, Moree, Narrabri, Tamworth, they have a very strong of community based industries which are working on agriculture production. They all evolved from agriculture-like production. That's changing also with the development of the minerals but for years and years they have survived on what the agricultural community has produced and a lot of that starts with research dollars.

I would also like to reiterate something that Peter also said. There's a bit of a misnomer about how much agriculture actually puts into research and we can judge that in dollars and cents. But if you want to test some of these theories and some of this research, you've also to have a land capability, you've got to have a labour component and then you've got to add an equipment component to that as well. That's not easy to value how much that is, but it's quite considerable across the countryside and there is lots of time that goes into making that happen.

Going back to the soil erosion practices and the adoption of zero till, the results of that research and that impact has greatly improved catchment management and impacted on landcare activities and that has been a joint venture between state departments and RD and Es and the amount of investment that has gone in there. I would also like to reiterate that the grain industry also extends into the feed milling industry by providing a service to them, providing products to them in different types of grains and compounds and then, of course, that's then extended into the malting and brewing industries - I think the majority of us here today would say we'd enjoy a beer one way or another - and I believe that ultimately the community will get benefit out of that, they'll enjoy the benefit of that production.

I would like to suggest that there is a myriad of research worldwide supporting RD and E and I would also reiterate that if you look at the major commercial companies around the world they base their business on RD and E to get going and we can't live without it. If you don't have it, then you don't have a business and I think that if we want to disinvest or take money away, then our footprint is going to be smaller. I would also like to suggest that the grains industry for many, many years has had the same amount of dollars invested and what you buy today and what you got 20 years ago are completely different and that is a challenge for the industry. I would say it's a bigger impost on an RD and E than anything else because the value of actually doing research is costing a hell of a lot more, so it makes it difficult to juggle all these rules about what they should invest in.

I'd like to make a suggestion: there's lots of people within the industry perhaps gaining benefit from having research and even having a grain industry, but perhaps we should be asking and looking at them and asking them to contribute a levy to the industry to push our industry forward. Maybe that is where we need to ask for money. There are malting houses, there are large livestock enterprises, there are grain traders, there is the transport industry all running businesses because they accept or deal in grain but they're not actually contributing to the RD and E of those products. But it is something that is worth exploring and expanding on and having some roundtable discussion on to see what their position is because they rely on being supplied with these type of products to make themselves some money.

MR WEICKHARDT: Can you just play out for me how you think that discussion might go?

MR BURGIS (CFI): I've already had some discussions with some people and some people like the maltsters see some value in that. They want to make a contribution and in the past their investment has been in the process and the building but what we are asking them to do is put a little bit more risk - be part of the risk in producing something. I think too often we invest our R and D moneys into something that on paper looks really good - and I'm thinking of some malting varieties of barley - but they don't pass the hoops at the end of being the quality hoops to enable that particular variety to go in to be a malt.

I also would like to just highlight some of the biosecurity issues, even though that may be peripheral to this but in some ways it's important. Section 51 of the Constitution outlines the federal responsibilities for biosecurity. Of late there has been some media reports suggesting that Australia is now importing more food than home-grown product on the supermarket shelf. If this is true, what is the future biosecurity implications on the supply of these foods if R and D continues to be eroded? As you've mentioned, it's not your concern what happens around the world and how they're fed and all those sort of things, but it must have some bearing on some of the decision-making. World populations are expanding. Competition for farmland and its availability has been well documented across this countryside.

The other thing is there competition in America, for example, with biofuels and then we're having the discussion right now, even in Queensland, about water quality and its availability and I've already suggested the climate change and what happens and what impact that has, not only on the farming sector but on the whole of Australia. I guess there are some other immediate risks which pose a problem when you're not investing in R and D and having lived in other countries and been part of a foot and mouth outbreak, I'd hate to see that happen in Australia. Mad cow disease has also been well documented.

But in the grains industry one particular strain of rust, Ug99, is on our doorstep really. Do we invest in research to do something about it or do we just let it come here? My suggestion to the commission would be the cost of not doing something would be a very great impost to all Australians and that may leave the industry in a state that it may not survive from. I believe that the risks are substantial, so a strong business case exists for continued research investment in trying to contain the public exposure to this potential risk and hazards that are offshore.

I would also like to contend that perhaps the grain industry is at tipping point in regard to research and development. Because we've had less and less investment, we do not have the number of scientists available at our fingertips to carry us forth. We are being remiss in taking a long-term approach to what we do in RD and E. Some of our scientists are being driven overseas or they're retiring and there's no or little mentoring system in place. We can all say we've got plenty of scientists, but if you talk to the likes of the flagship of CSIRO a lot of their investment was also overseas and delivering R and D and E for those people overseas which takes away from what we need to be doing here. That is a government policy, that's fine. I'm not disagreeing with that. If that's what they wish to do, that's fine. But it takes away from the research effort we have here.

So I would say that the commission also needs to ask the question whether we actually need to do any RD and E at all if we don't have the scientists here. I can't see many of them coming through our universities. We're already on the ladder at a very low rung. There are plenty of people who like being in agriculture but you need qualified scientists to drive it and that would be part of my investment in both of you if you were to join me for a couple of days just to share our thoughts. I won't add any more, I've just tried to expand on some different areas.

MR WEICKHARDT: Thank you.

MR BURGIS (CFI):   We're not a research organisation per se.

DR SAMSON: Thanks for you invitation to join you. I'm not sure our timetable is actually going to allow that but I can assure you my four years travelling Australia as part of the National Rural Advisory Council talking to several hundred farmers and making recommendations to government about drought assistance, I think I have a reasonable understanding of some of the pressures that are faced out there. Similarly, on the biosecurity thing, I used to be the head of AQIS, so I also have a bit of knowledge about that. Just coming to some of the things you say, Michael, I think just for the record you, as other people have done, have referenced this Australian Food and Grocery Council piece of research that concluded that we were currently a net importer of food. I think even the grocery council would now accept that was a fairly flawed piece of work and they were not just looking at food in that piece of analysis, cleaning products and all sorts of things were there. Just for the record, because several people have raised that, we don't think - - -

MR BURGIS (CFI): It is growing.

DR SAMSON: That's undoubtedly the case. Just going back, I suppose picking up on several things that you've said, we're in no way at all arguing against the benefits that accrue from R and D in this space. But what we have looked at, what we have a responsibility to look at really is the balance of, in very broad terms - and at the end of the day it becomes a judgment, this is not a formulaic thing - but we've looked at the balance of investment, the public-private investment in rural R and D and we've looked at the balance of the public-private that comes from that. At the moment we are of the view that if you look at that balance of benefit versus investment and look across other industries in Australia and how those other industries are treated in terms of R and D tax concessions, we believe it is a fact that the rural sector is treated by the Australian government more favourably through the R and D contribution model than other sectors of industry are through R and D tax concessions and depending on how you do the arithmetic and the data on these things is always rubbery. You can come up with numbers somewhere between three and eleven times.

We have not plucked out of thin this notion that perhaps there is an imbalance in the investment, but in saying that we are in no way trying to diminish the value - - -

MR BURGIS (CFI): May I make a comment on that? Many of the private sector industries get additional benefits from state governments in one form or another. I can't tell you what that is but at the end product they are selling products that they actually set prices on in many cases. So I guess if we take the gas example here, there has been two announcements in Queensland where they're going to spend $15 billion plus on gas extrusion and storage for sale. The end product is going to be sold for a fair amount more money than one tonne of grain is going to be. They're extruding it out of the ground at about two and a half cents roughly and I don't know what the retail end is on the other side but, I mean, as a consumer of gas it's certainly probably tenfold, fifteenfold the price. I guess the crux of the matter is that we can't add that value in an agricultural sector where we say, "Right, we've spent 35 per cent, 40 per cent of our investment just getting product to the market, we're going to double the price," because we know we'll never sell it.

MR WEICKHARDT: Let me say, having spent most of my career in the chemical industry, I wish that the chemical industry set its own prices in the manner you've just described. I think you'll find if you looked at most other industries, they operate in pretty competitive markets and import parity and competition drives prices more than the desire to simply recover costs. If you find that industry that does what you suggest, I'd love to know it because I will put a lot of my superannuation money into it.

MR BURGIS (CFI): I worked for a chemical industry too in an R and D company. We wouldn't sell a product we couldn't get a GP of at least 50 per cent more.

MR WEICKHARDT: You might have done that, but the world chemical industry has not made handsome returns for its shareholders which suggests something is happening. You made a comment in here that, "Unlike many other industries there is a distinct lack of supply chain investment in agricultural research." Why do you believe that's the case? What's the evidence of that?

MR BURGIS (CFI): I don't see any direct investment in supplying a product that can be used by a farmer and - - -

MR WEICKHARDT: So are you sugar millers don't invest in their research?

MR BURGIS (CFI): I'm talking about the grains industry, sorry. I don't know of many people in the supply chain area who are investing money in product development, explicitly R and D products, that then can be used by the grower and then brought back into the market as a different product.

