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PRODUCTIVITY COMMISSION

**INQUIRY INTO RURAL RESEARCH AND DEVELOPMENT
CORPORATIONS**

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

TRANSCRIPT OF PROCEEDINGS

AT HOBART ON MONDAY, 22 NOVEMBER 2010, AT 9.15 AM

Continued from 16/11/10 in Brisbane

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MR WEICKHARDT: Good morning and welcome to the public hearings for the productivity commission's inquiry into research and development corporations. My name is Philip Weickhardt. I'm the presiding commissioner on this inquiry. With me is Dr Cliff Samson, associate commissioner. The purpose of this round of hearings is to facilitate public scrutiny of the commission's work and to get comment and feedback on the draft report, which was released in September. Following these hearings in Hobart, hearings will also be held in Adelaide, Perth and Mildura. The commission has already held public hearings in Canberra, Melbourne, Tamworth and Brisbane.

We will then be working towards completing a final report to the government in February 2011, having considered all the evidence presented at the hearings and the submissions, as well as other informal discussions. Participants in the inquiry will automatically receive a copy of the final report once released by government, which may be up to 25 parliamentary sitting days after completion. We like to conduct all hearings in a reasonably informal manner, but I remind participants that a full transcript is being taken. For this reason, comments from the floor cannot be taken, so that at the end of the proceedings for the day, I will provide an opportunity for any persons wishing to do so to make a brief presentation.

Participants are not required to take an oath, but should be truthful in their remarks. Participants are welcome to comment on the issues raised 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 our web site.

To comply with the requirements of the Commonwealth Occupational Health and Safety legislation you're advised that in the unlikely event of an emergency requiring evacuation of this building, the exits are located immediately to my left and also this way and the evacuation point is in the carpark opposite the hotel. If you require any assistance, please speak to Mr Nick Ford, one of the commission staff, who is at the back of the room. Finally, can I also ask that you please check your mobiles phones are either turned off or switched to silent mode.

I would now like to welcome our first participant from the Tasmanian Seafood Industry Council. If you could please for the transcript give your name and the capacity in which you're appearing today.

MR STUMP (TSIC): My name is Neil Stump. I'm the chief executive of the Tasmanian Seafood Industry Council.

MR WEICKHARDT: Thank you very much indeed and thank you for your submission to our draft report, we much appreciate it. If you would like to outline the things you would like to cover and we will then lead into a discussion on those.

MR STUMP (TSIC): The first issue we've got listed is PC's proposed changes to the PIERD Act which would see the FRDC be given the authority or power to collect additional levies or funds on behalf of industry for marketing and promotional activities. We're supportive of that approach under the proviso that the levy isn't compulsory and it's actually up to the individual industry sector or a group of industry sectors to apply to the FRDC to collect the levy on their behalf. Also it is proposed that there is collection of additional funds for industry policy function and again we would support that, as long as it's at the request of the recognised industry body and I stress the word "recognised" in that the body must have some legitimacy; be recognised by either the state or the federal government.

In this environment it's very hard for industry organisations to maintain the level of activity that's required in the face of increasing regulation and market uncertainty and a whole range of issues and we believe it's important that there is some provision there available for the collection of additional funds if so desired. We make some general points flowing out of your draft report and that is particularly in relation to FRDC and we note in the report that the reports are supportive of FRDC as an organisation and the way it operates. We believe the RDC model in this instance is generally sound and facilitates a cooperative environment for the investment in the required R and D for the seafood industry generally across a raft of areas from pure science to people development to market development and market-related activities post-harvest generally.

So we believe the model for the most part works well, it's not without its hiccups every now and then. Sometimes we do believe FRDC aren't totally on track but in the main part they are and I think they work hard to do that and to listen to industry. We believe that the FRDC is a little bit unique compared to its terrestrial cousins because we are dealing with a resource that is recognised as being owned by the state or managed by the state on behalf of the population in general, and that's being fish and access to water and things like that. They're community property and not private property and we therefore believe that the government has a duty of care as a steward of the resource to ensure that the research and then the development that flows from that which enables what we call the sustainable management of the resource does occur as best as possible.

We believe that the FRDC model where you have input from researchers and the industry and the government provides a good working model to ensure that in the main that required research is carried out, particularly the stuff that needs to be done now because we've recognised there is a problem or is non-core research for other parts of government and we believe FRDC provides that flexibility which is required. The research has got to be high quality and robust and defensible and generally the FRDC model we find does provide the necessary rigour to ensure that the research that is commissioned is targeted and aimed at the areas where it's needed.

Both wild capture fisheries and aquaculture depend on a social licence to operate because, as I said earlier, we're dealing with a public owned resource and we have access to that, we produce food, basically we're a food industry but we need to ensure, in the case of wild capture fisheries, our harvesting methods have the least impact on the substrate, for example, carried out in a manner that is sustainable and that needs to be underpinned by high quality research yet again. The same with marine farming operations. It's recognised in regard to farm of fin fish, for example, they use a lot of nutrients, there's a reasonable amount of waste. I think it's recognised that, as with every farming activity, there will be some impact on the environment. What we need to ensure is that that impact doesn't spread beyond an acceptable level and in regards to marine farming operations, that's normally considered to be outside the lease area. It's recognised that what happens in the lease area, there will be impacts but we don't want it spreading as much as possible outside the lease area. Again, that requires high quality research to underpin that.

The other thing that we believe the FRDC model, although it hasn't that focused that much on this particular aspect to date, is having effective extension of research outputs and outcomes. FRDC has recently recognised that that is an area that needs to be improved. To put it quite bluntly, too often we have research reports that can tend to be compiled then put on a shelf and not effectively extended and we believe that that's an area that does require some improvement and I can say that through my involvement with various reference groups and working groups that have been formed by FRDC that they are aware of the need for that and are moving in a proactive manner to ensure that.

I think it's really clear that for the seafood industry RD and E remains a high priority. We do contribute in excess of the stipulated .25 per cent of GVP to FRDC. We contribute over and above what we're required to, so I think that does demonstrate our ongoing support for that model, bearing in mind that anything we contribute above that there's no guarantee we're going to get the matching funds but quite often it makes sense to at least get some leverage for your money by providing additional support for some research projects. So I think in the main that covers the key points that we have made.

We also, as stated, believe that because we're dealing with a public resource that the government's 0.5 per cent of GVP in matching funding should be retained in this instance because we are talking about managing a public resource sustainably and not all the benefits flow directly to an industry. As you'd know with the fishing in general there's a large recreational component. Recreational fishing is a key activity for a lot of Australians and therefore the government needs to be seen to continue to support that. So I believe that basically sums up the key points we wish to make.

MR WEICKHARDT: Thank you very much indeed, Neil. Given your last comment about recreational fishing, I'll defer to my expert associate commissioner on that matter.

DR SAMSON: Who is a very frustrated recreational fisherman, partly because of the wiliness of your native trout. Neil, I was very interested in what you had to say about the industry's views of the social licence to operate and you mentioned a few times that your industry does operate within a resource system that is part of the public resource. Correct me if I got this wrong, but I took from what you said that your industry is very aware of the nature of the resource that it utilises, that it does have a strong requirement to manage that resource and a lot of what you do is about that social licence to operate. I have to say some of the industries we have talked to perhaps don't have quite such an enlightened view. Do you see that issue as being in partnership with the government stakeholder or principally perhaps the responsibility of the government stakeholder or principally your responsibility. I'm just interested in how your industry sees it all.

MR STUMP (TSIC): I see it very much as a partnership approach. Individuals and companies are gaining wealth or a living from harvesting a public resource, but again it comes back to the government has recognised we do need an industry there to harvest this resource. We are managing it, it creates wealth, it creates jobs, particularly in regional areas. The seafood industry is very regionally focused in regards to production so there are a lot of strong reasons for me for the government to support the R and D and the management that underpins it. I can't put my hand on my heart and say the whole of my industry adopts that enlightened attitude. That would be stretching it a little bit too far. But I do believe it's been an evolutionary thing and industry as a whole has become more accepting that we do need to prove our bona fides in the way we manage and we can only do that in partnership, I think, with the government and with fisheries management agencies and with research agencies. I don't think it is purely up to the government, nor is it purely up to industry.

I think as a comment one area where it does - I wouldn't say so much fall down, but there is a lack of recognition, is in relation to recreational fishing, for example. That it's got to be widely accepted, particularly at a local level, that intensive recreational fishing can have an impact on the sustainability of fish stocks, there is no doubt. It's more at a local level not on a wide scale level, but if everybody is to enjoy that, I think there needs to be maybe some way for the recreational sector to contribute to research that is particularly important for either their particular sector or the recreational fishery or, if they target one species in an area fairly intensively, they should be required to contribute somehow as well.

DR SAMSON: A very, very expensive New Zealand fishing guide once tactfully described me as a low-impact fisherman.

MR STUMP (TSIC): I think one of the real difficulties we have with the seafood industry and fishing and aquaculture in general - aquaculture is in a confined space and you can normally see what you're dealing with but in regards to the wild capture fisheries there was a quote I remember from quite some years ago that counting fish is not like counting trees because you can't see them and they continually move. Therefore the difficulties around understanding the dynamics of fish stocks I think somewhat do tend to be underestimated and it does require an ongoing commitment.

DR SAMSON: You mentioned a few times levies in various forms and we are aware that your industry operates slightly differently than most in terms of the FRDC go out and put a business case and seek money and we have become increasingly aware and interested as we have held the hearings about the different impost the collection of levies has on large industries vis-a-vis small industries or, perhaps in your case, subcomponents of an industry and in the draft report we try to address some of those things to try and make the process a little bit faster and easier. From where you sit, is there any single thing or couple of things that could be done to actually facilitate the relatively rapid collection of specific levies?

MR STUMP (TSIC): It becomes difficult when you don't have a single collection point. The current system in Tasmania where our department - it's added on as a component as our licence fee and works quite well. That to me is the best way of collection. Requiring another third party like a seafood processor or somebody else to collect a levy on your behalf, they're basically seen as a tax agent. But collecting it as part of the licence fee, I definitely see as being the most preferable way of going about it. It also has the advantage - and I take your point about larger scale industries and smaller scale industries. Within the seafood industry we have some larger, reasonably affluent sectors and we also have quite a number of smaller sectors that, simply because of the prioritisation process, tend to be neglected. Up until recently a couple of our smaller sectors didn't contribute directly to the FRDC and now they do and it has enabled them to have more direct input into research priorities for their particular species.

When people look at the cost of undertaking research and you've got, say, a fishery that's worth \$800,000 a year, for example, like a couple of ours, where's the incentive to go out and spend \$400,000 on research? People look at value for money. But when industry can see, "Yes, we are contributing and we've set aside these funds and we do have some research needs," then FRDC as an organisation tends to take more notice of those sort of requests for funding than otherwise would drop off the radar simply because that industry sector isn't seen to have been contributing. So I believe getting everybody to contribute at least something also adds to making sure we cover as much as what we can and need to.

MR WEICKHARDT: Can I just ask a question on the quantum of the levy

collected. We've been asking various participants to what degree the government-matching cap has an influence on the magnitude of the industry contribution. Some industries, as you've noted your own, contribute above the government-matching cap, some industries contribute below and some industries contribute almost exactly at the matching cap. To what degree do you think the government-matching cap does act as a motivator for the industry to contribute a certain quantum and if it has some large significance, why is it your industry is contributing more than the matching cap?

MR STUMP (TSIC): Personally I don't think that it consciously affects the contribution. It's accepted that industry will provide - on a three year rolling average I think it is the .25 per cent and that's what the Commonwealth does, so that's the system and that's how we go about it. It's normally some of the individual sectors that will tip in a little bit more. Like in Tasmania the salmon sector for industry is generally above bottle but I think they're having some discussions about the value of that. But as I said, it's more that some individual sectors are more conscious than others of the value they're getting out of contributing to research in this manner.

MR WEICKHARDT: Okay. Final question from me: you said in your introduction that the model, the RDC model in the main works well and the FRDC are generally on track. If you had your magic wand what is it you'd change about the model or FRDC to ensure it worked as well as you would like?

MR STUMP (TSIC): That's a really difficult question, because it's normally isolated things where it doesn't seem to - maybe sometimes they have an organisational view which is slightly at odds with that of industry. To give you one example I'll go back to extension. We've for a long time believed extension can be done better and we've had internal discussions in Tasmania between our research agency, the management agency and industry of how can we do this. We came up with a proposal which we believe best meets our needs internally. It was a consensus view. It wasn't government saying this or the research agency saying that. We thought, "No, this is how we believe we should go forward." FRDC in this instance because what they're required to do in extension is now built into the national RD and E plan which runs across all primary industries and we've got our seafood industry one or fisheries and aquaculture one underpinning that - they've gone off and now we have to have a think tank about how we're going to do the extension.

I would have liked to have thought there would have been enough recognition there that, "Well, Tasmania has come forward with something that's going to meet its needs. Why don't we back that instead of going down the 'we need to have another eight or 10 months' discussion on this point'?" Sometimes I think there is too much of a feeling that we have to push things at a national level without recognising that in not all but at least in some instances a regional approach is going to be more effective and is going to give you better outcomes for that region. That's simply

because of a lot of geographical and political reasons and other things.

MR WEICKHARDT: Well look, Neil, thank you very much indeed for your comments. Thanks for appearing today.

MR WEICKHARDT: Our next participant is the Tasmanian Institute of Agricultural Research. If you could give your names and the capacity in which you're appearing, please.

MR FORD (TIAR): Thanks, Philip. This is a joint presentation and a joint submission between the Tasmanian Institute of Agricultural Research and the School of Agricultural Science at the university. I'll explain a bit about that during the presentation. I'm Wes Ford, the acting director of the Tasmanian Institute of Agricultural Research, which we'll refer to as TIAR.

DR DOYLE (TIAR): I'm Richard Doyle and I'm the head of the School of Agricultural Science at the University of Tasmania.

MR WEICKHARDT: Thank you. Over to you.

MR FORD (TIAR): Firstly, as opening comments we'd like to congratulate the commission on the work they have done in terms of reviewing the RDCs and rural research in Australia. It's a challenging area. Having previously been involved in the national RD and E framework, I know it's a complex area with a complex set of challenges. By and large, TIAR and the school as an organisation are supportive of the review and the findings and very supportive of the notion that the RDC model is recommended to continue, at least in a modified form.

I think it has delivered considerable value to Australian industry over a number of years, and, as a provider of research development and extension services, we are an active participant with a number of the RDCs and have good working relationships with those with which we work. Just by way of brief introduction, so you understand the context in which we are making this submission, the Tasmanian Institute of Agricultural Research is a partnership between the University of Tasmania and the Tasmanian government and it's a publicly-funded research, development and extension provider.