MR WEICKHARDT: What, suppliers to the agricultural sector, are you saying?

MR BURGIS (CFI): Yes.

MR WEICKHARDT: So seed companies aren't investing in research? Crop chemical companies aren't investing in research?

MR BURGIS (CFI): People like that are doing it, but other supply chains like the malting houses, the millers and those sort of people are not doing it. We have always had the likes of chemical companies and the seed companies doing that, yes. That has always been a joint investment. But there are a lot of other people in the marketing chain who are not co-investing.

MR WEICKHARDT: It might not be co-investing but we're certainly told by some of the people, the millers, the processors, the meat processors, for example, aquaculture people, that they have significant R and D programs in their own right. They don't invest through the RDCs but they invest in their own right on their own research.

MR BURGIS (CFI):   I wasn't talking about their personal research for the company. That's the same as Syngenta. We're talking about agricultural investment and I'm just saying that they aren't actually investing in the industry to develop new technology which will add value to their processing. I don't see that happening very much at all.

MR WEICKHARDT: I guess that's probably pretty common throughout many industries that people rely upon their suppliers to improve their product so that the next person in the value chain can use that product, they do some more research on their processes so they can improve it for their customers.

MR BURGIS (CFI):   It's interesting that we have a new malting house with a lot of money being spent here but they don't know where to get the product from.

MR WEICKHARDT: That doesn't sound like a very good model.

MR BURGIS (CFI):   To me personally it would have been better, "We want to invest in this. That's a great idea. But we need to go and invest some money right at the front end with growers to say we've got this. We've spent all this money, we've got some business that we can do on both sides of the coin, exporting or even internally, we need to invest time and energy in making sure we've got the right product coming into our plant," and that's where I see there should be some investment or a levy put on to say, "Well, come on, help grow this product."

MR WEICKHARDT: You go on to say, "In many growers' view the GRDC is not currently well directed or managed by producers." What's failing, do you think, in terms of the governance of the GRDC, if that's the case?

MR BURGIS (CFI):   I don't know if this is the right forum to be discussing that because I think we believe that there are some changes needed in the way that they approach and communicate with the stakeholders.

MR WEICKHARDT: It's a pretty good forum. Tell us what you think.

MR BURGIS (CFI):   No, I don't wish to, thank you. I don't think this forum is for that.

DR SAMSON: It just makes it difficult if you reference something to us in writing and then can't explain to us what you actually mean.

MR BURGIS (CFI): I've just made an ambit statement. But communication would be one of the things with the stakeholders, we'd like to see more of it.

MR WEICKHARDT: It is pretty central to our considerations in that some people have quite strongly said that the RDC should receive more money. But if the RDCs aren't well governed and aren't efficiently spending that money in the interests of their levy payers, then there's a pretty strong argument to question that.

MR BURGIS (CFI): I think the principle of having a grains RD and E is really important and we need to have it but I've come here to suggest that we need to increase the amount of money going through them. I would like to see some operational changes and some of those have been mentioned already and you've asked several questions of the participants this morning about governance, about how you establish a board and things like that and I would like to see that established in its entirety.

MR WEICKHARDT: In our final report, are there any changes to our draft recommendations in regard to the governance and the principles by which the RDCs operate that would, I guess, further address your concerns?

MR BURGIS (CFI): I think you might have to refresh my memory on what you actually said there before I can pass comment, I'm sorry.

MR WEICKHARDT: Okay. In a further note, if you wanted to give us one, if you've got some thoughts in that regard, that would be helpful.

MR BURGIS (CFI): I think within the industry there are some other people trying very hard to get those established. I guess the one point I would like to make is we need to move away from making political appointees on all these boards and that's what we seem to have. People get appointed because they are a member of this or a member of that but really do they have the heart of the industry in their best interests? Politically they're doing the things their masters want them to do. Maybe that's utopia on my behalf asking for that, but I don't think political appointees do justice to the business.

MR WEICKHARDT: Okay, all right. Thank you very much indeed, Michael. We appreciate your appearance. We're going to adjourn now until 1 o'clock.

(Luncheon adjournment)

MR WEICKHARDT: We'll resume the hearings now. Our next participant is Peasley Horticultural Services. For the transcript please, could you give your name and the capacity in which you're appearing.

MR PEASLEY (PHS): David Peasley, horticultural consultant, presenting the views regarding particularly new and small industries.

MR WEICKHARDT: Over to you.

MR PEASLEY (PHS): Thank you very much for allowing us to present this presentation to your inquiry. I'd like to just cover briefly my background. Is that okay?

MR WEICKHARDT: Yes.

MR PEASLEY (PHS): I've had experience in the developing coffee industry since about the mid-1980s and, concurrently with that, with the banana industry and passionfruit industry. So there's basically three categories of industries that I work with: one is a new industry, one is a small established industry and the other is an established large industry. So I felt, now that I'm in my declining years, that I had something to offer the inquiry from my experiences. Firstly, I believe there are five ingredients necessary to establish a successful rural industry. They all start with P. One is passion, and I think that's been grossly underestimated in a lot of the inquiry material. There's professionalism, planning, persistence and patience. I think all those are pretty important ingredients to establishing a successful rural industry.

My comments are divided into three separate categories of industry, and that is new industries, small industries and established larger industries. Regarding the new industries, I believe that they are at a pretty fair disadvantage in getting started, and it requires a rigorous agronomic and market research to get them started, to evaluate whether there is potential. People have got really excited about some of the smaller industries getting started. There's a lot of passion there, but I think they should have the opportunity to have rigorous agronomic and market research done prior to them getting started.

It was done with the coffee industry with the previous Australian Special Rural Research Council. That was done in 1988 and I believe that set the platform for a realistic assessment of the future for coffee in Australia. Without that, I think the coffee industry would have floundered because it was based on a lot of data-free observations and a lot of, I suppose, the expat factors, people coming from other tropical countries like New Guinea and overseas saying, "This is the way you grow coffee." It certainly didn't apply to our microclimate in Australia and I believe that was a fantastic thing to start the coffee industry off. That comprised a lot of really high-power researchers into every field, economists and agronomists and engineers, and it set the platform for the industry.

That assessment should include the competitive advantage, prospects for that industry both domestically and internationally as an import replacement crop and to provide realistic independent information to growers, marketers, consumers, government and investors. I remember when I was a program leader for tropical fruit with New South Wales Agriculture, we were asked about the future for coffee in Australia and a lot of people were getting excited about it. Until that workshop was held, I think there was a lot of misinformation. So I believe that's a really good investment for government, resulting in long-term savings, because I've seen other industries that haven't done that market research and have floundered.

There is a problem with getting an industry started even after such a workshop. You find the hard work and passion by a few people will drive the early stages of development. That often falls down at the implementation stage of the strategic plan. This is the transition period where funding is required for an industry development support person to drive that strategic plan. I think there's a lot of good will and passion going in, but it will inevitably fall on two or three individuals to drive it and they have businesses to run as well. I think once the strategic plan is set, then there's a very real place for assistance to get that industry started. Then it can be phased out once it's up and running.

The second experience I've had is with small industries, and that's the passionfruit industry. It's been an established industry but it's still less than $10 million a year Australia wide and its levy income can be variable due to climatic conditions and that reduces the production and therefore the R and D funding base. So it's quite variable. That can threaten the viability of projects. That's currently the case. The last two years there's been no funds available for even the completion of projects, but no new projects starting for two years.

So that's an issue with small industries and I have no answer for that particularly, except that maybe some of those programmed areas could be relieved from cross-industry funding of other projects while they're finding it tight. I think there's that flexibility. We have John Tice in the audience here today. John was the program manager for tropical fruit and I'm sure the effort was there to try and relieve the pressure on industry.

But I think there need to be investigations into the limitations to expansion of the passionfruit industry both domestically and export-wise. There are players within the industry who want to keep the industry small because they're making good money. We've had a lot of pressure from overseas for access to our varieties that - I do the breeding for the passionfruit industry - for access to our varieties. There's the concern by the local industry that those varieties may come back as imports. So I think there's a learning curve there but I think the potential for passionfruit internationally is grossly underestimated.

The third industry is the established larger industry. In that respect I use the banana industry as an example. I think with these larger industries you do have to have a greater degree of scientific or professional input into the assessment of projects and assistance to principal investigators. I believe the projects or programs should be outcome-driven, not process-driven. I think that has been a tendency in the past. I think the difference between project-based research and program-based research is now being addressed by the Australian banana industry.

Since the introduction of the levy some two years ago the banana industry now is just the biggest horticulture industry in Australia; now has a funding base and they've taken a bold step to restructure the way traditional R and D services are supplied to the industry. This is through a banana plant health program. It is being orchestrated from the Australian Banana Growers plant health committee and Dr Andre Drenth from the University of Queensland and John Tyas from HAL has been supported that approach. It basically abandons or does away with that project-based research concept.