The School of Agricultural Science operates as a parallel university organisation to TIAR and is the provider of the teaching and education associated with agricultural science in Tasmania. We work in unison; we are effectively joined at the hip. The teaching and academic staff of the school are also research staff within TIAR and the research higher-degree program is auspiced out of both organisations. So effectively TIAR is a research organisation and the school is the joined teaching organisation. As of January next year we will have a common director who will be responsible for both TIAR and for the School of Agricultural Science.

In 2009 the combined school and TIAR had an annual and I'll call it derived expenditure approaching 27.5 million dollars. Of that, we have got a core allocation

to cover off on project delivery and teaching and we also have a component of overhead costs which the university covers. As organisations, we don't meet our costs of operations - IT, HR, rent, all those sorts of things - so the university has a funding model that apportion those costs at the rate of 1.25 times salary costs. So that gives us what we believe is an effective operating budget in the order of about 27 million.

It's important to note that we draw about \$6 million annually in external funding; of that, in 2009, 38 per cent came from the RDCs, the two large ones are principally Horticulture Australia and Dairy Australia, with Horticulture Australia making up 20 per cent of our external income. In 2009 the RDCs contributed 2.2 million dollars to the RD and E portfolio of TIAR and the school. Because TIAR is a partner organisation owned by the university and the government we have a number of broad objectives to meet. We are required to meet university objectives, government policy objectives and industry priorities, and they're laid out in our strategic plan.

Briefly I'd like to just touch on a number of points in terms of our observations around the report. Firstly, we note and congratulate the panel on their support for the continuance of the RDC system. We, as a provider, who lead and also respond to research agendas, recognise and value the RDC system. I make that comment, "leading and responding to," because with industry we are often involved in proactively proposing research and seeking research and we are responding to by working within the national policy frameworks that are set by the RDCs as well. So we engage with the RDCs to actively seek to have RD and E funded to meet the benefits of Tasmania and we also actively undertake and provide services for the RDCs to run national programs; for example, the red meat target sorts of programs and sheep programs out of the Meat and Livestock Australia are run.

It is our view that we think the report probably understates the public benefit that's attributed to agricultural RD and E in Australia that's funded by the R and D corporations. This is a subjective view but I think it highlights that there are a lack of effective tools for being able to identify public benefit and you've picked up on that. In terms of an areas for future work, I think that's something that Australia does need to invest in is being able to identify and articulate what sort of monitoring evaluation we need for determining what public benefit is and what the flow of those benefits is, particularly in terms of some of things like climate change, the indirect benefits, the climate change and carbon sort of benefits that we see from a number of agricultural research areas in Australia. For example, things like minimal tillage and things like that, while they provide benefit in an agronomic sense, what sorts of benefits do they provide in the longer term that are very hard to articulate and very hard to actually measure?

We support the conclusion that industry does need to increase its investment in

RD and E in Australia, it's not just a government area that needs to be funded and as an organisation that predominantly uses public funding or uses industry funding through the R and D corporations, we recognise and would seek to see greater value about how we can get industry to contribute. At a sectorial level we've tried with industry to get them to contribute, and it was interesting to note the comments that Mr Stump made in relation to the fishing industry. At a sectorial level the agriculture sector seems reluctant to contribute higher levels, yet at an individual company level we don't have any problems and in fact companies come to us and seek us out to undertake research on their behalf or collaboratively with them for which they're prepared to invest in. I think that does potentially draw a distinction in Australia between the future of corporate agriculture and the current continuance of the sort of broad, family based, small business type arrangements. The more people we have participating in the environment, the less able they are to recognise the individual benefit in terms of public investment or private investment.

From our point of view, with the proposal to create Rural Research Australia and of it taking over a broader role of what might be defined as environmental or the more public-benefit research. We have a concern that, I suppose, in terms of what this might look like, it might create the potential for gaps to arise between some of the things that the RDCs are currently doing that they wouldn't do in the future but may not be picked up in the remit of Rural Research Australia. I think that needs to be very carefully planned in terms of looking at what the mandates of what the two separate systems would be and what sorts of arrangements are in place for the governance and decision-making to ensure the gaps are identified and where possible mechanisms are in place to ensure that the gaps can be filled.

It is our interpretation that we think the report, in terms of creating Rural Research Australia, potentially creates a funding reduction opportunity for the Commonwealth government in that upon my reading of the report it would seem that over a 10-year period that there's potentially, on your figures, an opportunity for the Commonwealth government to reduce commitment to the tune of \$100 million which in a sense - obviously in 10 years' time Rural Research Australia would be spending more than \$50 million and we notes there are the comments about programs that are currently undertaken that might transfer across, so there's clearly some fuzziness there. But an interpretation we have made is that this does leave the way open for the Commonwealth government to reduce funding to the sector.

In terms of the creation of Rural Research Australia, we're of the view that we don't think the report effectively deals with the separation of the environmental and sustainable research away from the industry research. Currently most of the research development corporations are funding environmental sustainability type research which they would claim meets their obligations for public good type activities. One of the risks we believe would occur is that in moving all those things into RRA that a disconnect could arise between the nature of public good research to underpin

landscape systems and the public good values of agriculture away from the industries themselves and I think that will be something that will need to be managed and will be something that will be a challenge for the organisation to be able to deal with.

We think the changing future around agriculture, particularly with things like food security, the links with climate change and areas that the report just glosses over, there are going to be significant impacts on the policy environment of the Australian and state governments over the next decade and how funding for those sorts of things gets brought into or the risk that there's going to be a greater call on a smaller bucket, I suppose, is the general fear that we hear from our constituent farmers who are concerned about the level of research.

MR WEICKHARDT: I'm just conscious of time. Can you wind up fairly soon, so we have time for a discussion.

MR FORD (TIAR): The final closing I would make is from being a provider of RD and E services we will respond to the agenda as it develops, so Rural Research Australia does provide opportunities for us as a service provider. So we're not saying that it's a bad thing, we're just saying it's something that needs to be very well thought out and planned. But our ultimate concern is we potentially see a reduction in publicly available funding for agricultural research in Australia.

DR DOYLE (TIAR): In closing, Wes and I put that together and I am in full agreement with everything said, so I'll just try and reduce any repetition and come up with a few points I would like to add more from an educational point of view. As Wes says, I think we're an extremely challenging landscape with all the global food security issues, climate change, many retiring baby boomers, so we're losing a lot of skills as those people that grew up around the green revolution and have been driving agricultural innovation retire. Things like oil and the competition for water resources as we live in an increasingly urbanised society and the need for improvements in water use efficiency, as Wes has said, carbon cycling, lead me to be very concerned that we will be reducing funding into agricultural research when we face these changes in front of us. I guess that's one of my ethos there.

One of the fallacies that I think lies in the report is the increases in productivity and in agriculture I understand they are about 2.8 per cent which is well above the national improvements in productivity which are 1.8 per cent. So, in other words, this agricultural research is feeding growth and productivity. One of the fallacies I believe is that those profits then go back to farmers and processing companies largely. I believe that the key outcome is cheap and safe food for Australia, healthy food and increased food security and I am concerned that we might be putting that a little bit at risk with reducing that funding. If we look at the innovations and the rate of improvement in innovations, it tended to peak around 1985 or so and that we have been dining out on those benefits as we've reduced funding into agricultural research.

I agree with the concerns around Rural Research Australia. Often things like salinity, animal research around methane, carbon, water use efficiency, these things are very much linked into production as much as environmental outcomes. I'm not saying I disagree with the idea of a rural research body, an independent body that can have a key public-good focus, but I do worry about unhooking the wagon there. The other thing that concerns me as an educator is the skills shortage. Apparently the federal government was under the belief that we were providing enough agricultural graduates and they came to that misbelief by looking at urban papers like The Australian and The Age and the Australian Council of Deans of Agriculture have done a very thorough study of rural papers and job ads and they have actually determined that we're only providing about a third of those graduates.

Now, while RDCs don't fund undergraduate training, they are important in supporting postgraduate training which is the next step in that and these are often the people that are leading agricultural innovation and want to attract some of the best and brightest minds into agriculture so that we can meet both those food security and environmental goals that I have discussed. So they're probably the key couple of things I wanted to add.

MR WEICKHARDT: Thank you very much.

DR SAMSON: We hear very much what you say about some of the risks associated with the creation of an RRA and don't disagree. I guess you do a bit of a risk analysis and the risk of that disconnect versus the benefits of perhaps a more genuine, coordinated, focused entity - we'll see how we go on that. Obviously from our draft report we absolutely nowhere question the importance of rural R and D to the sector. One of the things we focused on is the balance between the private and public investment versus the private and public benefit and we believe for several reasons that at the moment there's a bit of an imbalance and that the government is doing more of the listing than certainly a rational, logical analysis would lead you to conclude.

So at this point in time we don't resile from the proposition that if our recommendations were accepted there necessarily would be a reduction. We still believe that there is an opportunity for the private sector to invest more and indeed, as you mentioned, Wes, if an RRA came into existence with it's core funding of 50 million there is every opportunity and likelihood that they would leverage a lot more than that. The pie might get smaller, it might stay the same, it might even get bigger, it is hard to say. But one of the things we are very conscious of in making our recommendations is the possibility of unintended negative consequences of those recommendations and a few people have talked to us about if there were to be a reduction in the overall funding base what impact that would have on the sustainability of the skills base, that some industries seem to be quite dependent on a

small number of geographically finitely positioned researchers.

Have you got any comments on just how fragile or not that research base may be and if, say hypothetically in what would possibly be a worst-case scenario there was a reduction in overall expenditure at the end of 10 years of, say, 50 or 60 million, in your experience as very much coal-face practitioners in all this, what sort of impact do you think that might have?

MR FORD (TIAR): For us as an organisation, and therefore for industry in Tasmania, a potential 25 per cent reduction if it were to articulate in that way in direct agricultural, just on the funding base that we have at the moment, assuming everything was funded in the same way it was, would take out probably half a million dollars' worth of research that we provide so that in effect we would potentially lose four or five sorts of key research positions on a base of about 80 research positions. So in that sense it's not a lot but it translates to that 5 to 10 per cent ultimately, depending on how it's distributed.

It could be worse than that, particularly if the R and D corporations in fact consolidate their research and move more into some of the applied research rather than the pure research, it might have a broader impact within the sector on the pure research area and one of the challenges in that sense is how the Australian government policy influences how the Australian Research Council operates because there's certainly evidence to suggest or evidence to demonstrate that over the success of the R and D corporations over the last 10 years the investments from the Australian Research Council in agriculture have diminished, so that's a challenging area as well. So in a university sense we could lose access to funding that does provide some of the pure research that underpins some of the basic biology that will underpin a lot of the genetic changes in the future, the plant breeding, the fundamental sustainability questions. So there are risks there trying to tease out what it means.

I think there is also a loss of confidence issue because one of the side changes of this might be that rather getting an increase in industry investment, it in fact might drive a reduction in industry investment, so that's something that it will have to be mindful of as well.

MR WEICKHARDT: Just on that score on the level of industry investment, you mentioned during your presentation that at a sectorial level you've sought industry contributions for various projects and had little success, however, a number of companies have individually invested directly as collaborators. What conclusion do you draw from that? It's a hypothetical question that some have said to us, if the government made no contribution at all to the RDCs would industry still support the RDC model? The conclusion one might draw from the comment you've made is that people are prepared to chip money into a cooperative effort if the government is

prepared to lubricate the wheel but if the government aren't prepared to lubricate the wheel, then they'd rather do it themselves and capture the benefit themselves. Do you have any reaction to that?

MR FORD (TIAR): I'd made a couple of comments. Firstly, in terms of the company one, I think where companies fund research as private research, they're doing it for a very specific need. They identify a very specific need and they're effectively engaging in consultant-type research. They're contract research to deliver on a particular outcome for that company. It does raise a question in that sense about whether any public funding should be available in those circumstances. Our approach is that where that sort of research is undertaken, by and large people are charged the full costs of delivery in certain circumstances.

In terms of the question about the industry response, my experience with the dairy industry when I was involved with discussions in the dairy industry about three years ago around their review of their levy there was a serious push in Tasmania - and I think it was occurring elsewhere - to in fact reduce the dairy levy to zero and people in the dairy industry were seeing that as legitimate saying, "Well, we don't need to invest, the government will invest," and we were, from a state government point of view at the time when I was the general manager of the primary industries division of the department, putting a counter-response saying, "The government will watch very carefully what you as an industry do and if you reduce your levy, don't be surprised if you won't get the matching funds from the Commonwealth as well." But the state would start to say, "Why would it be investing in the dairy industry if it's not prepared to invest in itself?"

So I think the notion that there is an incentive there does drive the investment. If there were no incentive, you would have a number of people who would say, "Well, I don't ever see any benefit out of it, nothing ever accrues back to me." I think this is the real challenge at a sectorial is being able to demonstrate - the research providers or the RD and E providers needing to demonstrate that the RD and E that they're delivering does have benefits right across the sectorial, so that average Joe Farmer who is struggling to make ends meet for him, half a per cent of his income might actually be a claim difference between profit and not. Many just see it as a form of taxation. I think that if there is no incentive, then very quickly it would end up being corporate agriculture that invests and there would be a significant shift in terms of how that occurs.

DR DOYLE (TIAR): I'll just add to that that it is the role of the Australian government to be forward looking further in time perhaps than industry at times to lead and guide the nation and that leadership role by putting someone in and a total and demanding it be matched or asking for it to be matched is, I think, a good example of leadership and shows how it has worked over the period of the RDCs and I would be concerned that we would put that leadership by the government at risk.

MR FORD (TIAR): Just on that point, using the example of the question that you asked Neil Stump in relation to why the Tasmanian seafood industry pays more. A fundamental reason they do, and speaking in the role of coming from the department and being the general manager responsible for that area, the reason they do is that the FRDC does not achieve full contributions across all the sectors and the Commonwealth government in its allocation doesn't distinguish between a sectoral level, so if one sector can pay a bit more than their .25 per cent it is returned through the FRDC and they will bring it back.

So that is very much the incentive, "If the others aren't paying, I will and I'll get the benefit." As the industry reaches its full contribution and that leveraging disappears, I suspect the incentives for people to contribute above their requirement will drop.

MR WEICKHARDT: You did make the point about the difficulty of separating, if you like, private good versus public good research and your concern that our recommendation about RRA was around doing that. The issue we were striving to draw to people's attention in the draft report was not about the separation between private and public-good outcomes because we recognise these are almost inextricably mixed together in most agriculture research and that's a good thing because were it not the case, then perhaps a lot of the work that had public-good benefits would not be adopted.

The thing we were trying to draw to people's attention was that government has to spend money in an area where it and only it may gain leverage from spending that money. It costs government money to raise taxes. Government have many other priorities for public money and so they've got to be conscious of spending money in areas where genuinely only they can make a contribution and so we talked about the concept of additionality. So the concept that RRA should work in areas where private industry really didn't have incentives or sufficient incentive to invest because the benefits were widely spread across a range of industries, it's that sort of research that we felt was being under invested in by the private sector and would always be underinvested in by the private sector for understandable reasons. So it was for that reason we were saying, "Government focus on doing that work because only you will do that work."