Project-based research is short term. It tends to foster empire building, parochialism and secrecy. It suppresses cooperation and does not produce benefits for industry. They're generalisations, there are exceptions, but that's the concept of project-based research. I notice in your findings in the draft report that you're looking for broader rural research. I think their program-based research fits that bill. It integrates researchers and fosters teamwork to solve priority challenges for industry and the environment and consumers. It's long term, provides better pathways for advancement and training of scientists and develops broader skills, resulting in greater efficiency of outcomes.

I think there's a much greater interaction between scientists, industry, overseas workers and greater economies - efficiency of research by having researchers and service providers working across programs, across streams of activity. I think a good example of a global network is that the Australian Banana Research, particularly the pathology team, have developed overseas, I believe, and is recognised internationally. We have some of the world's best plant pathology scientists. They're keen to work with the Australian scientists, particularly in the area of Fusarium research, which is the number one problem with bananas worldwide.

I went to France last year to talk with the CIRAD scientists in Montpellier. They're very keen and we have - now in the process of signing an agreement with CIRAD for access to their varieties. They have an active breeding program in France but they don't have the expertise in Fusarium wilt resistance which we have in Australia. So there's a complementary program, something we can offer them for access to their varieties. We can't afford a program, it's amazingly expensive. So they're keen to do that in response in our - in exchange for our expertise in Fusarium wilt. We're going to test their varieties in Australia under our conditions and then we have access to their varieties, the ones that they don't want for their export program.

There's a quote from Dr Andy Ploetz, University of Florida, which I think explains pretty well this program-based approach. I notice in your report you're talking about broadening the rural research and not being too specific to crops or industry-based research unless it's industry funded. His comment is - in his paper he says:

> The successful management of plant disease utilises several principles and practices, regardless of the host and environment in which it is grown.

You know, a lot of these concepts are applicable across a range of crops and I think that's the philosophy, a holistic approach to plant pathology and plant health. That's what the banana industry is focusing on now. I think that principle could be adopted across industries under a new RDC approach.

My general comments are that the general culture of RDCs should be to foster passion for projects. I think the value of work done by passionate industry champions has not been recognised in the past and RDCs should not dampen the work ethic of industry champions with process-driven bureaucratic hurdles. The selection process for funding rural industry developments should be independent, thorough and include competitive advantage, production capacity and market consumer research. RDCs should seek expressions of interest and include capability statements from potential service providers, from private and public sectors to broaden the base of expertise available.

Finally, the funding is - probably the most critical at this stage is the funding is required for that transition period to drive the implementation of strategic plans for industry. At this stage of development new industries don't have the required financial resources or the cohesion to undertake this task and the funding provides a focal point for development into the future. That concludes my submission.

MR WEICKHARDT: Thank you.

DR SAMSON: Thanks, David. Increasingly, I mean as recently as over lunch Philip and I were musing about - you know, the model as it currently exists, it has got lots of strengths, particularly for the larger established industries. We've heard a few times now that it's the smaller emerging industries that are perhaps not well-suited by the model in its current form. I'm surprised that we managed to have a 12 minute discussion on new and emerging industries and not once did you mention RIRDC, which as you know is the 15th RDC which isn't commodity-based and has a specific responsibility in this area of small and emerging - you omitted them because - - -

MR PEASLEY (PHS): No, I omitted them because I presented that in my original submission. I wanted to see if you read it, and you haven't.

MR WEICKHARDT: I did.

DR SAMSON: No.

MR PEASLEY (PHS): Because there's copious recommendations or references there for RIRDC. I did mention Australian Special Rural Research Council as the predecessor of RIRDC. I think the work with RIRDC has been really exceptionally good in the fact that we are dealing with performers in the field of - the program managers have proven track records in either research or business with agriculture. There's a direct line of contact with those people and they are very outcome focused. I can't speak highly of our relationship with RIRDC. It has been an exceptional experience, in my book. I didn't want to blow their trumpet too much but they have been exceptional.

MR WEICKHARDT: One of the issues that has been raised with RIRDC is when does a small or emerging industry emerge. You have also talked about HAL and passionfruit. When the passionfruit people were first getting up a levy, was there a debate about where they should be sitting; whether it should be in RIRDC initially and then, once it had emerged, transition to HAL?

MR PEASLEY (PHS): That debate has been had over the years. I think there has been some concern in the passionfruit industry about the increase in cost of administration under the HAL model and the cross-industry commitments. I'm doing a project now, it's before RIRDC, for alternative uses of passionfruit plant. One of the crosses has shown some therapeutic values for stress relief and anxiety and it's used in natural medicines. I'm working with Southern Cross University to get that up with RIRDC. Now, that's a different use for a passionfruit. The delineation has been that HAL handles established industries with fruit crops; that's what they have done. Perhaps a small industry like passionfruit may be better off under RIRDC until it gets on its feet. I think the levy collection has been a big cost for industry and so has the administration charge.

MR WEICKHARDT: As I understand it, and probably I don't understand it completely, but RIRDC has the ability to basically put some money into a new, emerging industry with no levy collection for a period of time; and eventually, once it gets bigger and can stand on its own feet, they will take a levy from that industry.

MR PEASLEY (PHS): Yes.

MR WEICKHARDT: So that would suggest there's a fair incentive for people to, if you like, enter into the system through RIRDC.

MR PEASLEY (PHS): Except that I think we have got the message from RIRDC quite often that you really have to put in a contribution, not only just an in-kind contribution but a financial contribution, to help your case, to show commitment. I have fostered that as well. I don't like people getting free runs for anything. I think you have got to show some financial commitment to kick the ball off.

That's why I think this industry development position is so important, that once you've got that initial commitment in there in financial terms - it may be in 25 or 30 thousand dollars a year or something - to kick the industry off, and once the industry is established sufficiently, then it can run its own programs. I know the coffee industry is looking at doing joint promotions with the dairy industry - for cappuccino coffee and promotions, or whatever - and that sort of thing needs someone to drive it; you can't expect growers to go into talks with the dairy industry on joint promotions, it's just too much of a commitment.

MR WEICKHARDT: Could you elaborate a bit more on your comments on outcome-driven, not process-driven research, given the fact that a research program when it first starts will have some sort of target and sort of outcome that you're looking for? I understand it, but there's a period of time during which really all you can monitor is whether or not you have got the right scientists working with the right objectives and are they working diligently on it, and you can't do much more than monitor the process. What did you have in mind when you talked about that?

MR PEASLEY (PHS): I think the researchers or service providers have got to be continually focused on getting that end result. I know I was getting quite frustrated in some of my project work, that I seemed to be reporting and reporting rather than getting on with the job. The funding corporations have a commitment to be accountable to taxpayers and government, but I think there's a limit in small industries, where that can be a bit over the top. I think you've got to trust in the researchers to do the job or work with the industry and get the result in the end. You've got to have audits or reviews, but I think it can be a bit excessive on occasions. I understand the reason, but maybe the frequency is a bit excessive.

MR WEICKHARDT: At the moment I hear some people have to file quarterly or six-monthly reports. What would an appropriate period be for a three-year program, do you think?

MR PEASLEY (PHS): Twice yearly is pretty acceptable I think. It depends on your milestones really. I mean, reporting for the sake of a timeline doesn't cut much ice with me. I think if you have a milestone set, working towards the end result, then that's the time you should have the reporting.

MR WEICKHARDT: Okay.

MR SAMSON: Could you just expand on what appears at first glance to me as potentially a bit of a contradiction? You say that you think RDCs should foster passion for projects and that the work done by passionate industry champions has not necessarily been recognised. That's fine, but isn't it also the role of the RDCs to put some of that passion that at times can leak over into zealotry under a bit of a microscope and do a bit of a reality check on it?

MR PEASLEY (PHS): That's why I say that passion and professionalism go together, in balance. It's great to be passionate, but you've got to understand what you're doing and be realistic about where you're going. Passion is not good unless it's accompanied by professionalism or technical competence, or whatever. The point I was making is that a lot of people really get excited about a new industry, without doing the homework, and I think that's where there's a definite opportunity for an organisation like RIRDC to provide that direction and really put it under the microscope and say, "Look, you're really not on here," as an example, "If we get another lavender proposal, we'll scream," sort of thing. You really have to look at the potential.

MR WEICKHARDT: Your comment that RDCs shouldn't dampen the work ethic of industry champions with process-driven bureaucratic hurdles but they should dampen it with professionalism and analysis - - -

MR PEASLEY (PHS): I don't call it "dampening", I think it's sharpening your focus.

MR WEICKHARDT: "Sharpening, " all right, I accept that qualification.

MR SAMSON: David, from where you sit, is there any way the system could be improved? Again, for the big established industries the sort of levy collection model, government-matching sort of works. But when you have a very small number of producers in a sort of niche industry, clearly that model either isn't as relevant or is in fact totally irrelevant at times, and they do struggle. We have heard from a range of small industries, quite established but small, and their very size becomes the impediment to them buying into the mainstream levy system.