Industry should have incentives for doing a lot of the work that goes on in the sectorial-specific RDCs and we would hope that self-interest will drive industry to continue to invest in those areas. Of course, there may be some sectors that draw back or decide they won't, but other parts of that sector may see that as an opportunity to invest and maybe that does move some parts of the sector to more corporate farming or larger farms. But it was that concept of a split between additionality rather than public private that we were striving to get at through RRA.

MR FORD (TIAR): One of the examples of our concern about where a gap might be, in Tasmania because of the nature of our hilly countryside on the north-west, Dairy Australia and NHT funding has been used to undertake fairly significant research into dairy effluent management. With the Caring for Country funding changing that was no longer a priority but Dairy Australia still recognised it as a priority. In a changed model which would see potentially Dairy Australia with less funds and a greater focus on industry work, they might see that some of that environmental work is actually not in their remit and then the challenge would be that if it's dairy environmental work, would it actually be picked up under something like RRA or would there in fact be a gap emerge that everybody would say, "Well, this is actually not in our remit and therefore nobody funds something as important as dairy effluent"?

Now, dairy effluent has - there has been a significant public benefit - in fact one of the reasons why in Tasmania it was pursued with some vigour was dairy effluent was having a real impact on the oyster industry in the far north-west and we needed a solution to be able to get an environmental outcome that was not only going to protect human health, but another industry. The dairy industry themselves don't see that as an immediate production benefit for them.

MR WEICKHARDT: I have heard this said many times in the agricultural industry - it's rather interesting having spent all my life in the chemical industry - I think most manufacturing would see preventing effluent from damaging some other industry or some other public amenity was part of their social licence to operate and if regulation didn't affect you, then your social licence to operate would probably be removed if you didn't do something about that. I would say in that case that's well and truly in the responsibility of the dairy industry to do something about it. But I accept your general point that there is always a risk of gaps occurring and that will require a very close cooperation between the RDCs, including RRA, under the model we were putting up in the draft report.

DR DOYLE (TIAR): Can I just add one point on that one?

MR WEICKHARDT: One last point.

DR DOYLE (TIAR): We've got to remember that private land owners manage 56 per cent of Australia's land area so from a chemical point of view what you're saying is a lot of the input from animals and agrichemicals and so forth, it's a fairly complex and interrelated area. I guess we did have Land and Water Australia and you're sort of suggesting we go back to something like that with added areas. So shouldn't we be revisiting why we got rid of Land and Water Australia in the first place?

MR WEICKHARDT: Most people put to us during the initial round of consultation that they felt the removal of Land and Water Australia had been a retrograde step and that it had been a highly effective and useful contributor to the overall research effort which is one of the reasons why we were minded to recommend a larger entity, but building on the success that it had had.

DR DOYLE (TIAR): Yes, okay. Well, I suppose that land area just shows the linkages that are needed from so many of those other industry-specific RDCs when you're managing 56 per cent of Australia's land area.

MR WEICKHARDT: Absolutely.

DR DOYLE (TIAR): The linkages need to be there.

MR WEICKHARDT: Thank you very much for your participation.

DR DOYLE (TIAR): Our formal submission will be in before the end of the week.

MR WEICKHARDT: Our next participant is the Tasmanian Farmers and Graziers Association. If you could give your name and the capacities in which you're appearing today please and we'll move on to you telling us what you'd like to talk about.

MS DAVIS (TFGA): I am Jan Davis and I am the CEO of Tasmanian Farmers and Graziers Association and my colleague, Mr Thirkell-Johnston, is the chair of my wool council and he has a specific interest in this area and will make some comments after I've made some introductory ones.

MR WEICKHARDT: Thank you very much indeed.

MS DAVIS (TFGA): Thank you for giving us time, gentlemen. We do appreciate this. We welcome the review of the RDC system because, in our view, this is something that is long overdue. We're not necessarily supportive of all of the recommendations of the review, but we do value the opportunity to have a closer look at the way the system works and to refine the operations to ensure that we get the best efficient investment use of both government and private funds. As a general comment, I think it's important, from our point of view, to recognise that the agricultural investment landscape is much broader than just the RDCs. We had hoped that the commission's terms of reference would expand to consider the whole landscape, rather than the very narrow focus that it's taken on just the government funding within the RDC sector.

It's really, in our view, important to consider the broader landscape because of the market failures that we find in agriculture that you don't necessarily find elsewhere. I'm particularly focused there on the fact that over a longer period of time, the investment profile that we've had in the sector has enabled us to increase our productivity significantly and probably for the last decade or so we've been living off the benefits of past investments as the overall particularly government funding at a state level in the sector has reduced. What we are fearful of now is that as that profile of reduced investment from government seems to be a continued feature of our landscape, that we will reach a point at which productivity increases become very, very difficult for farmers to sustain and achieve.

Also then that means our ability to continue to get more efficient production and hence reduce our overhead costs becomes harder and harder. The only reason many of our farm sectors are still in business is because of increased productivity, which has enabled efficiency gains and those efficiency gains have been the result of investment decisions in the past, because, as you would be well aware, research and development investments often have long time horizons to pay off. With the overall focus in government particularly coming more and more onto a food security priority, we need, in our view, to look at a whole of government strategy for both rural innovation and food security.

The government currently is talking about a national food strategy, and we would applaud that, and we would consider that any decisions to review investment in RD and E should be taken only after we have that national food strategy and part of that component rural innovation strategy so that we can actually see what we're doing. One of the biggest challenges we see with the RDC system at the moment and with your recommendations specifically is that we simply don't have enough information to make the sort of recommendations and decisions that are being proposed without risking significant negative impact. We would support the recommendations about greater clarity and transparency, particularly around government expectations and around coordination.

One of the highest priorities, we believe, are better measures regarding performance. So much of our performance and our investment portfolio structure is not actually recognised in any review of the RDCs. That's probably one of the biggest shortfalls we've seen over recent years. We haven't done a good enough job of measuring both public and private good. We recognise the need for regular reviews and we support that, but we also understand that these things bring cost and those cost burdens need to be managed in a sensible way.

Wes Ford in his comments previously made some mention of state government investment in RD and E and we are concerned that any further reduction, particularly in light of state government's falling investment over the last decade would mean that we fall below a point of critical mass and that would have significant impacts on skills base and capacity for RD and E into the future and it would particularly impact on our ability as an industry sector to undertake the applied R and D, the blue-sky stuff that no private investor is likely to fund, and that's where we're seeing shortfalls now as government investment is already being withdrawn. They're the general comments that I would like to make to start with.

MR WEICKHARDT: Thank you.

MR THIRKELL-JOHNSTON (TFGA): Thank you. I support those comments. I'd first of all like to sort of start by reinforcing some comments that Ben Fargher made to you in his presentation. I think they're very important. He points out that one of the strengths we've got in Australian agriculture and one of the reasons we've been able to achieve what we've been able to achieve is on the back of RD and E. I think that's a very important thing to realise. We either build on the RDC system and make it stronger and take an onus of responsibility as an industry or we just let it crack and in 20 years' time wonder why we've lost something that we had that was worthwhile. The third thing which he said was, "What does that do for the psychology of industry groups if you reduce the funding to scientists and the R and D community," and he points out that it really destroys them and they look for careers in other areas.

So I think that this is a very, very important review of R and D in Australia and has to be taken very seriously. The outcome of the findings, if taken up by government, will lead to quite significant changes. In supporting the setting up of RRA, I think you're moving in the right direction. The most important thing about that is making sure that it is set up in a way that it coordinates with the industry RDC groups in a constructive way to avoid duplication. I think this is one of the things that's most important. There are far too many duplications and administrative costs in the present system. That needs certainly to be looked at.

The very complex issue of public good versus private funding is one which is very, very hard to quantify and there's probably very little hard data on it, but if you have a very strong research capacity and community in your country, it leads to a much greater competitive edge. For Australia to compete against other countries, particularly in agricultural products, we have to be smarter. The other thing that's important as far as the public good is that Australia is very much an export-oriented country. We export much more than we import in the food line, although it's regrettable to see that we're importing more goods, and that's a matter of significant concern.

We need to have the best research available to make sure that we are internationally competitive in a very tough global trading environment in agricultural products. I think too - and again this supports from the RRA concept - is that while research over the last many years has been based on increasing productivity and inevitably we're probably reaching towards the glass ceiling in some of our industries, the research focus now obviously has to be much more on sustainability, addressing climate change and looking to the long-term future for Australian agriculture and those of us that live from agricultural pursuits.

The other thing that I didn't think had been probably addressed as much as I would have expected in the review is looking at the duplication of some resources in all of the industry RDCs. For instance, they all seem to have IP departments for developing some of the legal side of that. Why couldn't that all be coordinated into one group that can - they're doing the same work and obviously duplicating. Also, some of the accounting packages and some of those things, I think we could gain some significant efficiencies in that area. I think that's it for the moment. Thank you.

MR WEICKHARDT: Thank you very much indeed.

DR SAMSON: Thanks very much. Perhaps to just take your last point first, that was something that we've looked at and talked to the RDCs about quite a lot and what we say in the final report may differ slightly from what's in the draft obviously. But we are actually aware of quite a lot of work that the RDCs through the Council of RDC chairs are doing along those whole range of things that you've just

mentioned, the sort of back office functions and the accounting and the IP et cetera. So if we believe what we're told, and we've seen some evidence of it as well, a lot of that is taking place, even to the point that whilst this is a work in progress, the four Canberra based RDCs are actually looking to co-locate, so hopefully you will be happy when you see what's happening in that regard.

MS DAVIS (TFGA): Can I make a comment on that. I've actually recently come off the board of one of the RDCs, so I'm now not talking with my TFGA hat on, I'm speaking as a former director of Horticulture Australia Ltd. One of the comments I made earlier covers both my hats, if you wish, and that is around the lack of government clarity around its expectations. I've been involved in RDCs' horticulture sector since the early 1990s and it is clear to me that government expectations, until fairly recently, of the RDCs have not been clear. So that in the last little while we've seen a bit of a spurt doing exactly what Rod's talked about but it's been, in some respects, not enough, not quickly enough because the expectations were never made clear.

So part of my concern about the suggestion around RRA is to make sure that we focus on exactly what the outcomes are that we want and ensure that we find the best way to deliver those outcomes rather than just make some assumptions about what might do something.

DR SAMSON: Jan, I think we would agree with you about that and we have referenced already that one of the issues is the lack of clarity of the government's expectation and I think not just a lack of clarity at articulating them but they're actually not clear what they are.

MS DAVIS (TFGA): They seem to change with - - -

DR SAMSON: Indeed, and I know a lot of RDC boards spend a lot of well-meant time trying to disentangle the hidden message in some of the communications. One of the things that we would see RRA doing would be not just passively implementing a range of government edicts or expectations but actually actively working with government, working with the other 15 RDCs and working with industry to collectively actually determine what those agendas are because one of the things that is missing at the moment is some sort of coordinating body. There's a lot of activity in the sector, most of it well meaning but inevitably you get the duplication, you get a lack of clarity of purpose and we do think that as much as the existing RDCs do try to implement the government's agenda and some do it with more enthusiasm than others, it's still quite passive.

They sit back, not unreasonably, waiting to be told by the government what the government wants. We think that is very slow to happen, so if you have something like an RRA that is actively working, you can actually generate that agenda and

everybody might be somewhat better off.

MS DAVIS (TFGA): Look, I wouldn't disagree with that, I would just reiterate, let's focus on the outcome and look at the best way to achieve it. In my view, and it's personal view, the emergence of the Council of RDCs as an effective coordinating body has been slow and I think to this stage as yet unquantified. I think it's got a lot more legs and I think there's a lot more that could be done through existing mechanisms like the council rather than necessarily chuck the baby out with the bath water because the concern I would have about the RRA model as it's predicated in your draft, is that it isolates potentially from ownership by the industry sector many of the investments that are marginal for industry sector because the perception - whether it be the reality or not in light of your comment about social licence - is that many of the government expectations are around areas where there is little industry and even less private benefit and if you distance the industry investment from that I fear that you will lose not only the dollars that come with it, but also the willingness to take up and to me that's one of the biggest risks.

MR WEICKHARDT: I think that is a very important point which we are extremely mindful of. Good research on important issues is absolutely useless if it's not adopted and so we're quite conscious of that. I know that in your earlier submission which we were grateful for, you talked about the fact that the state governments have been withdrawing from extension services and you say that that is causing a failure of extension services. That's an area where we would see industry has a very high self-interest in doing something about it and we're conscious in some areas - agronomist services have grown up and groups of farmers in regions have got together to try to make sure they fill some of that gap.

But, as you say, if RRA is focused on areas where the benefits to individual farmers are diffuse, then the challenge of getting those outcomes of that research adopted is going to be significant. So that would be a very important area for RRA to focus on working together with the existing RDCs and farmer groups to make sure that the work that they did was going to get adopted.

MR THIRKELL-JOHNSTON (TFGA): I think that's a very important point because extension of research is one of the real weaknesses we have at the moment and the ability to get research taken up in the field. State departments are walking away from that. There tends to be a move to private agricultural companies to take some of that role on but then that gives you a somewhat biased view sometimes because it suits their particular system of production or whatever. So the extension side of the whole situation is very important and I was very conscious in the 1990s of undertaking a review by the ARAC into the effectiveness of on-farm R and D which was done by the Centre of International Economics, Andy Stoeckel. The main finding that came out of that was that if we actually got out and extended all the research that was available at that time, that would be the best bang we could get for

our buck. There has been an enormous breakdown in that, even the CRCs have limited ability to extend their research.

One question I wanted to ask you was particularly in relation confining R and D, and this is a wool industry one, because our market is basically global, 90 per cent plus of the product ends up overseas and so therefore international market research is probably quite vital. I wasn't quite certain in the report how you handled that and whether that was being excluded from your thinking. Could you comment on that, please.

MR WEICKHARDT: Sure. We were very mindful of the fact that research even if it's industry specific or particularly if it's sector specific has to have an outlet, it has to provide something that customers want and so the link between marketing and research is a very tight one and, of course, in normal commercial organisations it would be an unforgivable sin for research departments and marketing departments not to work closely together. It was for that reason that we suggested in the draft report that where an industry was in favour of this, that all the RDCs should be permitted to have a marketing role because the connection between marketing and research is a very, very important one. Some, during our initial consultations, had suggested that the PIERD Act RDCs focusing only on research, albeit that their allowed activities do include market research, but some people had put to us, "Well, that focus on research only is a better model than the industry-owned corporations that are allowed to include marketing functions as well as research functions." Our view was that we were unconvinced of that point of view and that we thought, properly managed, the nexus between marketing and research was an incredibly important one and therefore, provided the industry supported that, the levy payers supported it, we would have thought it was a good thing.

MR THIRKELL-JOHNSTON (TFGA): Thank you.

MR WEICKHARDT: Let me also just comment on one of the comments that you made about the issue of the lack of clarity of government expectations. A number of people have put that to us, saying, "Look, if only the government would tell us exactly what they wanted, we could provide it." I've said on a number of occasions governments are not always right. In fact they're often wrong in terms of these things. It's more important that governments be generally right, have long-term concerns about issues, which they then allow industries to contextualise and give rise to some specific projects or targets that they will work on. I think in this area it's better that the government be approximately right, rather than precisely wrong. So, you know, governments picking winners doesn't have a happy history of success.

MR THIRKELL-JOHNSTON (TFGA): I think that's a very good point. I think one of the ways of overcoming that - and you've addressed that - is you've got the ability for government to have some representation from the various RDC boards,

because that provides them good communication between the government and the industry and it allows at that level a much better understanding of what the needs are. I think, you know, that when that happened I remember it used to be the case with the wool industry and despite all our drama and machinations over the years, I still think it was a significant advantage. Had that continued, probably some of the dramas that have occurred in the last five years might not have actually eventuated.

MS DAVIS (TFGA): However, I think, putting aside the issues in the wool industry, we need to recognise the differentiation between PIERD and industry-owned RDCs. The Uhrig review made it very clear around the risks for the industry-owned corporate entities, which many of them are these days, that could come by shadow directors essentially that were government people. I know, having sat on a couple of industry-government boards, the issues that the government people found were really conflicting to deal with.

MR WEICKHARDT: That does apply clearly to a current Commonwealth public servant, but I think there are many capable people - one of them is sitting to my right-hand side right now - who have been previous government employees who have wide knowledge of the industry and government priorities who could avoid that conflict and still create a very much better dialogue between the industry and the government. There are also state government employees where that conflict probably would not exist either.

MS DAVIS (TFGA): Most of the industry-owned companies do have either or both state government people or well-connected people like your colleague sitting on their boards, however what we find is that, as we go through the continued personnel change within particularly the government, the ability to reflect any thought from within government is very much minimised as soon as you walk out the door essentially, because there's such a big turnover of both policy and political people that there's just no continuity in that view, so it becomes a very challenging reflection.

So whilst I hear and support what Rod says, it's not a one size fits all. I guess the real comment that I want to put some emphasis on is we're not opposed to a review of the system, we're not opposed to change, but we really believe that it needs to be in a broader context and the terms of reference of this review, we believe, are far too narrow and, in some respects, premature, in that we really want to see a national food strategy that reflects Australia's need to continue to be able to provide food for our people at reasonable prices and in reasonable range and also make our contribution to the world food supply. We need to see that in the context of a rural innovation strategy. Then the next step down falls out of that: how we do that.

So we haven't had a national discussion about what and yet we're focusing on how and to us that's a step too far without proper context. I would draw attention

particularly to government's very strong focus across portfolios on the need for us to have healthy, low-priced food. You know as well as I do that a farmer's ability to pass cost increases through the chain is quite limited and the only way we've been able to maintain our margins at all of late has been as a result of prior investment in R, D and E. I'll give you a specific example of that. In horticulture in the mid-1990s, we did a study that showed of every dollar that went across the supermarket checkout, around 50 per cent of that went back to farm gate. The current figures, although they're not predicated on an unbiased study, but our anecdotal evidence is at the moment less than 20 cents in every dollar goes back to farm gate.

So the only way farmers can continue to produce those products is by greater efficiencies. If we don't continue to make an investment as a community in assuring that we have that capacity long term, then our ability to provide the food supplies that we need becomes problematic. Rod mentioned - and it's really important for us to recognise this, because many don't - we have greater and greater reliance on imported food supply and if we do continue to rely on imported food supply, at some point in the future, and it may well be the not too far distant future, we're going to find ourselves in a very difficult situation.

If the avian influenza or swine flu had gone pandemic, and swine flu at least was only one step from WHO levels away from being declared pandemic, every government in the world had a plan in place, ours included, that includes closing borders. If we're relying on imported food, we don't have a lot of other options. So I think we need to have that whole cloth picture before we start fiddling with how we do things when we don't have a lot.

DR SAMSON: I think we hear and understand what you say about that broader picture, Jan. You'll appreciate we are presented with a set of terms of reference.

MS DAVIS (WFGA): I understand.

DR SAMSON: As much as we can contextualise, we will, but we have a specific task.

MR WEICKHARDT: I think, that said, we're being asked and anybody who reviewed this sector in the future would be asked to project some recommendations to apply for the future. Whatever your knowledge base is at one particular point of time - and we've pointed out the knowledge base today is not 100 per cent exactly what you'd like. You've added some other factors to that. But in any recommendation about the future, you are always going to have to call back on some judgment. There is no way of cranking some numbers into a super computer and coming out with, "The answer is 51." Therefore, I think to say, "Well, we should defer things until we have perfect knowledge and are able to perfectly predict what

should happen in the future," is, in our view, slightly wishful thinking.

I mean, clearly the assumptions that we have made and the judgment we've made in the recommendations in the draft report may be incorrect. We're quite conscious of that and that's the reason why we've suggested in a period of time - and we've suggested 10 years would be an appropriate time to sit back and look at it again - you have to review, "Well, has this panned out the way you would hope it would have panned out?" We've also been very conscious of not making rapid and sudden changes and therefore allowing gradual adjustment. That gives you a chance to say, "Well, gosh, are things falling off cliff faces," are things not happening as you'd like. But we are very conscious of the fact that this is a very complex area, there are a lot of interrelated moving parts.

You know, your point about the fact that this all affects food supply is well understood. That said, as Rod pointed out, most of the pricing for foodstuff in Australia is driven by the international market we sit in. So the pricing of foodstuff on our shelves is probably much less driven by the cost base in Australia and more driven by international pricing. That said, the supply base will be affected by a farmer's ability to continue to improve productivity and drive their costs down so they can compete in that international marketplace. So they're all interrelated and it is a complex set of recommendations, which is the reason we're going through this dialogue and trying to test whether or not the judgments that we've made in the draft report stage are credible and whether they stack up.

MR THIRKELL-JOHNSTON (TFGA): The point you've made about a 10-year review is of some concern. There should be some mechanism in place to monitor the recommendations during that period, because what you're doing is making some quite significant changes that will affect - first of all, we will need to know whether or not during that period - particularly saying there should be a five-year mid-term review to see whether there are sufficient funds in the RRA area and also whether there are sufficient funds in the reduced government contribution to the industry RDCs. Some of the industry RDCs may find it very difficult to operate effectively with reduced funding, and I guess that would be one of my major concerns that could possibly implode some of the industry RDCs in this process.

MS DAVIS (WFGA): I would add to that I believe that we are at a point where we've run out of long-term benefit to be extracted from past R and D and we're also approaching issues around critical mass that Wes referred to earlier in our skills base and our infrastructure, if you wish, for RD and E. If we don't tread carefully in the next little while, and these recommendations that your report are making are significant recommendations for the next little while, we haven't got the resilience within the system to deal with even slightly wrong settings, if you get what I'm saying. So I think that we just need to perhaps be a little bit more careful and a little more risk-averse because of the place we're at in a cycle than perhaps we would be in

other circumstances.

MR WEICKHARDT: Okay. I hear your caution. Thank you for your comments. Thank you for your participation.

MS DAVIS (WFGA): We will be making a further submission.

MR WEICKHARDT: Than you.

DR SAMSON: Thank you.

MR WEICKHARDT: We're going to adjourn now until 11 o'clock. Thank you.

MR WEICKHARDT: We'll resume the hearings now. Our next participants are the Australian Superfine Wool Growers Association. Again, if you could give your names and capacities in which you are appearing for the transcript, please.

MS CATHLES (ASWGA): My name is Helen Cathles and I'm the president of the Australian Superfine Wool Growers Association.

MR THIRKELL-JOHNSTON (ASWGA): Rod Thirkell-Johnston. I am a council member of the Australian Superfine Wool Growers Association and secretary to the executive committee.

DR SAMSON: Thank you. Over to you.

MS CATHLES (ASWGA): Thank you very much, and thank you for the opportunity to present to you today. Just to outline ASWGA, our focus is to ensure a sustainable future for Australian superfine merino wool and our membership comprises of growers of 19.5 and finer, and mill members across the world, from the UK, Italy, Germany, Turkey, Korea, and Japan. To stay in the forefront, we need R and D. So I would just like to come over to some core issues that we have and also, having sat in on the presentation earlier from Tasmanian Farmers and Graziers, I'd just like to comment that all that they said, excluding the food section, being that we're wool, is most relevant and we would endorse those comments.

I'd like to point out to you that a lot has changed even in the last 12 months in R and D and you'll note on the graph that I have given to you, which actually is a graph out of the Invasive Animal CRC, which I chair, this graph shows the national registration of vertebrate pest control agents in Australia by decade. The reason that I've brought it along today is just to show you that when extra dollars go in, you get fantastic results. When you look back in the 40s and 50s, you see from the extra input into R and D back then, a lot of it out of World War II, you got some very good outcomes.

Then there's more or less a fairly flat plane until you get extra dollars going in once again. We now have a really healthy perspective outcome sitting in the 2010 bracket. HSCRC finishes in 2012 and the items that are mentioned in this graph are ones that we are 95 per cent certain will come out. So those extra dollars do make an enormous difference and we have been quite alarmed that in your paper you suggest that government lowers by .25 per cent their input into R and D over 10 years. I see that that actually will have a critical impact. At the moment we've got to a point where we have a very good scientific community and R and D happening and just as the government took away land and water right at the point where it was really coming ahead, I would hate to see these dollars be taken out of the R and D and once again we have that backwards step where those outcomes, the technologies that are needed, go back to that flat level that is historically present in that graph.

At the moment producers put in 2 per cent of their gross income. That's regardless of whether there's a drought, a global financial crisis, a collapse in the Japanese economy or in the US, we still put in that 2 per cent. In superfine wool on many occasions people have actually had to go further into debt to accomplish that 2 per cent. It's not a light commitment. So in the commission's earlier comments about self-interest funding, I actually would like to point out that it is limited how much you can put in. Superfine growers have been dedicated and they really have been funding substantially. In your paper also you commented that the government contribution had limited value returned back to it for what it had put in.

I just think that we have had enormous value, government has had enormous value. I think it's really important that when these statements are made, they're relevant today, because today is different to five years ago. So if you were to take away that .25 per cent of funding based on history, rather than current happenings, it would be a tragedy. You know, for example, right now, just a quick snapshot of one project alone is an RHD boost. We had calicivirus that was out and about. It's been recognised as being a low-level virus in the rabbit community prior to that big release. So now research is focused on bringing in an additional strain, making sure it's safe and getting that up to a release point by the end of 2012. It's a \$3 million investment that not only government, but MLA and AWI have put into. From that investment of \$3 million, it's projected that there will be a \$1.4 billion return over 15 years. What government is getting back for its investment is huge today.

The other point that I just wanted to make was there was reference about boards and how they should be structured. ASWGA has always been in favour of skill-based boards and indeed a lot of the controversy over the AWI board came to a head when the former CEO resigned back in February or March this year. At that time the CEO gave the board a report on how to improve its performance and what it was doing, and that was stated at that time. If the AWI board take that on board and put it into practice and observe good governance principles and transparency, I'm sure that that would clear up a lot of the issues that have been raised.

MR WEICKHARDT: Just to clarify that matter, you say the former CEO put in a report. Was that public - - -

MS CATHLES (ASWGA): No. It was just stated at the time when Brenda McGahan gave her resignation that she had given the board a report and that was - - -

MR WEICKHARDT: But you're suggesting if that was enacted, it would have positive effects. But have you seen a copy of the report?

MS CATHLES (ASWGA): No, I have not seen the report. It's totally confidential.

MR WEICKHARDT: With respect, how do you know it would have positive effects if you haven't seen it.

MS CATHLES (ASWGA): Because that was the report that came out to us and the information. The CEO had stated that that report had been given as to why she was leaving and the corporate governance around that.

MR THIRKELL-JOHNSTON (ASWGA): Unfortunately the AWI, the senior board, had not released that report to us in the industry so I guess your point is right in that respect, but we have a very close working relationship with the CEO and we're pretty sure what's probably in it, but we can't comment on specifics because we were not able to see it.

MR WEICKHARDT: You've requested AWI to release this, have you?

MS CATHLES (ASWGA): No, we have not actually. Not in writing, no.

MR THIRKELL-JOHNSTON (ASWGA): But we would like to see it.

MR WEICKHARDT: But as an organisation and levy payers, you'd like to receive - - -

MR THIRKELL-JOHNSTON (ASWGA): Yes. I mean, they may be undertaking all the recommendations in it for all we know.

MS CATHLES (ASWGA): The other point that I actually just wanted to make was that there are more problems in getting the research together and getting the right research done. We've got what I call friction in the pipes. We've got things like the global financial crisis and we've got the changing climate in our rural areas. All those things suggest to me that we need more R and D, not less, and we need more input into R and D. I did actually want to ask the commission also if you suggest the reduction of .25 over the 10 years, I'm just wondering why. What do you gain?

MR WEICKHARDT: If you want me to comment on that specifically now, we weren't recommending a reduction in overall R and D at all. We were recommending that the government reduce its matching cap. Our expectation and indeed our hope would be that there would be lots of areas where industry would see the direct benefit. You've talked about the fact that a \$3-million investment in the calicivirus would return \$1.4 billion.

MS CATHLES (ASWGA): Yes.

MR WEICKHARDT: Most private sector individuals, if they can get that sort of return, would be killed in a stampede of people wanting to invest in that.

Government have limited money, they don't have unlimited resources. In fact it's your money and my money that they recycle by collecting it from us. It costs them money to raise taxes. They should only invest where they, and only they, have a role to invest. So our objective was to try to focus the government's investment in areas where really the private sector didn't have the rationale to invest.

It's our judgment - and it is a judgment only, because we're, as I said, looking forward here - that over time the industry would see that it had a responsibility and a role to invest in some of the areas where it received direct benefits. I fully recognise your point that industry itself is not a bottomless pit either. It may require industry to re-prioritise the areas on which it spends its money. You've mentioned, for example, that your producers put in 2 per cent of their income. I think that's 2 per cent in a global sense; that's not all R and D money, some of that is marketing money.

MS CATHLES (ASWGA): Of course. Yes, correct.

MR WEICKHARDT: We're not in a position to be able to judge this, but it may be that industry would say, "On reflection, we're going to put less into the marketing area and more into the R and D area. We certainly weren't trying to suggest that we knew exactly how much R and D should be spent. We accept the fact that R and D, on all the evaluations we have seen, has produced spectacularly good results, and that would suggest that more investment in R and D is probably a good thing. But government can't do it all.