MR PEASLEY (PHS): Yes, and I wish I had the answer. I think some of the cross-industry burdens could be relieved on the smaller industries.

MR WEICKHARDT: Can you just elaborate on what you mean there?

MR PEASLEY (PHS): For example, there might be a program on, say, honey bees or pollination or on weeds or soil health that goes across a wide range of industries, and I appreciate that has to be done, but small industries are asked to contribute to that, and when you're faced with, like, passionfruit, with no money available for direct research programs, you think, "Oh, heck, how the hell are we going to do this?"

MR WEICKHARDT: Does that actually happen today, even at the RDC level, in an industry like passionfruit, that they're asked to chip in sort of 5 per cent of their money for - - -

MR PEASLEY (PHS): They're asked to, but Dr Kendle Wilkinson and John were managing the project and they were really good. They said, "Look, this is what we'd expect the passionfruit industry to contribute to," but they have been very good about negotiating a way out of it. You can't help feeling, "Oh, look, we're letting other industries down, we're not contributing to it." I don't know what the answer is really.

MR WEICKHARDT: I can understand the sentiment that when you're trying to get it off the ground it's a bit tough if you're being asked to support other things.

MR PEASLEY (PHS): Yes. You feel like a bit of a freeloader if you don't contribute, but you haven't got the capacity to.

MR WEICKHARDT: It hasn't stopped many other people wanting to freeload.

MR PEASLEY (PHS): No.

MR WEICKHARDT: Thank you very much indeed, David. I appreciate your input and your submissions.

MR PEASLEY (PHS): Thank you.

MR WEICKHARDT: Our next participant is AgForce Queensland. If you could give your name and the capacity in which you're appearing, please.

DR MILLER (AQ): My name is Dale Miller. I'm the senior fellow in agricultural industries for both AgForce and the University of Queensland, but I'm appearing here solely on behalf of AgForce.

MR NEWTON (AQ): Wayne Newton. I'm a producer from the Dalby area and also AgForce Grains president.

MR WEICKHARDT: Thank you. Over to you.

DR MILLER (AQ): I would like to start by thanking the commission for the opportunity to present today and also for responding to our request to hold a public hearing here in Queensland. Just to give you a little bit of background on the organisation. AgForce is the peak lobby group representing the majority of beef, sheep and wool and grain producers in Queensland. To give you an idea of the scale of those industries, current figures for beef contribution to the Queensland economy are around 3.4 billion, for sheep it's about 160 million and for broadacre grain crops it's about 675 million.

So AgForce represents approximately 7000 members and exists to ensure the long-term growth, viability, competitiveness and profitability of these industries. This is why we're very interested in how rural R and D is both managed and delivered. The RDCs that are of most relevance to AgForce are the Grains Research and Development Corporation (GRDC), Australian Wool Innovation (AWI) and Meat and Livestock Australia (MLA). In line with our initial submission, AgForce would agree with the commission's finding that the joint government industry co-investment model through the RDCs is fundamentally sound.

The partnership has achieved good returns on investment and significant benefits for both primary producers and the wider community. We'd also like to highlight that these benefits exist on a continuum of private through to public good outcomes, and the balance can change over time as benefits flow through to the community. I think this link also supports the co-investment approach. This continuum presents significant challenges to the evaluation of rural R and D, particularly without robust mechanisms to measure the spillover benefits to the community. So we are encouraged to see the draft recommendation 8.5 included in examination by the RDCs of the scope to qualify these environmental and social impacts.

A clearer picture of these combined with greater potential for private investors to capture more of the benefits from their R and D investment would go a long way to overcoming some of the disincentives to private investment and to also guide public-funding decisions. On this point, we would question the commission's assertion that the Commonwealth's contribution has mainly supported R and D that private investors would have otherwise funded. The Australian Farm Institute has a report in preparation, of which I believe you have got a draft copy, which provides evidence suggesting that the public co-contribution through the RDCs is complementary to and acts as a motiving force for private agribusiness investment.

Further, there are other industry-specific disincentives to increase primary producer investment in R and D. These include the long-term, low average profitability of broadacre industries, the long lag times between investment and accrual of returns and the rapid flow-through of benefits to consumers and to other parties. In terms of the draft recommendation to halve the cap on government funding, AgForce is strongly opposed to any reduction in the Australian government's contribution or commitment to the current partnership.

The FAO has indicated that agriculture globally must increase food production by around 70 per cent to feed a population forecast to be nine billion by 2050. No doubt you have heard those figures quite a number of times. As a significant food exporter, Australia has a role in meeting these global challenges as well as continuing to deliver safe, affordable and high quality food for our domestic market. We will need to do this while adjusting to the issues of climate change and increasing resource scarcity. A well-funded innovation chain will be required to achieve the necessary productivity increases and the supply of skilled personnel.

On this basis, the government in Australia and those of other developed countries should be looking to increase public-funding support for food production related R and D. With both capacity and motivation issues limiting increased primary producer R and D investment, proposed $60 million funding reductions out to that 10-year period are not likely to be fully offset. The commission concluded on page 250 of the draft report that the empirical evidence viewed in an overall sense is suggestive of good returns to investment in rural R and D. AgForce agrees with this assessment and believes that the Australian public has received and will continue to receive good value for their investment in rural R and D.

It is AgForce's view that a reduction in public funding would act to increase the market failure existing in the provision of appropriate human capability in rural R and D. This would be particularly apparent for scientific skills, to do long lead-in training periods, with significant flow-on effects through to overseas aid programs. The commission's suggestion that Australia would be better served focusing on adaptation of overseas R and D would not, in our view, appropriately account for Australia's unique production environment nor the reciprocal knowledge-sharing arrangements that are necessary to engage effectively with overseas research providers.

Comparisons with overseas countries, in terms of the private and public funding balance for agricultural R and D, within the draft report do not seem to take into account the overall level and type of government supports that exist overseas and hence capacity of producers in those countries to fund R and D for themselves. We just make the point that this is not an argument for Australian R and D investment to be used as an offset to overseas supports. To provide a better basis for recommendations about the appropriate quantum of public funding within the RDCs it would be preferable to include the wider rural R and D investment context. This would include accounting for the national RD and E framework process, the national strategic rural R and D investment plan and the proposed DAFF review of funding flows.

Given the current data uncertainty, we accept that there needs to be a set of guiding principles for public investment, such as those outlined in recommendation 5.1. AgForce agrees with the principle that government funding should be aimed at enhancing productivity, competitiveness and social and environmental performance of the rural sector and the welfare of the wider community. We also support the efficient delivery and adoption of quality research, promotion of program coordination as well as transparency and accountability in regard to program outcomes through effective governance and cost-effective evaluation and reporting requirements.

However, AgForce would see the inclusion of the phrase "by inducing socially valuable R and D that would not otherwise be undertaken" as being too narrow or restrictive in not allowing for the spillover benefits that don't specifically include R and D. The term "socially-valuable" is subjective, and possibly difficult to define. We also question whether public-funding programs for rural R and D are the most appropriate mechanism for facilitating structural adjustment in the sector. For example, if adjustment was the desired outcome, then an increase in R and D intensity would act to speed up the innovation cycle and so tend to move less efficient producers out of the system more rapidly, and this would seem to be an argument for increasing investment rather than decreasing.

MR WEICKHARDT: Can we just pause here, because there's a fairly fundamental point. "Socially valuable research" was used in the context of research valuable to Australian society. Given that our act requires us to look at what is good for Australia and the Australian community, it's a fairly fundamental plank upon which we stand. Are you suggesting that doing things that are good for Australian society is not a good thing?

DR MILLER (AQ): No, we're definitely not suggesting that. Our query there was how do you go about making that definition and who makes those judgments around what the appropriate balance of social versus private benefits are, and all the rest of it.

MR WEICKHARDT: It's not used in the in that sense of social versus private benefits, it's looking at the totality of the benefits. But, "How do you measure that?" is a legitimate question.

DR MILLER (AQ): That was the point that I was trying to get across, yes.

MR WEICKHARDT: All right.

DR MILLER (AQ): Thanks for the question clarification. Now, the renewed focus by the Productivity Commission on cross-sectoral R and D issues is welcomed by AgForce, particularly following the closure of Land and Water Australia. We consider that innovation and productivity improvement must be approached holistically, incorporating the social and environmental factors appropriately.

Primary producers manage over 50 per cent of Australia's land area and so central to the implementation of cross-sectoral R and D findings, therefore, these cross-cutting findings must be effectively integrated into production-focused R and D recommendations and also have a degree of ownership by primary producers in order to maximise levels of on-ground adoption. In terms of the proposed Rural Research Australia, AgForce would like some clarification of the commission's vision for that body's governance arrangements and the process of R and D priority setting. The recommendation that RRA's funding appropriation come initially from the government and with lower leveraging of industry funds, as well as a desire or an apparent desire to ensure that levy payers do not "unduly influence" R and D direction, point towards a potential separation of cross-sectoral R and D from landholders.