MR THIRKELL-JOHNSTON (ASWGA): If I can just respond to that in some respects. The principle that you're espousing is quite reasonable. However, whether private enterprise will invest in R and D will depend very much on the level of return that they will see from it; that area is probably much more vague. This is getting the balance right between government-supported R and D and getting more investment in particular industry-project R and D. A big risk in all this if government withdraws further is that blue sky research will tend to disappear.

Once you stop doing blue sky research it has a sort of cumulative effect over time. Firstly, you lose the impetus from the bright young people - well, not necessarily bright "young" people, but the brighter people in academia, who are able to undertake this highly sophisticated research. A lot of blue-sky research obviously fails, but usually out of blue-sky research you get some benefits. Sometimes a negative result also is not necessarily a disaster, because you know that undertaking a certain line of action is not going to work, so you start to think of something else.

So this is I think terribly important with the issue of the government area, that investing in blue-sky research is investing in the future, and this has been one of the real issues that's happened, we have tended to invest less and less in blue-sky research. Just take the wool industry for instance, CSIRO when I was graduating in

the late 50s was where we all wanted to work, that was what we espoused. I went back to be a farmer. They were the great days of Fred Morley and Helen Newton Turner, and they made enormous advances in the wool industry, from which are still getting the benefit.

What have we got at the CSIRO today? Also CSIRO were in the development of the new spinning technology and everything else. We have got none of that left, we have not even got a textile division now left in CSIRO. These are things that are going to impact on our future ability, particularly for the wool industry, to compete in five to 10 years' time. This is where government has got to think very carefully. It's a matter of focusing from where government funding comes. The other thing too is in this model - and I know it's only a concept - the spending power in 10 years' time will be significantly less, unfortunately, than it is now, and that's something that I think needs to be considered.

MR SAMSON: Just to carry on from what Philip said, we do believe that the position we have put in the draft report has a logic to it. What Philip said, you can overlay if you look internationally at the balance of public to private investment in rural R and D; we're a bit out of step there. If you look within Australia and compare the support that the Australian government gives the rural sector through the matching dollar of the RDC model, as opposed to some of the R and D tax concessions that other industries can access, again rural is treated more favourably. So we do not resile at this point from the logic of our position.

What we are very conscious of though - and we benefit from comments from people like yourselves - is, as much as we can, we want to sort of ground truth in the application of that logic, because we don't want, as I said earlier, to get into a world where there are all sorts of unintended negative consequences of applying what to us is a very logical position. So we are very interested and listening very hard to what people close to the coalface tell us about it.

MR THIRKELL-JOHNSTON (ASWGA): The other thing too is if you invest in R and D and therefore you have an industry that is going ahead, particularly in the rural industry, hopefully a spin-off of that would be that in future there will be less need for governments to provide emergency handouts in droughts and exceptional circumstances and all those areas. So if we do that work, that should sort of be able to perhaps mitigate having to have this - less and less of this "bail the community out" in each crisis, because we should all be much better prepared, as a farming community, to handle these crises in the future, and it might take away that sort of handout mechanism and build a much more sustainable agriculture.

MS CATHLES (ASWGA): I probably just need to also clarify with you that the estimate of \$1.4 billion is comprised of 60 per cent to agriculture as benefit and 40 per cent is benefit to the environment, to native veg and carbon sink, to threatened

species, plants and animals. So there is a balance there in what is coming out of that project.

MR WEICKHARDT: I understand that. As we tried to in the draft report, there are often occasions where there are both public benefits and private benefits, and that's a good thing. But taking a hardnosed point of view, from the point of view of government, even if there are 40 per cent benefits that come to, you know, sort of the general community but 60 per cent of the benefits are to the industry itself, 60 per cent of \$1.4 billion for a \$3-million investment is still a very handsome return.

MS CATHLES (ASWGA): It is, and the original funding came from three sources: the government, MLA and AWI. So you did get funding from all sectors going into it. It's from that cooperative and collaborative scenario we get these massive returns, both in dollars and with mental capacity as well. Even on a base community, the more things you do together the better your outcome. From anything someone is doing on their own, as you'd know, you're only going to get a very limited outcome. So if one of the collaborators reduces their input, the reduction at the end is equally magnified.

MR SAMSON: People, not unsurprisingly, say to us that if the government were to implement our recommendations and at the end of 10 years there was a net 25 per cent reduction in the money available everybody would be ruined and doom and gloom would descend. We're not surprised that some people say that. But it sort of implies that at the moment people believe that every dollar that the RDCs invest in research is well invested, and they seem to imply that there is no scope to revisit the portfolio and re-prioritise and perhaps abandons some of the hobby research that inevitably is undertaken. Do you have a view how well each and every one of your dollars are invested in R and D?

MS CATHLES (ASWGA): I do have a view. I don't know about each and every dollar via wool levy I put in. However, working with the Invasive Animals CRC I know that research today is quite different to what research was even five years ago. All the projects are drilled down on and strategically looked at to see how they will return, what they will return, how viable they are and, if they are not, the pin is pulled.

MR WEICKHARDT: Okay. I hear what you say about an organisation that you are involved with. Would you expect, hope, or believe that that same rigour was applied to AWI's investment portfolio?

MS CATHLES (ASWGA): I think today it is. I think today it is quite different, as said. That's the whole thing: don't look at five years ago to make your decision. Look at these last 12 months, look at where it's going and what direction it is pushing in. Rod, do you want to comment?

MR THIRKELL-JOHNSTON (ASWGA): I think it's a question that certainly should be asked of AWI when they come in next, quite obviously.

DR SAMSON: Sure.

MR THIRKELL-JOHNSTON (ASWGA): But I think if you went back over the last 10 years or even much longer, there has been a lot of unnecessary repetition in research that has been done, and there's been too many change of directions and that hasn't been helpful. I am encouraged, though, in a report that they gave to the industry chairs a fortnight or so ago on their present strategy, which is very much more on keeping very tight control over their projects, refining them down to the essential projects, and having the ability to pull the pin if the projects are not met. If they carry out the strategy that they purported to us, I think they have moved a long way forward, and one must hope that will be so. But if you went back and over the wool industry in my lifetime - I have been heavily involved in it for nearly 50 years now - I'd have to say the report card would be not very good.

MR WEICKHARDT: No. I will stress to AWI when we see them: this is not an inquiry about AWI and so we have not tried to, if you like, delve into every issue that people have raised with us about AWI. But from a distance - and, I stress, it is from a distance - recycling CEOs repetitively, living in fancy offices in the Sydney CBD, it doesn't look to us like they have used every dollar of levy payers' money in a very efficient manner.

MR THIRKELL-JOHNSTON (ASWGA): I think one of the things that it probably fails to miss, that they are now addressing very tight budgets, so they don't have any room for fat. They're starting to realise that, and they have to realise that.

MR WEICKHARDT: That is probably a good thing.

MR THIRKELL-JOHNSTON (ASWGA): It's not a bad thing. The comments I have made earlier, in 10 years' time everybody could be gloom and doom if we don't get more funding. I think it is fair to say that with a clear sense of direction, and hopefully following this review, we have the ability to relook at the situation and move forward to find the best ways of funding under what is going to be, obviously, the funding formula. One of the things I think Australia has the ability or people in Australia have the ability to rise to that challenge, but overriding that is that if you reduce the research capacity, in the end the country pays for it, in the future.

MR WEICKHARDT: Can I change subjects slightly; it is still relevant to the issue of the levy and how much levy. In your submission, and thank you for it - - -

MR THIRKELL-JOHNSTON (ASWGA): Can I just ask you, for clarity, we

gave a response submission to you last week. Have you had a chance to - -?

MR WEICKHARDT: Yes, indeed.

MR THIRKELL-JOHNSTON (ASWGA): Okay, that's fine. We needn't go through repeating all that again.

MR WEICKHARDT: No, you should assume we've read that, and thank you for that and for your initial submission. But in your submission, post the draft report, you have commented on our rejection of your recommendation that the levy vote be extended from three years to five years. "Rejection" is probably too strong a word, because I think, whether our report reveals this, we were somewhat undecided on that issue, because we could see some good reasons for a more frequent vote as well as some risks associated with it. A good reason is that we had hoped, as part of our recommendation, that industry would see reason why it might want to increase the levy on some occasions, and we have specifically recommended in the draft report that some of the constraints about raising the size of the levy and making that less bureaucratic should be removed.

So in some ways, although a vote every three years, we recognise, is a costly process and it has risks on the downside of loss of continuity to researchers and the organisation, if the levy were reduced. It also has advantages, on the upside, if the industry decided to increase the size of the levy. But to say we have a firm position on that issue would be far too strong. We are interested in whether or not your views on this issue were held by most of the industry and most of the levy payers and, if they are, why you feel that will hasn't come through and why there hasn't been some sort of reaction by AWI on that score?

MR THIRKELL-JOHNSTON (ASWGA): I think that is a good question. I will accept responsibility for the word "rejection", because I wrote it, and I guess because I feel very strongly about it from years of experience when I was twice the president of the organisation and very much involved during the 90s with the Wool Council of Australia. Finding myself, particularly, travelling internationally and working with the organisation as it was then, and perhaps not so much recently, but also the following presidents, including Helen, who've been overseas a lot, who find that the staff and the whole sense of momentum tends to become disrupted every time you have a wool poll. You get all the controversy about a zero vote and everything else. It also takes up a lot of the time of the staff of AWI.

So I think the loss of momentum and the loss of continuity - this is the problem, you see. You're saying the upside and downside and I think you're absolutely right, in that there is an upside and downside to this. You are probably interpreting that the upside risk is less than the downside risk, and I'd probably disagree with you and say that the downside risk, I think, is far greater. That's a

matter for you to make a judgment about. But we don't get a high turnout of the levy payers in this wool poll. If there was a way of streamlining that, certainly we could be supportive of that.

The other thing is, you have got the protection of the annual meeting to pursue issues. The levy vote is very important, but there is a review process. If the board is totally out of sync with the growers then, of course, they have got the ability through the annual general meeting process to correct that, if necessary. So I guess it is a matter of which way your judgment goes. Mine is somewhat different from yours on that, and I think it is fair to say, we've actually put on the notice paper for the wool poll as a supplementary question, we have put this on twice and we haven't picked it up, have we, Helen?

MS CATHLES (ASWGA): No.

MR THIRKELL-JOHNSTON (ASWGA): So we can't claim that there's absolute industry support. But certainly from our organisation there is.

MS CATHLES (ASWGA): On the superfine wool section there is support, but in the general wool community there is not so much support.

MR WEICKHARDT: Thank you for that clarification. That was an issue that we were a bit puzzled about. The dairy industry have in practice, I think, a five year vote, although I think, if I am correct, their constitution allows between three and five, so it seems that their industry has decided five years is the appropriate frequency. We take your point about the cost and the risk of disruption. But, I guess, in a democracy the majority of the people who are levied probably ought to vote on what they feel is the right frequency, having understood clearly what the costs and the risks are, and your point about the cost, the disruption and the risk is an important one.

MS CATHLES (ASWGA): Perhaps to have it written down so that it can, just like the dairy industry, be between three and five years would be a good option because if we have that, then the AWI board can put to the previous AGM, when that three years is coming up, "Do you want it next year, the year after or the year after?" Then the voters can decide once again so you don't lose that democratic right.

MR WEICKHARDT: Don't take that as absolute gospel about the dairy industry, but I think that is the way it does run.

MR THIRKELL-JOHNSTON (ASWGA): No, I think you are right, and that does seem to be a reasonable suggestion going forward.

MR WEICKHARDT: Cliff, have you got another comment?

DR SAMSON: No.

MR WEICKHARDT: Thank you very much indeed for coming along. I appreciate your input. It's very valuable and very important to us and thank you for both your submissions.

MS CATHLES (ASWGA): Thank you very much.

MR THIRKELL-JOHNSTON (ASWGA): Thanks.

MR WEICKHARDT: Our next participant is Australian Wool Innovation. If you could, for the transcript, please give your names and the capacity in which you appear.

MR McCULLOUGH (AWI): Stuart McCullough, Australian Wool Innovations CEO.

MS HOLMES (AWI): Sally Holmes, Australian Wool Innovation company secretary.

MR WEICKHARDT: Thank you. Can I at the start say we have received a very voluminous submission from you. We have assigned 45 minutes or so for this discussion. Please don't read your submission. Assume that we have looked at it. I won't swear we've read every word of it. We've looked at it. If you could just outline the main issues you want to cover, that would be helpful, but may I also say our terms of reference are not an inquiry into Australian Wool Innovation. Our terms of reference are to look at the RDCs overall. So if you can make some general comments about the issues that are pertinent to our overall terms of reference about the RDCs, obviously based on your experience in AWI, that would be helpful.

MR McCULLOUGH (AWI): With your permission, I was just going to give you a bit of an update and a bit of background on what we have been doing. Some of these points are cross-relevant with the submission, so let me just read an introduction statement. First of all, thanks for letting us come down and do this today. Since we met, we've had some fundamental changes within the company and key to that have been some key large pieces of work that we've had to do in particular for the government, but also generally as part of the business operations. The first of those was of course to rewrite a strategic plan for 2010 to 2013, which was finished in May and presented to the government at the end of June. Out of the back of that of course comes an operating plan, which is required on an annual basis, and that was the next document that was written for the government and also presented to DAFF at the end of June.

We had a statutory funding agreement renegotiation that was held in April and May and basically it concluded by the end of the May. The board signed off on that and that was presented to the government on 21 May, I believe. It was signed by the minister on 29 June and returned to us on 1 July. The key to that document, I suppose, was the writing in of a nominations committee into that statutory funding agreement and also writing in a skills-based nomination process and the requirement of government to see that AWI has appointed a skills assessment team. The covering letter that came back from the minister expressed great interest that AWI in the next six months show some architecture of that particular process and on 9 July we sent a letter back to the minister explaining key points of that nomination committee. We do have another letter going back to the minister in December, I believe, Sally,

updating him on that.

We had the Productivity Commission submission also to be done by 25 June, which was done. In July after about six months of search, we appointed an advertising agency in the northern hemisphere, a company called Euro RSCG, which has been commissioned to do our advertising. Out of the back of the strategic plan, we had to look at the resources that we needed worldwide to deliver that strategic plan and operating plan and went into a restructure mode in September of this year where we took out some key levels of the business, in particular the regional managers globally were removed.

We also had to do a one year on review of performance. The review of performance that was conducted for the period 2006 to 2009 was returned to us just prior to the wool poll last year and critical in that document were the four key parts of any business. They were critical of governance, they were critical of strategy, but in particular consultation of strategy. They were less critical of the tactics of the business or the operations of the business, however in terms of measurement, they saw that we needed to improve our game there.