Establishment of a new RDC as proposed would also involve significant additional administrative expenditure, as well as the potential for competition for scientific expertise within the industry, with the industry RDCs but with the added advantage for Rural Research Australia of consistent public funding as well as the need to recreate networks with industry. Significant cross-sectoral R and D is already under way within the RDCs and with these outlined factors in mind, AgForce considers that cross-sectoral R and D delivery is better maintained within the current structure but with appropriate coordination and Australian government input.

Finally, in terms of the principles guiding the future operations of the RDC program, AgForce does support any attempt to streamline and coordinate R and D delivery within the total framework to achieve better value for money. We agree with the commission that RDC boards should be skills and experience based and presumably look at identifying gaps within board structures and filling those and we believe this will likely solve many of the RDC underperformance issues. AgForce thinks that that the appointment of a voluntary government director may also contribute to improving coordination of efforts across the RDCs, including on cross-sectoral issues. Selection of these government directors should also be skills based and include requirement for the appointee to have recognised experience of the industry supported by that RDC. Evaluation is also seen as an important contributor to continuous improvement, but we believe the process should be cost effective and linked to clear objectives.

MR WEICKHARDT: Thank you.

DR SAMSON: Thanks, Dale. If we can just start on this RRA issue. It's a bit of a is the glass half-empty or half-full, I think, depending on which way you look at it. At the risk of boring the transcript, we do believe there is this increased tension between the core business of the RDCs looking at the sort of bottom-up approach, what levy payers/producers see as the priorities and developing a portfolio of research through that which has a lot of buying and we believe is very much the strength of the current RDCs versus a growing, albeit very poorly articulated desire on the part of the other stakeholder - the Australian government - to get a return on its investment in, broadly speaking, the areas of cross-cutting, cross-commodity, larger, longer-term, national interest-type work. So that's our analysis of the issue, that that tension is there and we believe the tension is growing and there's no one single part of the equation to blame for that but it is a reality.

Now, our proposal to address that is to set up this body focused on those issues, but very much with a remit to stay connected to the other 15 RDCs through organisations like your own et cetera. That is our view. Not surprisingly a number of people have pushed back on that and talked about increasing the bureaucratic overhead - I must admit, as an ex-bureaucrat I'm starting to push back on the automatic assumption the word "bureaucracy" is bad - and they say you can do it under the existing model; more collaboration, cooperation amongst the RDCs. Now, our concern with that is after 20-odd years of operation we don't believe we see as much evidence of that happening as you would expect. There are examples. There aren't enough examples and those examples that do exist have had a fairly painful birth.

We are interested genuinely if people believe there is an alternative way of achieving resolution of that tension between the two stakeholders and if there is another way of doing it, as opposed to what we're proposing in our draft report, we are genuinely interested to hear it. But again, I reiterate, it has to be a bit more than, "Yes, after 22 years we've finally got the message. Trust us, it will be okay."

MR NEWTON (AQ): I do believe, like you indicated, part of that rests maybe with the government not clarifying their desires quite clearly enough on that front and I think where that has happened the RDCs have responded to some extent, admittedly possibly more limited than you might hope, towards developing those collaborative frameworks. I guess the danger is in establishing a new RDC at the same you're funding it with contributions removed from the other more specifically focused RDCs on industry outcomes, that it's being set up as a competitor to rather than a compliment to those RDCs and the industry outcomes that they're trying to achieve.

Our point would be because private and public outcomes are so intertwined, you'll lose the synergy in trying to deal with those two issues separately versus trying to find a closer way of integrating them. So I guess the main concern with RRA, with the exception of the increased cost - and no doubt there will be costs associated with collaboration within the existing RDCS - but it's that you're going to get a disconnect between those RDCs that are focused on getting on-ground productivity improvements, say, versus those more general environmental and social outcomes. The argument would be we don't see that separating them is that positive in terms of getting on-ground change. I know MLA particularly have tried to incorporate those, a triple-bottom line approach into the projects that they have funded and I think that's likely to be a more effective way of getting a real change.

DR SAMSON: We would agree with you, that if we thought RRA would be incapable of establishing those synergies with industry and the other RDCs, we would be very nervous. We think you can do it. The other area where we think RRA can add some value is at the moment inasmuch as the government does articulate what it wants - which we believe there's lots of room for improvement there - most of the existing RDCs are quite passive and sit back waiting to be told in I think some detail by the government what to do and in the absence of that clear articulation by the government, not as much has happened as perhaps it should. We would actually see RRA working with the other RDC corporations, industry groups et cetera and the government to actually identify what that agenda is because we think what is missing at the moment is a focus, is a vehicle to actually generate that agenda. It's a bit of a warm and fuzzy feeling that there are these things that we should be doing as a sector, as a nation but nobody is pulling it together and spewing out at the end and these are the things we want to do.

MR NEWTON (AQ): I think the commission needs to be very careful that you don't tar the whole lot with a brush that's been not good and I think this is actually a good example of it. I'm sure when one looks at the grains industry and the GRDC, where I have a lot of experience, that a lot of this government requirement is being carried out reasonably proactively. There has been a big movement, big push in that organisation to certainly try to address some of these issues, whereas I am aware some of the other commodities, there is some more reticence probably to push into those areas. It is critical in this whole process of this review that the ones that are doing a good job are not going to get tarnished or actually pulled down and structures that are working extremely well in some commodities are actually going to be degraded because of what some others are doing. Maybe the commission really needs to look seriously at how it can fix up the broken ones rather than pull down the good ones.

MR WEICKHARDT: Just building on that issue, there is an interesting submission from the Victorian DPI where they have strongly endorsed the creation of RRA and some of our other recommendations, but perhaps not surprisingly, not endorsed the reduction in the funding to the existing RDCs and I'm interested in your view, say, from your GRDC experience whether the GRDC might produce for its industry a better bang for buck by focusing on the commodity-specific research that has direct benefits to growers, not to say that it won't have indirect benefits in environmental or social issues, as everyone has commented there is a spectrum of work and thank God most of it does have mixed benefits because that helps in the adoption process.

But if GRDC were able to focus on that productivity-enhancing stuff in terms of the longer-term cross-cutting stuff work with RRA, do you think that would produce a better model and a better outcome than the current one of saying to GRDC, "You've got to do a bit of both"?

MR NEWTON (AQ): Not necessarily because again, I don't think you can actually draw a line in the sand and say, "This is private good. This is public good."

MR WEICKHARDT: We're not trying to draw a line between private good and public good, we're trying to draw a line between additional and non-additional, if I can make that decision.

MR NEWTON (AQ): That's true, but if you're going to take money away from one to do the other - - -

MR WEICKHARDT: I was trying to take the money off the table at the moment. So just assume there was an extra $50 million hypothetically for RRA - - -

MR NEWTON (AQ): If there was new funding, there is no question.

MR WEICKHARDT: Okay. Let's make it absolutely equal then. There is a choice of hypothetically you put an extra $50 million and you smear that across all the RDCs but you continue to belt them over the head and say, "You must do some of this cross-cutting work," versus the option of keep the money in the existing RDC the same but, say, "Focus on what you do best, focus on the needs of the industry and work with the RRA on cross-cutting stuff."

DR MILLER (AQ): I think a lot of it comes down to how you structure the governance of RRA and whether there's clear linkages with industry in that board structure or whatever. I think the risk is if you try and weight it too heavily towards representative interests for environment and, say, social outcomes or whatever it might be, you'll end up losing that channel through to industry and channel through to adoption and application.

MR WEICKHARDT: That is the last thing we would want.

MR NEWTON (AQ): I think separating the money issue from it comes back to, in terms of this new body, if that's the way you want to go - and we still think there are cost issues associated with that, I think there needs to be a clear pathway to application of those findings.

MR WEICKHARDT: If we go back to the LWA experience, I think I'm right in saying the GRDC in their submission originally bemoaned the loss of LWA because they worked significantly with LWA. If I'm right - I'm sorry, I can't be absolutely certain - - -

MR NEWTON (AQ): No, that's correct, as I understand it, chairman.

MR WEICKHARDT: If that's right, then why is it that that model, if you like, that appeared to work within the narrower confine of LWA, why isn't it that that model wouldn't work if it's RRA?

MR NEWTON (AQ): It's simply the money. You boil it down, it just about the money. If money is going to be taken from the existing corporations to fund the new one, we don't see it as being a positive because there is going to be administrative losses, regardless. Like the best of the corporations run at about 10 per cent, so automatically we've lost 10 per cent, another 109 per cent, that is what I'm saying. So we've got it backwards.

MR WEICKHARDT: Mind you, I'd say just as a slight pushback to that, that there doesn't seem to be much of a scale effect here, so even the bigger RDCs have administrative costs of 10 per cent. So if you gave the GRDC an extra $50 million my suspicion is that they would consume $5 million in trying to manage properly and account for properly - - -

MR NEWTON (AQ): That's it.