There was 11 recommendations made in that three-year review of performance and those 11 recommendations formed the terms of reference for the one year on review of performance. One of those recommendations was that Australian Wool Innovation do a "one year on" review of performance, which we have done and will be appended to the next submission to the Productivity Commission. But I suppose what the "one year on" review of performance is showing is great improvement in the company across all those four disciplines. The consultants GHD Hassall have made a statement which I will read out to you if you don't mind:

The consultant considers that the implementation of the recommendations has resulted in improved company processes that will ultimately lead to a demonstrable outcome for levy payers and other stakeholders in R and D, marketing and retail. Our consultation found that stakeholders have acknowledged the genuine efforts of AWI to adopt the view of recommendations and have generally been pleased with the direction of change.

So that's a nice improvement from the 2009 three-year review of performance. We are conscious out there that we are still considered and actually perceived as a bit of a whipping boy for the industry. That's starting to get a little bit annoying, but we are conscious of the fact that we've just got to work doubly hard and make sure that our work is recognised and hope that perceptions eventually catch up. Certainly just on the basis of the work that we've done in the last 12 months, you will see very clearly that we are going twice as hard as we should be.

MR WEICKHARDT: Thank you for those comments. I think we will come to some specific questions about the RDC model overall shortly. But one of the issues I would just like to clarify is, when you sent us your original submission in June, that submission noted on the issue of the skills based board that:

The current democratically elected AWI Board has extensive industry experience and strong grassroots connections. Its combined skills base includes marketing, research governance, accounting and business skills. This skills based board is recognised and endorsed by the company's shareholders.

You have now outlined, in a subsequent report that there are other changes. Are you saying that there has been some reconsideration of whether or not you had a skills based board?

MR McCULLOUGH (AWI): No, not at all. The statutory funding agreement was renegotiated and into the statutory funding agreement was the requirement of a nominating committee, (1), and an assessment of the skills of the board. That process was written in, it was agreed to by the board of the company and will begin to the letter, and we will move ahead with a nomination committee that assesses the current skills of the board and identifies adjunct skills that are required when the election process is approaching next year.

MR WEICKHARDT: I have heard that. I was interested in whether or not this reflected any change, whether or not this nominating committee is a bit of cosmetics, because it seemed from the first submission that the board considered it already was a skills based board.

MR McCULLOUGH (AWI): I think there's some defensive words there. When we start talking about skills based, the implication is that they are not skills based. I think that was the point that was being argued there. There are certainly some great skills on there. Whether they are all the skills the nominating committee or group decides is required, that remains to be seen.

MR WEICKHARDT: So in the new process, as I understand it, the nominating committee takes into consideration the skills that the board feel might complement its existing skills base.

MR McCULLOUGH (AWI): Yes.

MR WEICKHARDT: And looks at the potential candidates and gives some sort of recommendations, which you say are anticipated to assist voting shareholders make decisions regarding election candidates.

MR McCULLOUGH (AWI): Yes.

MR WEICKHARDT: There are two questions: first of all, is it intended that the board/nominating committee recommendations would be endorsed by the full board before the vote is taken; so in other words, is this now the board endorsing the candidates that are put forward by the nominating committee, the whole board?

MR McCULLOUGH (AWI): We are just going through the architecture of this at the moment. The first thing that is happening, it's happening right now, that the current skills of the current board are being assessed one by one and a matrix of skills, certainly broader than anything we have documented before, is going to be assessed. We expect that there will be some holes that may be identified in that matrix and they will certainly be, logically, the skills that are given to the nominating committee to be sought.

MR WEICKHARDT: But my question was, once the nominating committee, a sub-committee of the board, has made its recommendation, before candidates are put to the AGM, will the board endorse the recommendation of its sub-committee to shareholders or to levy payers before the vote is taken?

MR McCULLOUGH (AWI): I don't think we have got that far with the architecture of it yet.

MS HOLMES (AWI): I'm afraid it has stopped a little short of that to date.

MR WEICKHARDT: I think you have suggested in your report that your exchanges with the New South Wales Farmers Association and Western Australian Farmers Federation confirm that contested elections will be encouraged and there will be no changes to the company's constitution. You then go on to say that the review outcomes about a skills based board were recommendations on progress, with agreement to establish the nominating committee designed to ensure the skills based board. But from what you have said here it could be inferred that levy payers may completely disregard the recommendations and may continue to vote for people who represent certain sectorial interests in the wool industry, and there is no guarantee that - you use the words "ensure a skills based board" - from what I have read - and I stress that we are not in a position reviewing AWI, but I am just trying to test this. What assurance is there that you will end up with a skills based board, given this process that you have now put in place with a so-called continued democratic elections?

MR McCULLOUGH (AWI): Even though the change has been made in the statutory funding agreement, the constitution of the company has not been changed, nor was it asked to be changed. So the nominating committee nominates some individuals and the shareholders of the company get to vote on those individuals.

You are absolutely correct, the shareholders will choose and will choose to ignore; anyone can be a candidate. That is the constitution of the company; that is absolutely preserved, there has been no alteration of that at all. Should there be that, we would have to go resolution at an AGM or an extraordinary general meeting, I presume.

DR SAMSON: Can we take that as an example and broaden it out to all the industry-owned corporations? Because I am interested how, in the real world, you deal with the issue of - and not just AWI but the other ones as well presumably go through a similar process; that you go and negotiate with DAFF about amendments to SFAs or a whole range of things and you do that in good faith. But at the end of the day, your capacity to deliver on those things often is dependent your levy payers voting at an AGM.

MR McCULLOUGH (AWI): Or the constitution.

DR SAMSON: Or the constitution or whatever. So it seems a very difficult environment for you to operate in.

MR McCULLOUGH (AWI): This is a balance between our wool grower shareholders and our government shareholders.

DR SAMSON: Yes, and we are genuinely interested in how, on a practical basis, you actually deal with what seems to be a genuinely difficult situation.

MR McCULLOUGH (AWI): The statutory funding agreement, by its definition, was an agreement. It is a negotiation, certainly, with the government, it was amicable. Certainly the one that I have done, which was this year, was very amicable: there were things that we wanted in there that they allowed, there were some that they didn't allow, and vice-versa; there were things that they wanted in that we pushed back on as well and there was certainly a stamp on it by the minister of that time, there is no doubt about that. The board accepted those changes, is willing to embrace them and execute the statutory funding agreement to the letter that it was written.

So that is the SFA, of course; the constitution hasn't changed at all. We did make one change last year and it is along the lines of your previous discussion. We did make one change last year and that was to reduce the burden on the business of having an election of directors every year. That was put up as a resolution, and of course you must get a 75 per cent vote in any particular change to the constitution through a resolution. That was put up and I think we received a 86 per cent vote for a change to the constitution, which means that directors go up for election every second year. That was exactly to the point of Mr Thirkell-Johnston, beforehand, about burdening the business, because as these battles were contested for a position on the board it burdened the business dramatically in the lead-up, and sometimes for

many, many months prior.

MR SAMSON: Stuart, given that if you breach provisions of the statutory funding agreement it can lead to the government withholding funding, presumably - and again I stress all the industry-owned corporations - you must look very carefully at what is the SFA to make sure that what you are agreeing to are things that you can deliver, ie, go back, as an example, to the skills based board; you are actually agreeing to set up a subcommittee and have a process, and that's what you have signed up to.

MR McCULLOUGH (AWI): Absolutely.

MR SAMSON: Both you, presumably, and DAFF have to acknowledge that notwithstanding you do what you've agreed to do, the application of that may not produce a skills based board.

MR McCULLOUGH (AWI): Well, the thing about this is that that nomination committee recommend endorsed people who will go to a full election where every shareholder gets to vote on their appointment, or not. Isn't this the definition of democratic? I mean, isn't this the way it should be?

MR SAMSON: We're not having a go at you or AWI, we're genuinely trying to understand the benefit and/or the limitations of the inherent model that has an SFA sitting in it where two parties agree but there is actually a third party that can influence the outcome of implementing that SFA. We're just in a very neutral way trying to understand the parameters.

MR McCULLOUGH (AWI): You're absolutely correct. The shareholders of this company get to vote on that, and on the matter of the intention they can vote against that intention, should they wish.

MR WEICKHARDT: I guess the application of that process is different in different IOCs.

MR McCULLOUGH (AWI): Absolutely.

MR WEICKHARDT: According to people - again, we're not sitting and trying to evaluate each one, we're simply reacting to feedback we have been given - the outcomes have been quite different in some of the IOCs. One of issues I noted in your initial submission is your comments there about the benefits of collaboration between RDCs, and you say that AWI has a history of collaborating on R and D projects with the other members of the RDC family. Is that sense of collaboration between RDCs something your board shares?

MR McCULLOUGH (AWI): Absolutely.

MR WEICKHARDT: Okay.

MR McCULLOUGH (AWI): In fact we analysed this. When all the other RDCs analysed their collaboration that figure wasn't so nice; but our figure was nice, it was 18 per cent of our investments is collaborative.

MR WEICKHARDT: So the board shares that. Do you see the Council of Chairs of the RDCs as being an important body?

MR McCULLOUGH (AWI): Absolutely. I meet outside session with Dennis Mutton regularly.

MR WEICKHARDT: Right. But the Council of Chairs says it's a council of the chairs of the RDCs. Does your chairman also see this body as being an important body?

MR McCULLOUGH (AWI): Absolutely.

MR WEICKHARDT: So I'm told - and I have no evidence of this, but I'm interested in your views - that he is not a regular attendee. How many sessions of that Council of Chairs does the chair attend?

MR McCULLOUGH (AWI): In my time I've been to two and he hasn't attended those. But I believe prior to that he has attended some, yes.

MR WEICKHARDT: Has he sent a nominee, a delegate?

MR McCULLOUGH (AWI): I will be his delegate.

MR WEICKHARDT: Each of the other RDCs, I understand, send the CEO as well, but they send the chair. It seems to me a bit mysterious, if the board of the AWI see collaboration as important, they see opportunities and collaborating between them, that the chair, if he or her were exercising some sort of leadership, I would have thought, would have been an important attendee at those meetings, and if he couldn't attend you'd think he'd send a delegate, another director.

MR McCULLOUGH (AWI): I'll find out how many he has been able to attend and how many he has attended. But certainly this probably shouldn't be the indicator of collaboration, I think the indicator of collaboration should be the amount of work and funding that we do with other RDCs, and certainly in our case it's a much, much greater percentage than certainly some of the other RDCs that we have evidenced. I take your point and - - -

MR WEICKHARDT: Well, there's a sense of leadership here and sending a signal and if AWI want to be seen to be an active contributor to the RDC model and to constructively contribute across the sectors at ways of collaborating and sharing then I would have thought an important leadership signal is that the chair would be an active participant. I have been told that in the past that has not always been the case.

MR McCULLOUGH (AWI): I will find out how many he has been able to attend.

MR WEICKHARDT: All right.

MR McCULLOUGH (AWI): We take that on notice and we'll pass that message back.

MR WEICKHARDT: Okay.

MR McCULLOUGH (AWI): But we will also find out how many he has been able to attend. I have been to two.

MR WEICKHARDT: Thank you for that. Can we turn to the other recommendations. You have said here that you've responded - with this very voluminous report - to specific parts of our report that mentioned AWI. But I suggest to you - probably in our quite voluminous report - that most of it wasn't specifically about AWI. Have you any other general comments about the report and it's recommendations that you'd like to draw to our attention?

MR McCULLOUGH (AWI): I suppose we were a little disappointed that - if I understand this correctly - none of the out-of-session questioning to AWI found its way into the report, however many of the points that we weren't asked about actually ended up in there. So certainly of everything that Peta addressed directly with the PC and questions to which she responded none of them seemed to be mentioned - this is what she is telling me. However, there was a large amount of other activity there reported that we weren't asked about at all, including reference to the nomination committee, which timingwise probably wasn't right; we had lodged this on 25 May, so we didn't have a signed statutory funding agreement at that point and couldn't talk about it in great detail, but it was written in and addressed and agreed to by the board.

MR WEICKHARDT: Okay. But do you have any other general comments about our recommendations, most of which had nothing to do specifically with AWI, they were about the RDC model and the RDC system.

MR McCULLOUGH (AWI): Yes. I note that in the second submission - that we sent to you last week - we focused on the points that did refer to us and have aimed

in that second submission to make sure that the things that you have addressed to us have been answered in that area.

MR WEICKHARDT: Our last participant, Australian Superfine Wool Growers Association, made a point about the frequency of the wool poll and the risk of disruption and loss of focus and loss of continuity by a three-year versus a five-year poll. Do you have any comments and reaction to that?

MR McCULLOUGH (AWI): Well, it's written into the statutory funding agreement at three years.

MR WEICKHARDT: Did you make any attempt to vary that before you signed the SFA?

MR McCULLOUGH (AWI): No, I have got to say we did not. We did not endeavour to extend that period from three to five years.

MR WEICKHARDT: Was it discussed with the board before you signed the SFA?

MR McCULLOUGH (AWI): Was the statutory funding agreement discussed with the board?

MR WEICKHARDT: The frequency of the wool poll.

MR McCULLOUGH (AWI): I'm just trying to think about that. I don't recall that it was, but we could go back through the minutes and certainly try and - - -

MR WEICKHARDT: Do you have a reaction about the upsides or the downsides of - - -

MR McCULLOUGH (AWI): Look, it's certainly a great burden on the business but it's one of those things, it's a government requirement. We see it as something that's in the statutory funding agreement and not necessarily in the constitution. So it's written into the statutory funding agreement. I think it's an aim of DAFF to synchronise these statutory funding agreements. I'm not sure that everyone else has a three to five-year option. I know you mentioned - was it dairy that have a three to five-year option?

MR WEICKHARDT: I believe so.

MR McCULLOUGH (AWI): I think most of them have got a three-year window in there.

MR WEICKHARDT: I don't think many of the others go to their levy payers that frequently.

MR McCULLOUGH (AWI): Is that right?

MR WEICKHARDT: I don't think so.

MR McCULLOUGH (AWI): Okay.

MR WEICKHARDT: I think wool is the most frequent.

DR SAMSON: I think that's right.

MR McCULLOUGH (AWI): I suppose to the previous speaker's point, it's a great burden on the business. This costs - with wool poll and a review of performance and the effort around that - in excess of \$600,000 every time we go to do it. So yes, it's a financial burden. In terms of the human resource burden on the business, that's fantastic as well. We haven't measured that point but we certainly know what in terms of dollars it costs.

MR WEICKHARDT: Given those points, if you like, why hasn't this been a point of active discussion with the board as to whether or not the frequency should be extended? You've already talked about the terms of re-election with directors and you've extended that from one year to two years for the same sorts of reasons, I suppose, cost, disruption and continuity.

MR McCULLOUGH (AWI): Yes.

MR WEICKHARDT: I'm intrigued, given the fact that one of your group's levy payers has suggested this, why it wasn't even debated.

MR McCULLOUGH (AWI): I'm not sure that it hasn't been debated, so I think we'll go back through the minutes. I think the appropriate thing to do, in fairness, rather than comment on it now, because they may well have discussed it, I've been sitting in that boardroom since the beginning of March, so I've been at six board meetings and there was plenty more before that and I'm not sure of what was exactly discussed but we can certainly go back through the minutes and make sure that that's in the final draft that comes to you.

MS HOLMES (AWI): Unfortunately I'm unable to comment. I've been with the company since May.

DR SAMSON: Stuart, one of the things we've talked to people about is our view that there is an imbalance of the public/private investment versus public/private

benefit and our view is that logic, at least - and we emphasise "logic" at least - given the returns on investment to producers, that if the government were to reduce its co-contribution to the model, we would think there would be a reasonable expectation, given the returns on investment, that the private sector would increase its contribution. People have cautioned us that the real world may not work quite as logically as that. That's fine, we're listening to all that very carefully.

One of the reasons people put to us that perhaps the private sector wouldn't react in the way that we would hope is that for many producers, the benefits of R and D can be somewhat opaque, and notwithstanding, the analysis tells you there's a great return that may not be what people see in their mind. Now, I think from your report that you sent us last week, I mean, you've got a fifty-fifty split in R and D and marketing.

MR McCULLOUGH (AWI): Yes.

DR SAMSON: And of the R and D, I think 20 per cent is off farm and 30 on, so 70 per cent of your portfolio one way or another is off farm. What would be your take on how opaque or transparent or immediately obvious the benefits of the R and D that you undertake on behalf of your levy payers actually are to the producer on the farm?

MR McCULLOUGH (AWI): I would agree with the other feedback that you're garnering regarding whether with the withdrawal of government funds, the private sector would pick it up; I doubt that for our particular industry. We were criticised in the 2009 review of performance for not measuring as well as we should. I recognise that. I think that that was a fair call then. We've spent a lot of time with PricewaterhouseCoopers developing a model in the last 12 months to make sure that we do measure. This really, Cliff, comes down to I suppose someone's perception of benefit - interesting, but I'm more keen to actually try and measure what results we get from our R and D, what results we get from our marketing and put some tangible figures to it.

DR SAMSON: Sure.

MR McCULLOUGH (AWI): So a view on whether it worked, didn't work, whether it was extended well, whether it wasn't, whether it was commercialised, whether it wasn't, it's rather subjective. I would prefer to go down the objective path and make sure that we have robust models that measure our R and D and measure our marketing and that we communicate that benefit, whatever that might be, the benefit-cost analysis back to our shareholders.

DR SAMSON: I understand that and absolutely agree that's the way to go, but at the moment, if we did a straw poll of the average wool producer, in their minds, do

you think they see R and D, rightly or wrongly, as a key component of their business success and therefore that levies invested in R and D are a good thing?

MR McCULLOUGH (AWI): I suppose the interesting thing here, every three years we give our shareholders the option of voting to continue funding, and zero must be an option for them. We had one only 12 months ago where 73 per cent of the vote was for 2 per cent or more. In particular in Tasmania, I think there is a large willingness to go higher. So again, we can do straw polls, we can gauge perception, but I like the maths side of things and the actual figures as to what they want to do.

DR SAMSON: Again, I understand. I guess just to push our point one more time, we are interested in the psychology that is often driven not by logical analysis or numbers coming out of spreadsheets because as we've said many times, we don't want to generate unintended consequences from our recommendations. Logic and analysis tells us that the recommendations are okay in terms of if the government reduces its contribution, industries will step up to the mark. That's where our analytical framework tells us. But like you, we're conscious that we also operate in the real world and not everybody is going to behave logically. So we're just trying to get a general feel from people who are very close to the producers, because some people have told us in other industries, notwithstanding substantial benefits that are known to accrue from R and D, to the average producer, that actually doesn't click. They don't make the connection between, "We're getting a better yield consistently," to the fact that, "We've paid over the year's R and D levy."

MR McCULLOUGH (AWI): Success has a thousand fathers and failure is an orphan I suppose. I don't know, Cliff, about the psychology. All I can comment on is the mass of the business and what figures we got last year at last year's wool poll. I can report to you how many people voted for zero; I can give you that. I can tell you that we will, with the best tools we can in a really robust way, try and measure our outcomes for our shareholders and communicate them. Whether they listen to that, whether they see that and take it in and recognise it and bridge the conduit between what's happening in our business and what's happening on-farm for them in terms of productivity or profitability. I don't know, but that's our challenge.

I think the wool industry has been fantastic at collecting information for a long, long time. I don't think it's been particularly good at delivering the information. That's the trick to any extension work or adoption of a technology. I mean, you can do the great science, it's fantastic, but being able to bridge that and make sure it's adopted by the wool grower or the participant is the great challenge and if you don't do that well, then your up-front dollars are actually wasted, and the same with commercialisation of any product post-farm.

MR WEICKHARDT: Just on the score of assessment, we made a number of

recommendations in the report about trying to take best practice of assessment of the outcomes of both CRCs and RDCs and we made a recommendation about a three-yearly review that would include external peer review of the science that had been carried out, the balance between short-term and long-term research. Do you have any comments on those recommendations? Do you support the recommendations we made? Do you have any comment about the periodicity of those reports and reviews?

MR McCULLOUGH (AWI): We would of course support and have a great, while I'm in the seat anyway, willingness for independently analysing ourselves. In fact we've volunteered another year on review of performance next year when we didn't have to. Our next three-year review of performance is 2012, but we have volunteered to do another one next year and again this is to self-analyse the business and make sure that we're on the right track. So we have a great willingness to do that, so, yes, we endorse that wholeheartedly. We certainly hope that it's applied across the CRCs as well.

MR WEICKHARDT: You mentioned before that you feel that the perception of AWI is sometimes an unfair one. It's interesting just glancing through your input and reaction to our draft report. You say on p.9 of this:

AWI's business objectives for 2010 to 2011 focus to consolidate and continue progress.

You have three bullet points in that:

AWI will be a leaner, commercial-oriented company with a sales and customer focus culture where every member of the team is either marketing wool and its attributes or serving somebody who is selling wool in its various forms as it moves through the supply chain.

There are two other bullet points. I'm intrigued for an RDC the word "research and development" isn't mentioned once in this area. Do you guys think research and development is important, because it doesn't come across as being important when I don't even see the words mentioned?

MR McCULLOUGH (AWI): Absolutely we see it as important. We are, as wool poll voted last year and effective as of 1 July - absolutely. You're picking out a group of words there which is interesting to focus on those words, but more - - -

MR WEICKHARDT: I'm just giving you feedback.

MR McCULLOUGH (AWI): No, I know.

MR WEICKHARDT: The perception that came across to me from reading that was, "Gosh. Do these people believe in R and D?"

MR McCULLOUGH (AWI): I think those few paragraphs should be read with our strategic plan and with our annual report and in the back of the annual report are the maths of the business again and what we are spending precisely in those areas of R and D, as opposed to R and D and M. I've certainly been very stringent with the finance department of the company to make sure that these ratios that are highlighted, which is a 50-30-20 rule in terms of expenditure are actually very carefully adhered to and reported on to government. That is something that hasn't been done well in the past. There's been a, "Yes, okay. Well, the business is split 60 post-farm, 40 on farm," and there would be marking and R and D, but the exact mass or exact expenditure against those particular areas hasn't been very well adhered to. While I'm here, they will be and reported on.

MR WEICKHARDT: Thank you. Just in terms of reporting on things - and again this probably comes to the issue of perceptions and other people's understanding of what's going on inside the organisation - our last participants pointed out that when the previous CEO resigned, she had tabled a report on issues she felt needed to be attended to but that report has not seen the light of day. I understand that there have been other reports of AWI that have gone to the board that have not been tabled. Do you share a concern that I've heard expressed by others that whilst the board don't table those sorts of reports, there will continue to be suspicion from outside that they're not being entirely open in terms of, if you like, acknowledging issues. There's an old saying that whilst you continue to deny you've got problems, you never get to resolve them. Is there any sense that you have that whilst those reports remain untabled and unpublished, that the perceptions of concern about AWI will continue?

MR McCULLOUGH (AWI): I think - and this is before my time obviously - that there was an exit interview done with the previous CEO of the company. There has been some work done with governance advisers - Cameron Ralph is one of them, Bob Baxt is another corporate governance adviser - that have been done at the request and for the board and are privileged. The board has chosen not to, even though there was some talk at a previous senate estimates about releasing them. The minister hasn't asked us to release them and the board hasn't volunteered to release them. They are internal documents and I presume that that has been discussed by them, certainly not in my time, however it might have been done in a directors only discussion. Their reasoning for that, they would have discussed, I presume.

I can report of my time in the board room. We have in the last eight months that I've been there put up an extraordinary amount of work for them to consider and go through, read, understand and sign off on, and they have done just that. That has allowed me at an operations level not only the autonomy but the budget to bring

about some significant change in the company from everywhere from a morale to a marketing in the northern hemisphere level. So I have genuinely no complaints. They have been open and honest with me. They've been tough, but fair.

MR WEICKHARDT: I can understand all those things happening. All I'm saying is that sometimes from outside people jump at shadows when they don't really understand exactly what is happening. Everything may be going on according to the sort of recommendations that have gone to the board, but when people don't understand what they are, there's always a suspicion, "Gosh. Are there other skeletons in the closet?"

MR McCULLOUGH (AWI): It certainly can carry on, but I suppose from the outside, *prima facie*, yes, I can understand that some things might look peculiar. What I just told you is from the inside and what I can report hand on heart about the inside business.

MS HOLMES (AWI): Yes. I think the difference between perception and reality is very different with AWI from the inside view - - -

MR WEICKHARDT: Some people would say perception is reality.

MS HOLMES (AWI): Perception, when it is fully informed, which is what you are talking about. But I believe that what we have tried to address, especially in the one-year-on review of performance and by also opening up to another review of performance next year, is exactly that. Some of those reports haven't been authorised to be released by the people that actually prepared them and we need to respect their wishes in that regard. But the board has taken on board all of the advice that they have received, there have been extensive board-only sessions and also within the board meetings, with strategies to address all of the issues that have been raised. It is only words, coming from us, I guess, but the proof will be in seeing how things operate down the track, and that is the tack that has been taken.

DR SAMSON: In the draft report, as it currently stands, we have addressed the issue of somebody being appointed to boards to represent the government stakeholder; the old government-director concept somewhat reworked. There are slightly different legal issues, whether you are dealing with a statutory corporation or the industry corporations. But at the moment we are saying, if by mutual consent of the organisation and the government, it is thought that the government appoints somebody to sit on the board who understands government and can be a conduit for government's thinking. If that recommendation is accepted by government, would you, for AWI, see merit; would you consider recommending to your board that that would be a good thing? Again, even if you did and even if the board were seized with enthusiasm, as a board, we come back to the question I actually raised right at the front: how do you then reconcile that with, "Yes, we think it's a good idea, but

our levy payers - - "

MR McCULLOUGH (AWI): Yes. I'm not sure if this is absolutely required, but I presume that would have to be a resolution for the change of a constitution of the company. That would have to go to all shareholders and receive 75 per cent of the vote. So that is a hurdle, whether government could agree to it, I could agree to it, the board could agree to it, but the shareholders have got to agree to it, I think. Constitutionally I think that that is correct.

MR WEICKHARDT: But as a recommendation we have made, do you support the recommendation, do you think it has merit? We are talking not just about AWI now, we are talking about the RDCs as a whole.

MR McCULLOUGH (AWI): Do I personally? I have no objection to that. Are you talking about a full-voting member, an observer like it used to be?

DR SAMSON: No, this would be a full member of the board.

MR McCULLOUGH (AWI): I don't have a objection to that, but I am a servant of wool growers and I would like to think that I have their absolute blessing on this.

DR SAMSON: The reason we put it though - many people said to us as we went round that they thought the removal of government directors from boards had been a retrograde step and impacted significantly and negatively on the conduit between the government and the corporation in understanding each others' views, wishes, and positions on things. So that is why it's there, because, again, many people have said to us that it is not always concisely clear what the government's intentions, aspirations, or wishes are.

MR McCULLOUGH (AWI): I do glean through your report and certainly some of the things that Mr Bourke had to say, that you are a significant investor in these businesses - 17 per cent in our business, for example, of our revenue - with no vote or no board representation. The government's representation is through its statutory funding agreement, of course, and that is the bridge there. Certain things can be written into that and some of them are macro. But a business like ours is quite dynamic and a micro level - if that was agreed to by the shareholders of the company through a vote and a change in the constitution, then I have no choice but to be happy with it.

MR WEICKHARDT: How often does your board meet?

MR McCULLOUGH (AWI): They meet once every six weeks.

MR WEICKHARDT: I assume there has been a meeting of the board since we

tabled our draft report?

MR McCULLOUGH (AWI): Yes, quite a few.

MR WEICKHARDT: So has the board discussed the recommendations in our report?

MR McCULLOUGH (AWI): Yes, they have.

MR WEICKHARDT: I'm intrigued at your reacting to some of our questions saying, "Well, I personally wouldn't oppose that." But has the board considered the recommendations that we made in the draft report and do the board have a position on those recommendations?

MR McCULLOUGH (AWI): The board has discussed the document. They have certainly all seen the document. I suppose I'm careful in my terminology. Well, certainly some of the questions have been directed at me, at my personal feeling. But I'm careful because we formed a view at a company level, from the board's direction, as to how we should respond, and when that document is completed that's what we will forward back to you.

MR WEICKHARDT: Did the board contemplate that the chair might come along to today's hearings and represent the board, as well as the CEO?

MR McCULLOUGH (AWI): Yes, they did contemplate that. He actually had intended to come. I'm just not sure what changed that situation, but was definitely very keen to be here. So there's something happened there.

MR WEICKHARDT: I see. Just changing topics, I note in your submission at page 25 you say, "AWI does not have an nominated industry representative body." I'm intrigued by that, because I think you might be almost unique in that regard among the other RDCs. Certainly the vast majority that I'm aware of do have industry representative bodies. Can you comment on whether or not you feel this is an unhelpful situation, in terms of you having a body that can give you feedback from levy payers, that represents levy payers?

MR McCULLOUGH (AWI): I think the key word there is "an" industry representative body. We have many, many representative bodies.

MR WEICKHARDT: But formally written into your constitution?

MR McCULLOUGH (AWI): No. But we have formed this year a wool grower industry consultative committee, which has met three times this year. The representatives on that are wool producers, Australian Superfine Wool Growers

Association, Stud Merino Breeders Association, we have a representative from Western Australia. So we've formed an industry consultative committee and the idea of this is to seek consultation and counsel from the industry, from these various bodies. What we have done with that group is from time to time, depending on the agenda, we have expanded it.

The recent industry consultative committee that we did on 4 November was an expanded one to include the state farming organisations from all around Australia as well as those bodies that I mentioned. We don't have anything written into the constitution, absolutely not. However, I have certainly been very keen to make sure that we get all those folks in a room on a regular basis - Rod might remember, but I think it has been three times this year, in my time - and make sure that we have the counsel and the advice from those groups. In some ways it would be nice to go to one particular point, but there's all sorts of ways around that, and this is the way that we're dealing with it.