MR NEWTON (AQ): An amount of $45 million extra additional to what's in that current pool, I think that's the point.

MR NEWTON (AQ): Government requires the RDCs to very carefully monitor and husband that money - - -

MR WEICKHARDT: Quite correctly.

MR NEWTON (AQ): - - - and you can't do that without cost. As a manager of that money, as an individual or as a corporation, they can only manage so many entities and bodies. You know, you just can't physically double your workload and expect the same outcome.

MR WEICKHARDT: Indeed, one of the reasons that we commented in our draft report that the RDC model seemed to work was that that investment, I'll call it rather than overhead, in properly managing the research programs had produced, I think, measurably better results than somebody within a portfolio department sprinkling some money out but not having the continuity or the experience or the time to properly manage the outcome of that work.

MR NEWTON (AQ): In fact there's one in this room that actually has enough heritage to remember pre-RDC days. That was the weakness in the model back then, it was just a gunshot approach. Money got passed out here, there and wherever. There wasn't a really systematic, managed process that got the best result and I think the RDC model has demonstrated that it is quite good, even with its flaws, a lot better and certainly a lot fairer to the research and development community, the scientific community, they understand the ground rules, there's a system, there's a system, a process, feedback - at times it could be better - but there's a system and methodology that researchers can get the funding, the producers that are co-funding this research, they understand how it works, they understand there's a fairness and an equity in the situation. From that point of view that's one of the reasons it's worked so well.

MR WEICKHARDT: Okay. Just to get clear in my mind again, the two hypothetical examples - money is equal in both - RRA versus GRDC doing some - I don't know what it is mathematically - but 10 per cent of its worth has to be on cross-cutting work, they have to commit to that. Are you indifferent, provided the governance of RRA was suitably set up and it worked in conjunction with the existing industries specific RDCs?

MR NEWTON (AQ): If they had extremely strong linkage to the existing RDCs and strong linkage to industry, it can't be just a bureaucratically-driven process or even a thoroughly community-driven process. I'm not saying community shouldn't be represented, it should be strongly represented but the end users of this technology that will flow from the process have to be thoroughly well represented as well because they have to have the ownership of that to actually adopt it. When you look at one of the best examples of this community versus private benefit, the biggest single technology going in the broadacre cropping industries in the last 20 years has been zero till. I defy anyone to separate private and public benefit in that. The two have been an absolute win-win for everyone in every aspect.

The reason it has been so successful from the community point of view is because of the private benefit. It's because it has been so good for the individual that you've got all the community benefit. If you try to develop projects that are just community focused, they will really struggle and especially without that absolutely ownership.

DR MILLER (AQ): I think that point was made in the evaluation of Land and Water Australia too that the projects that did have the biggest impacts were the ones that also had a private benefit associated with it.

DR SAMSON: Yes, we would absolutely agree with.

DR MILLER (AQ): But I think the other issue that may not be coming out in this discussion is it's okay if we've got initial money coming into the system, but if we've got money coming out of the system, you're looking at an undersupply of scientific expertise generally across agriculture in Australia and I think that's come through in some of the some of the submissions that you would have seen in terms of numbers of graduates coming through but also retention of scientific staff et cetera and I think if you're looking at a system whereby you're taking money out of it, then the potential for new scientific expertise to be developed and come on and feed into ACR projects and other areas is compromised and in terms of RRA, if there's not additional funding going into it, then it sets itself up as a competitor, if you like, for access to those scientific skills and expertise. I think there are a few other flow-on consequences of reductions in funding which may not be captured in that conversation.

MR WEICKHARDT: Just let me say, it wasn't our vision - you might dispute whether our judgment is correct - that money would necessarily come out of the system. It's a question of who pays. Many people have pushed back and said, "There isn't capacity within the industry to pay, the farmers are broke, they are all over 60 and they don't see the benefits et cetera and they won't contribute." Okay, that's one judgment. But we weren't necessarily saying, "We want to see less R and D." What we were trying to do was to focus on who should do what.

On that issue of scientists, I was a bit intrigued by your comment - that I think you repeated - that is in your notes that you were concerned that RRA might provide competition for the scientific resource. I would have thought that was a great thing, because won't that stimulate people wanting to go into the industry and train if they see a demand exceeding supply. At the moment they're probably young kids rushing to the resources industries because they see a huge shortage of jobs there.

DR MILLER (AQ): There exists a huge shortage of people. The demand is existing in agriculture already. All the graduates that are coming through fill positions, as well a postgraduates et cetera.

MR WEICKHARDT: Has there been a price response? Are people earning more now as a result of that?

DR MILLER (AQ): In terms of scientists, I think there's more opportunity for career development. But, like you say, you're comparing, say, the mining industry and salaries to drive a truck of over $100,000 versus spending what it might be, eight years plus in higher education to achieve a starting salary for a PhD of maybe 60 or 70 thousand dollars. So you've got long lag times associated with the market response to trying to deal with those skill shortages as well. If you are establishing RRA with appropriate funding and there's not that competition element - well, I think there's going to be that competition element, regardless of whether the money is there or not, just because the people aren't coming through.

MR WEICKHARDT: If you want more money anyway, even in the industry-specific RDCs, it's going to create that extra demand and therefore competition. So I would have thought that you can't have it both ways. If you say there should be more money into the industry, you're going to have to accept the fact that maybe for a period of time there will be shortage.

DR MILLER (AQ): Shortage, in terms of what? Skills?

MR WEICKHARDT: The scientists, and that typically results in salaries going up, people coming in from overseas, more young kids going into the area, and eventually there's a supply-side response.

DR MILLER (AQ): Eventually, yes.

MR NEWTON (AQ): Eventually. The problem is there's just a large perception in matriculating high school students that agriculture is just not sexy, it's just not interesting. It's perceived to be a sunset industry. As industry, we're already trying hard, and we'll be trying harder, to get people to take on agriculture as a career, which means getting more people actually going to university and all the other post-secondary studies to become more qualified in this arena, because it's an ever-increasing technological area; and industry is going to need more and more technology support, even apart from the scientific level.

MR WEICKHARDT: I feel sorry for the industry, on the one hand, but it doesn't help young kids get inspired when they hear of farmers racing around saying, "Oh, it's tough, we're all dying," you know, "It's a terrible industry" - - -

MR NEWTON (AQ): Another drought, yes.

MR WEICKHARDT: - - - and, you know, sort of, "We cannot even feed our kids." It probably doesn't provide huge motivation to young kids to race into the industry. On the other hand, we entirely accept that you're not going to get good quality science and research done unless you've got good people going into it.

DR MILLER (AQ): There's pretty solid data for the beef industry from about 1997 through to the present day that the average is fluctuating around zero in terms of business profitability, but the top 20, 25 per cent are making significant gain. So I think there's certainly potential there within agriculture to attract students and interest and gain more benefit from those investments. But you're looking at two different pools of people, that's the thing.

MR SAMSON: You say in your notes that you're aware that there are lots of parallel processes going on with our inquiry, and we're equally aware of those things and we have tried to not stray too far from our remit. One of the things that we sense as we have traversed the landscape is that there is a glaring absence of some coordinating entity that brings together all these various things, from out of which flows some sort of strategic plan for the sector in terms of R and D. You've mentioned the PISC RD and E framework, which seems to be a reasonable attempt by governments, with the help of industry, to come up with that. It has the potential to be quite a significant driver for the R and D agenda in the future. Do you have any views on the robustness, the efficacy of the framework? Supportive of it? Cautious?

DR MILLER (AQ): I think there's pretty general support for that process. There's probably some questions about how it's actually going to be implemented in practice, but I think on the whole people are positive about its potential to bring together that broader multidisciplinary set of skills, make the most of available infrastructure and get the best value for money. So I think there's quiet optimism there. It will just depend on how that process gets implemented, whether it's effective or whether it gets bogged down in parochialism or other - - -

MR SAMSON: Or where the money comes from, perhaps.

MR NEWTON (AQ): As a grower that was involved in that process at the national level, I'm quite optimistic that it will deliver significant outcomes. But, again, my experience is in the grains industry, because that's the commodity I have been working within. There will undoubtedly be variation across commodities again about the level of that national integration, the level of support - from producers, but, probably more importantly, from individual state governments and so on. I can see that that is the weakness in the system. It's going to need major commitment from the states to actually make it work well. If it was to work well, it will deliver significant outcomes and improvements; if not, it could degenerate into a rather sad affair I think. But anyway, we'll have to wait and see. Certainly from an industry side, we'll be pushing it on quite strongly.

DR MILLER (AQ): I think there's probably a need for an overarching vision more broadly within the rural R and D system as well, to help inform those processes, to give them a target to head towards. I think at the moment that vision is probably not really articulated clearly enough.

MR SAMSON: It's a bit chicken and egg at the moment; some people are looking to the framework to actually produce that vision, equally, you know - - -

MR NEWTON (AQ): Like all things driven, like at PMIC, you know, they're subject to political whims and fancies and changes over time. We could see a change of people at that level and a whole new direction be sought. That's always one of the biggest risks in this sort of process.

MR SAMSON: I guess a bit of nervousness. We, whilst supportive of the framework, we have been a bit nervous that once everybody locks into that, if all of a sudden there is a unilateral dissension - - -

MR NEWTON (AQ): Yes, it could be triggered by a very minor player in that whole game as well.

MR SAMSON: Indeed. The whole framework infrastructure is locked in at that point.

MR NEWTON (AQ): Yes. That's the risk. But that's also the strength, in that it could lock in some of the commitment to expenditure in the whole sector. If the players were committed to that system, it would actually, yes, significantly lock in some of the money, which has been getting whittled away over time quite significantly.

MR WEICKHARDT: Thank you very much indeed for appearing. We appreciate your input.

MR WEICKHARDT: We will now move to the University of Queensland. If you could please, for the transcript, give your name and the capacity in which you're appearing today.

PROF D'OCCHIO (UQ): Yes, my name is Michael D'Occhio. I am at the University of Queensland associated with the School of Animal Studies and also the Global Change Institute, and in relation to the latter I'm a co-leader in the area of food security within the Global Change Institute. I'm probably here as much as an individual as I am perhaps as a spokesman on behalf of the University of Queensland, I should make that point.

MR WEICKHARDT: What is your role within the University of Queensland?

PROF D'OCCHIO (UQ): I'm head of school of the School of Animal Studies, and also a co-focal-area-leader in food security within the Global Change Institute.

MR WEICKHARDT: Okay. Thank you.

PROF D'OCCHIO (UQ): Like others, I thank the commission for the opportunity to say a few words. I will apologise for two things in advance. One is that my comments are probably fairly narrowly focused around issues of food, food production and food security and what the outcomes of the process might mean in relation to that and I also apologise because probably most of what I'm going to say you have perhaps heard in some way previously, so I apologise for that as well. If you don't mind I might focus a bit on food security and it seems to me that commission's activities have pretty much led to an outcome which is sort of one size fits all for the RDCs. The majority of RDCs are engaged primarily in food production, but there are a number of RDCs that are not focused primarily on food as a commodity.

I guess one question in my mind is: should the consideration in relation to the government investing in RDCs on behalf of the community be the same for those RDCs involved in food production as opposed to RDCs that are not engaged primarily in food production. I say that because it relates a bit to the issue of industry value versus broader public value or socially valuable determinants used in the document and, in my view, there can be no greater public good than having industries that produce foods that sustain life, health and wellbeing. So that is a foundation for conceptualising the thinking or a framework, in my view, is a useful starting position.

As others have indicated, within Australia we're extremely fortunate that we have the quantity, nutritious quality and safety of food produced. It is an outcome in part become of the strong partnership between government and industry in funding rural R and D and as a model, the rural R and D model is a model that others look at as being a successful model and that has already been stated. We have rural industries amongst the most efficient in the world. It's almost a case of success leading to failure in the sense that because of their success people say, "Well, how much assistance do they require to continue to be successful?" So I have used the term "success almost leading to failure" in terms of a perception that these industries bring real value and indeed require continued high-level government support.

Whilst there's debate about the reasons for the apparent decrease in annual productivity gains in the industries, whether that's due to a reduction in the investment of government, that is a thing that can be debated but I guess my own view is that the rural industries have for a time been living off the knowledge it was created perhaps during the 60s, 70s and 80s when there was in relative terms significant government investment in agricultural R and D. That reflects two things: (1) the importance of a longer-term vision in relation to industries that require some time to adopt technology - so there are two components, you require a longer-term vision in terms of where will an industry be in 20 to 30 years' time; what's the relevant R and D and also appreciate that translating R and D to substantive uptake by industry takes some time and I think all those components are embedded into what we've seen at the moment in terms of a decrease in productivity, although, as we're witnessing across Australia at the moment, climatic conditions can have quite a dramatic effect on industries on a short-term basis.

Food production is facing major challenges in terms of climate change, natural resource depletion, competition for resources, non-traditional use of food in terms of bio-economies and indeed competition for labour. So there is almost like a tsunami that has occurred. In some of the discussion previously in terms of why all of a sudden there has been this realisation that something needs to be done, the focus has been sharpened recently in terms of climate change reports and other sorts of things that have been happening which have brought to attention, I guess, the challenges faced by the rural industry R and Ds and particularly the food producing R and Ds. So given all that, almost a case can be made for substantially increasing the public investment or government investment in rural R and Ds associated with food production.

What's not clear to me in terms of the contextual framework for the commission's activities in the report is how does Australia as a nation value rural industries specifically that produce food? What's the national pulse in terms of how Australians view the partnership between government and food-producing rural R and Ds? What's required to safeguard the sustainability of rural R and Ds that produce food? Does the draft report send positive or negative signals to current and potential scientists? This was discussed recently and an outcome that would not be desirable if indeed the scientific community and also teachers and lecturers academics are disenfranchised through this process and there's a sense that emerges that maybe the government is shifting away from its partnership with food-producing rural R and Ds and looking at other ways of investing public money.

I guess at the end of the day all the recommendations in the draft report, if implemented, have a positive or negative impact on food security. Another issue for me is how do the recommendations in the draft report map to the current DAFF activity in developing a national food plan? Are the two processes starting to inform each other? What would be the response if the national food plan recommends an increase in government investment in food-related R and Ds and is there a danger that the draft report and the activities of the Productivity Commission might put a dollar boundary around what considerations DAFF may entertain in terms of the national food plan with regard to future government partnering in food-producing rural R and D.

So that is a general background. For me some points for consideration, and I don't know to what extent economies of scale and efficiencies are part of the background and thinking, but there might be opportunities to form rural R and D food clusters, they might be specifically around the animal food cluster, the plant industry food cluster and by doing that, could there be some savings in terms of the organisational operation of rural R and Ds and if there are savings to be made in that regard, could those savings be directed to funding additional research?

There is a case made for fisheries RDC in the draft report in terms of the wider public good research that it brings to Australia. My own personal view is that, at least for the food-producing rural R and Ds, the same case in terms of wider public-good research can be made in terms of the current level of funding and indeed, perhaps even an increase in funding. In terms of Rural Research Australia, I guess I just wonder whether RRA already exists in some form and could that indeed be RARDC? If that is the case, is that considered as an option? RARDC has one of its major planks, of course, public good outcomes which is one of the goals of Rural Research Australia and if indeed RRA already exists in some form or can be created from the component bits that are already available, then indeed does that create and opportunity for the money that is currently earmarked for RRA to indeed introduce a new initiative as part of the Productivity Commission's deliberations and that's to create a fund to foster support, encourage private-public partnerships.

There is some mention in the draft report about private-public partnerships. My view is that there isn't enough effort being made in general within Australia to try and find mechanisms of increasing private investment in at least food-producing industries. With the advent of new technologies including the molecular, genetic, cellular and indeed environment technologies there might be an opportunity as part of this process to consider a pool of money specifically for encouraging private-public partnerships.

In terms of Rural Research Australia and my understanding of what it would plan to do, I'm not sure how that fits in with the move towards multi-disciplinary, integrated, systems-based R and D where indeed when you have a new concept, a new technology, a new piece of research the encouragement is to bring multi-disciplinary teams together to look at the whole system, which includes the production aspects, it includes the environmental aspects, it includes the natural resource consumption aspect, it includes the social aspect. So it seems that Rural Research Australia might be undoing that a little bit in terms of the way in which research is being put together in larger multi-disciplinary teams across the rural R and D corporations.

I guess another component is what is the international message that this might be sending in terms of a perceived reduction in government partnering in rural R and D activities? By the message I mean both not only the national message but also the international message in that we have increasingly large global non-government organisations looking to invest in capacity building in rural R and D globally, particularly in food production. I would expect that they're looking across countries to see those countries which are, within country, investing significantly in furthering efficiencies of rural industries, including capacity building and so on, in terms of people and technologies and other - is there a scheme being run in terms of partnering with those countries which are of themselves investing to a great extent, perhaps, in developing the efficiencies, the economies of their rural industries? Could that impact on ACIAR and AusAID may operate within a global context into the future?

I guess it's linked with the way in which the scientific community and the teaching community and other people involved in preparing people for participating in rural industries' type of activities - what's the perception going to be? It would be unfortunate if these people become disenfranchised and a little bit disillusioned in the process. It comes back to attracting, indeed, the next generation of students into the space of rural R and D and agriculture. So to summarise, I think that food and the food-producing rural RDCs are indeed an element of national security, in my opinion.

MR WEICKHARDT: Okay, thank you.

PROF D'OCCHIO (UQ): Thank you.

MR WEICKHARDT: Good.

DR SAMSON: Couple of points, Michael. One, you talk a few times about perhaps revisiting the current composition of the RDCs and looking at clusters that you might do. That was something that we looked at very closely in our deliberations for the draft report and obviously, as you know, you can cut a cake many different ways, broadacre, irrigated, intensive livestock, whatever. So really, just to flag that we did look at that. At the end of the day we felt there was great opportunity to micro-manage and make things worse than they were and that really we do subscribe to the view that one of the great strengths of the current model is that very close link with the RDCs with their commodity base.

Just on the funding, I'd like just to get a sense of the scale, the context of what we're talking about here. I mean if our draft recommendations went through and the government accepted them, I mean at the moment there's $490 million spent per annum between levy payers and the Australian government, okay? If our recommendations went through at the end of 10 years you'd have $60 million less in the kitty. Okay, after 10 years. Now, people seem to think that would be a catastrophic disaster, which to me implies that what they're saying is all the research that is currently done is focused, relevant, endorsed and that even - any reduction in funding, any reduction of that research would be a catastrophe.

Now, surely in any portfolio of any endeavour you have the spectrum of investments. When your income is cut, you look, you reprioritise. Some things that were marginal which were nice to do but not life-saving to do drop off the twig and you end up with a smaller but tighter focused portfolio. Why would this be any different?

PROF D'OCCHIO (UQ): Yes. I don't think the 60 million is actually the issue, personally. It's not the absolute monetary value because your comments are correct. It's a question of - I mean if it's only 60 million over 10 years then one could ask, why bother? Given what I regard as the sort of potential unintended consequences of that sort of pathway - and those unintended consequences are ones of signals - what are the signals that are being sent to the community that used to engaged with the rural industries? That's the research community, that's the teachers and it's the academics. What are the signals? What are the signals being sent to high school students and parents of high school students in terms of a government reassessment of its partnering with industries that produce food?

I think that the debate in relation to food within Australia is at very early stages. It's an immature debate at the moment. The majority of Australians have no perception of the challenges facing the food-producing industries from the standpoint of significant environmental challenges they face, significant labour challenges and significant challenges in terms of the next generation of researchers who are going to work with the industries to address the huge challenges that Australia faces in terms of where food is going to be produced, how it's going to be produced, what are the decisions to be made in terms of allocating things such as water to food, as opposed to other activities.

Now, at the moment we have hot spots of activity such as the Murray-Darling

Basin in terms of water issues there, then we have a hot spot of activity in the Surat Basin in terms of coal seam gas and so on. But all of that is occurring without an understanding, a national understanding, of where Australia wants to be or indeed should be or needs to be in 20 years' time in terms of the food that we produce. It seems the majority of the rural R and Ds are engaged with food production, except two or three of them. I think that what is missing, in my view, here is a sense of what is the national plan and how does this fit to some sort of a national pulse or a national plan in terms of food production. It's not about food security, because, you know, we produce enough for 80 million people, we throw away enough for 20 million people then we feed 40 million overseas and 22-odd million here. It's not a question of food security for Australia. It's a question of sustainable, responsible sorts of land use which allow producers to have a livelihood but then continue to produce - - -

MR WEICKHARDT: Sorry, producers have?

PROF D'OCCHIO (UQ): A livelihood.

MR WEICKHARDT: A livelihood.

PROF D'OCCHIO (UQ): Generate an income that allows them to remain in communities where they wish to be. So I think it's not actually - the monetary value is, in my view, of lesser importance than the government signals and messages that are going to go to broad groups of people across the community. I include the international community in that and I mention the sort of international NGOs and private foundations such as the Gates Foundation that are looking at countries that can have some role globally in sharing knowledge, information and technology.

My view is that Australia has a tremendous opportunity, given the efficiency of our production systems, given the high quality of our researchers. I disagree with the statement in the draft report that Australia can rely on knowledge generated overseas. Agriculture is one of the five sciences where Australia ranks internationally. Not many people know that. Australia doesn't rank internationally in a lot of sciences, but agriculture is one of the top five, which means that we have an extraordinarily well-regarded image. My concern is that this is another example of where that might be perhaps diluted; and possibly unnecessary, given the small saving, so to speak, relative to the collateral damage that this might bring.

MR SAMSON: Understood. Thank you.

MR WEICKHARDT: A comment in the draft report that Australia should rely on others, I don't think those were our words. Our intention however was that Australia should free-ride as much as it possibly can on the research that goes on overseas. We cannot as a nation afford to be totally reinventing things that already occur. We should make sure we utilise and drag in as much of that R and D as we can. We weren't trying to say that means we shouldn't do any of our own, but there's a recognition that what goes on overseas is highly relevant too and incredibly valuable.

Lots of people have said Australia's scale is such that we will never be the source of new molecules for, you know, all the world's new insecticides or things of that ilk. We were simply saying that it's to Australia's advantage that we can free-ride on some of that R and D, not that we shouldn't be doing any of our own. Indeed some people have pointed out that to have a seat at the table to get early access to overseas R and D, to be able to adapt it, we need to do some of our own. So we agree with that point.

MR D'OCCHIO (UQ): If I could comment.

MR WEICKHARDT: Yes.

MR D'OCCHIO (UQ): My view on that is that Australia should be in partnerships and our researchers should be encouraged to be in international partnerships to generate some of what perhaps in the report is viewed as international science. I think that creates some of the stimulation, some of the interest. So rather than sort of saying, "Let's free-ride and let somebody else do it," to the extent possible, I think that we should be encouraging our scientists to be part of that global community, to generate the next phase of knowledge, to address new problems which agriculture industries haven't previously faced.

The European community framework programs are an example, where they are now freeing up some money. Initially Australian scientists were being invited to be part of EU framework programs, primarily to bring knowledge to the table, and very few dollars in the pocket when they returned back to Australia. But now that's changing and the EU framework programs are now seeking to send significant financial resources to countries like Australia. So my view would be, what can we do to encourage Australian scientists to be partners in the next phase of rural R and D.

MR SAMSON: Just finally from me, Michael, you said - and I think quite rightly - that the relationship between R and D and productivity gain is a complex one with many factors in play, and you postulate that there were some significant productivity gains in the 60s and 80s which may have reflected major investment during that time. Is it possible that it also reflected at various times there's sort of low-hanging fruit to be relatively easily harvested, to continue the horticultural metaphor.

MR D'OCCHIO (UQ): There's no question, Cliff, that that was the case, in that there were opportunities, as you describe as low-hanging fruit. As a researcher, I would say, because there is no more low-hanging fruit that's reason to invest more for positioning for the next 20 years, that's the challenge. So how do you address the fact that you have to go higher up into the tree to seek gains, and it's not by reducing investment in - - -

MR SAMSON: No, but I can certainly endorse your view that it's not a simple relationship between dollars in, more productivity out; it's more complicated than that.

MR D'OCCHIO (UQ): Definitely not. In terms of RRA - - -

MR WEICKHARDT: One last comment, and then we must wrap up.

MR D'OCCHIO (UQ): Yes, sure. If there is a mechanism, and it may not be that money has been currently allocated to Rural Research Australia, if I could come back to some way of fostering and encouraging private-public partnerships, the value that brings - let's say for example an nominal amount of $50 was provided by the federal government - and what those partnerships do is they lever that money to two or three times the government investment. So $50 million could all of a sudden become $150 million.

What does that mean in terms of rural R and D research? What does that mean in terms of flow into the industries? What does that mean in terms of the fact that you're engaged with industry partners? Increases substantially the likelihood that a technology would indeed get to the industry, be adopted and demonstrate benefits or derive benefits that otherwise might be the case without perhaps some sort of public investment. So to the extent possible, I would encourage the commission to have a look at possibly some mechanism as part of this deliberation. I think that there's an opportunity there which might be an opportunity that perhaps goes by or gets missed as part of all of this, to perhaps have a mechanism for encouraging the government to look at these private-public partnerships.

MR WEICKHARDT: How does that idea differ from the CRC concept?

MR D'OCCHIO (UQ): It's a question of where the CRCs are tracking at the moment, in terms of the philosophy for funding CRCs and what CRCs will be funded into the future. Indeed the draft report makes comment that the rural industries have done quite well, in general terms: beef CRC, sheep CRC, wool CRC, future agriculture CRCs. So I guess it's a sense of could there be a shift in the nature of future CRCs into other areas that are identified by government and others, and could indeed the shift lead to quite a massive hole and a deficit in terms of federal government partnering in any area, which I think is absolutely critical for Australia, and that's food producing, rural R and D. I guess that probably adds to my argument, given where things are tracking in terms of CRCs and other priorities.

MR WEICKHARDT: All right. Thank you very much indeed for appearing. That concludes today's scheduled proceedings. For the record, is there anyone else who wants to appear today before the commission? No? In that case, I adjourn these proceedings. The commission will resume in Hobart next Monday.

AT 2.33 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 22 NOVEMBER 2010