MR WEICKHARDT: Just one final question from me. We are virtually out of time. Going back to the board and the move to a skills based board, what are the terms of officers, directors, under your constitution?

MR McCULLOUGH (AWI): Their period?

MR WEICKHARDT: Yes.

MR McCULLOUGH (AWI): Sally, you can explain this.

MS HOLMES (AWI): Once elected in, now that there's a two-yearly election, every two years one third of the existing board needs to come up for re-election or be nominated. So, for instance, next year there are four directors who are eligible to come up, so three of those decide among themselves who will be put up. As to how long that determines each individual director be on the board, I guess that could vary depending upon the size of the board at the time, because we do have in the constitution built in anywhere between five to 10 members, at the moment it's sitting at seven.

MR WEICKHARDT: But if they're re-elected every two years and a third go up, I guess that means they're there for six years, on average.

MS HOLMES (AWI): Yes, I'd say, approximately.

MR McCULLOUGH (AWI): It's a seven-man board and a third of that board is 2 point something, you also have to round up, so we round up to three and make sure that three go up.

MR WEICKHARDT: How many terms can a director serve? Is there any limit on that?

MR McCULLOUGH (AWI): I don't think there's any limit.

MS HOLMES (AWI): No. It's all just pure nomination and shareholder election.

MR WEICKHARDT: Okay. But you mentioned I think that you're taking on board ASX governance principles, and typically there would be limits on terms of directors under ASX governance practice. Is that something that the board is contemplating or not?

MS HOLMES (AWI): That hasn't been considered - well, in my time with the company, since May.

MR McCULLOUGH (AWI): Not that I can recall.

MS HOLMES (AWI): The idea is that we have taken on the guidance of the ASX corporate governance principles. So when issues are arising, when we're contemplating them, we go and we make reference to that document in terms of the general principles that we should be considering, any best practice rules that we feel that we should undertake. But that hasn't been considered to date.

MR WEICKHARDT: You mention in your submission that directors are joining the Australian Institute of Company Directors.

MS HOLMES (AWI): That's right.

MR WEICKHARDT: Are all of them undertaking the Australian Institute of Company Directors directors training course or not?

MS HOLMES (AWI): That hasn't been decided as yet. Five of the members are currently members of the AICD. There are two who are just signing up at the moment. It was going to be an agenda item for January next year, as to what courses, if any, they'll undertake.

MR WEICKHARDT: Do you know how many of the current board have been on that company directors training course?

MS HOLMES (AWI): I don't know, to be honest. I couldn't answer that question.

MR McCULLOUGH (AWI): I don't know.

MR WEICKHARDT: All right. Thank you for input. If there are any other

comments and reactions from the board, not about AWI, because we have probably spent much too much time talking about AWI specifically, then we'd like to hear those. As I said before, this inquiry and our terms of reference are not about any one particular RDC. AWI probably got lots of airplay during our initial discussions, and we tried to resist the temptation of going down that borough in great detail.

The reason AWI's name was mentioned was that it was often raised as a point of concern by other RDCs and other levy payers as, "We don't want the whole business model to be condemned because of problems that have occurred at one RDC," and the one RDC that was mentioned most frequently in that regard was AWI - fairly or unfairly, but that's the way it was. Our major concern really is to look at the RDC model and ways of improving that, and if AWI have general comments in that regard and any ways in which we can improve our draft report and recommendations about the model overall, then we'd like to hear those.

MR McCULLOUGH (AWI): Thank you.

MS HOLMES (AWI): Thank you.

MR SAMSON: Thanks, guys.

MR WEICKHARDT: Thank you very much indeed. We are now going to adjourn and we will resume hearings at 1.30. Thank you.

(Luncheon adjournment)

MR WEICKHARDT: We'll now resume the hearings. Our first participant after lunch is the Australian Dairy Industry Council. If you could give your names and the roles under which you're appearing for the transcript, please.

MR JUDD (ADIC): Wesley Judd, Australian Dairy Industry Council chairman.

MR LOSBERG (ADIC): David Losberg, I'm a policy manager with Australian Dairy Farmers Ltd which is a member of the Australian Dairy Industry Council.

MR JUDD (ADIC): We should put an apology there for Natalie Collard, the CEO of Australian Dairy Farmers.

MR WEICKHARDT: Okay. Over to you.

MR JUDD (ADIC): Thank you very much for the opportunity to speak here today in response to the draft report. I just want to go through a few things if I can in opening, if that's okay. Firstly, we appreciate the fact that the Productivity Commission's draft report is largely positive about RDCs and the work they do. We would like to acknowledge that up-front. Australian Dairy Farmers is the peak industry body of Australia's dairy farmers and is constituted from the six state dairy farm organisations as well as the ADPF, the peak policy body for the processing side of the industry.

We are here today representing the industry as part of the Australian Dairy Industry Council, so that gives you an idea of where we come from in that regard. There's about seven and a half thousand dairy farmers in Australia. The point I'd like to make here though is that the vast majority of those are small businesses. The capacity for them and the capability for them to undertake R and D themselves is obviously limited. So we do have an interest in what's evolving out of this review. Dairy Australia, through the funding it receives from the levy and the matching government funds, gives them the opportunity and ability to undertake the R and D that allows them to compete in the global market and to be innovative at farm level.

There's a few points I would like to make. The ADIC is encouraged that the PC has recognised the importance of the current RDC model which we've said in the opening, and the important and necessary work that the RDCs carry out. We believe there can be no doubt that the current model works well for both government and rural industries and has enabled the dairy industry to achieve significant leverage and support of its R and D investment. So the ADIC fully supports the current RDC model. This model has evolved from the time of the PIERD Act and review to what it is today and we think that the model has come a long way. There were some commitments given at that time and we think they still stand well today.

I would also like to point out that we don't fear any review and we think that is

a positive. From the scrutiny that's put on through this process, we may well be able to come up with something a fair bit better. The only fear we often have is in these cases sometimes there's just change for change sake or it's based on predetermined outcomes and we'd like to think that that's not the case and we don't believe that it is the case. This is not the time to be co-funding. We need more R and D to help our agricultural industries face the challenges of the future. I think we've got good evidence that's evolved in the last three to five years that would absolutely underpin that.

We don't think the public good derived from R and D in our industry is well enough supported and more than that, probably understood. I think it's sometimes not introduced well enough into the discussions and it may well be even some of our own fault that we don't explain that well enough. The proposed changes could actually have negative outcomes and lead to inefficiencies not yet understood if some of what we've seen suggested were to take place. The close link the DA has with its stakeholders results in close alignment to their needs and we believe it increases industry take-up of R and D. In the dairy context, the evidence is there to support that and we think that's an important function of the way the dairy industry has worked collaboratively to see that that occurs. We think it's important that this arrangement and those close links continue.

The ADIC holds grave concerns that reducing government funding will disenfranchise levy payers, and I think this is the major issue. It has the capacity to compound market failures and also reduce external agency's support and somewhat alienate industry stakeholders. Collaboratively, as I said before, we work together, and I think there's a lot of focus and a lot of scrutiny on that currently with some of the suggestions that have been made.

Cutting government funding in half will severely hamper the dairy industry's ability to meet these challenges and damage the industry greatly at a time where there are already significant challenges to be faced. The ADIC believes that PC's proposal to reduce government funding is too narrowly focused, and that may be not your doing or fault, but we are well aware that the parameters under which you've got to operate. That's short-sighted; it's got the potential to undervalue the contribution that dairy makes to regional communities, the economy, food security and the health and wellbeing of Australians in general. So it's around the terms of reference that I think there's a major issue about it.

That leads me into my last point which is we do support the NFF comments from last week about broadening the focus from just the RDCs and the whole research and development system and developing a whole-of-government strategy. We would support that and we certainly think that that's worthwhile. To finalise that, if we're going to do this justice and find a good way to go forward, then some of those wider issues need to be canvassed in the discussion, but as I say, we understand

well and truly the terms of reference that you are bound to operate within. So thank you for that, for the opportunity, and we're happy to give you more detail on any of those aspects.

MR WEICKHARDT: Okay, thank you. Let me comment specifically on one thing you raise and that is that you hoped there was no predetermined outcome here. Let me categorically assure you there is no predetermined outcome. You can blame the two guys sitting here entirely for the draft report and you can blame us entirely for the final report, but nobody is telling us what to write in that, and if they did, we would ignore them anyway because that's our responsibility under our act. So this is the Productivity Commission's work and nobody else.

MR JUDD (ADIC): We appreciate that and probably what I might not have got into context is, some of the discussion over a long period of time has been the level of government input, what is the right level for that to be, and there is often a desire expressed to us that government, treasury, somebody, or some unit would like to sometimes see that drawn back.. It is in relation to that sort of thing that I put that on the table. It is well and truly alive out there. We probably wouldn't do this justice if we didn't at least put it on the record that that discussion was focused - and certainly I take on board, absolutely, your comments, and respect and appreciate that. What we say is that as we move the whole thing forward, we make the right decisions about what is right and wrong, which you guys are trying to do as well; we understand that.

DR SAMSON: Just following on from that, at the end of the day a lot of what we are talking about are matters of judgment. We have expressed certain views and judgments in the draft report, we are listening very hard to what people are saying about that. They may or may not survive into the final report. Not surprisingly, a number of people have echoed the sentiments that you have just put forward, that this is not the time for the government to be reducing its investment. These are well rehearsed arguments and I'm sure we will have another discussion shortly about them. But our judgment is that, at the moment, when you look at the balance between public and private - investment versus public and private benefit - the government is doing a bit more of the lifting than, in our view, logic would say should be the case.

We have, however, in the draft report acknowledged that the rural sector does face a number of issues - drought, a whole range of things - and timing is everything. That is why the changes we are proposing in the level of government funding, we have quite deliberately spread over a 10-year period, in part in recognition that there are special issues facing the sector. But at the end of the day it is a judgment and we are very aware that having come to our view following, again, in our view, a reasoned, logical approach, logic takes you to one place, but we live in the real world and we are very interested in hearing from people who operate in that real world, because we don't want any unintended, negative consequences to eventuate if our

recommendations were to be accepted.

So to emphasise Phil's point, not only was there no predetermined outcome, this is still a work in progress and these discussions with participants are a very important part of that process. One of the things we are trying to get some help with from people close to the action is: we still believe that even if the government were to reduce its commitment, our logic would say that, given the returns on investment, the private sector would jump in and make up the gap, if you like, so that the size of the overall funding bucket wouldn't reduce. A lot of people say, "No, you've got that wrong; that's not how the system will react," and we are listening.

However, if in a worst-case scenario, from your perspective, the overall funding did reduce by, say, 50 or 60 million at the end of 10 years, we would appreciate any thoughts you have of how that might manifest itself in your industry; what would be the reaction of your membership to that sort of signal, or what they would perceive as a signal, from government.

MR JUDD (ADIC): There's a few points, I think, in answering that adequately. I mentioned collaboration in the opening remarks. The dairy industry has been an industry where we have that, if you like, as a cornerstone to the way we operate in a lot of the space we operate in. R and D is no different in that regard. So you would, I think, out there amongst the rank and file, send a pretty uneasy message to them. The business case for that is, if that was to be the outcome, what do you do then in regard to that, to respond as an industry and, for that matter, as individuals. That is the thing that is not, I think, well enough understood.

We are in an industry where it is, I think, difficult - I'll do it this way: if I take it back to my own, individual business, which is one of those 7500 dairy businesses, and you said, "Well, I'll do all this R and D myself," the reality of it is there is a money issue, there is a return on that investment over a long period of time. I am not sure, and I won't get into detail that I don't know, but if I look at other industries, I think they may well get a quicker return on their investment than what agriculture can.

One of the realities of dealing with what we deal with is seasonality. You can say, "I'm going to change these things today. I'm going to do this research that flushes out a new way to do" - whatever. To implement that and get that then on the ground, the actual outcome of that may well take a lot longer than what you would in other industries. They are some of the things I talk about when I say I don't know that those things are well enough understood.

The other thing is, if I as in the commercial world and I said I am going to do some specific RD and E for me, in my business, or a particular field, I think it is a whole lot easier to hang on to that, if you like, and get the commercial outcome out

of that at a higher percentage than what I could if I went and did some RD and E, even in my own situation. So if I extend that then to an industry situation, I think the same thing evolved.

The other side of the coin to it is the community service obligation within government. There is an outcome here in the communities. I can go into all the detail in that, but it is part of our submission and it is all there on the record. We are an integral part in those regions. At the end of the day, we provide not only domestic but export production that underpins the standard of living in Australia, and if we are going to be cost-competitive and we are going to be an industry that can participate in those international markets, which, at the end of the day, underpins a lot of what happens in Australia, as regards our standard of living, then we have to be able to match it with the best.

I think they are some of the areas where we could explore this a whole lot more and I think there is a lot of pressure on that area alone. So to say an industry will walk in there where government money will walk out, is a fairly long bow to draw. The other reality of it is the uptake or the desire to hop in and do some RD and E if there are others that will derive benefit but they are not part of the collaborative approach at the table on day one. I know from the discussions that we have had, it would be a whole lot harder.

The other reality of it is, as we all know, every dollar you put on the table today derives you less than what it did yesterday, in most cases, and R and D is no different in that regard. We don't say - and we would never say - you just leave it as it is, you don't put scrutiny in there, you don't put credibility into what you do and make sure that what we do in RD and E is prudent. But to say that one sector should walk away, halve, or lessen its input, I'm sure amongst producers in Australia and I'm sure across the industry, it would have a major effect. The reality of it is, it would be a hole we would have to find a way to fill. The R and D dollar and the levy dollar that we already pay is not deriving what it used to two years ago. We were thrown up with a levy vote for dairy farmers in the next short while and as an industry, we're probably in that and we'll have to look at what we're getting for that research and extension dollar in that process.

DR SAMSON: Just hypothetically twist the coin over and if we were sat here talking about an increase to its contribution, when you go to that vote with your levy payers, if the government were to increase its contribution, do you think your members would be prepared to increase their levy to match the government?

MR JUDD (ADIC): They may well and you couldn't go to the levy payers and say, "The government has lifted theirs. Now we want you to lift yours," without all of us knowing what we were going to do with that and why. If there was a good story to tell with that and it was absolutely aligned and it recognised the challenges that we've

talked about that we face to go forward, we could have that discussion with them.

DR SAMSON: Thanks.

MR JUDD (ADIC): So if you base that on sound, well-established proposals, then we have that discussion.

MR WEICKHARDT: What's your perception? Is there a long list of stuff that you think should still be done that isn't being done or do you think the current level is just right or is it more than is required?

MR JUDD (ADIC): I think, if we're going to be honest about the whole thing, if we're going to be honest about it across the board and we're going to be honest about it to all of us, the current levels will get us by. But I think the reality of it is, if we're going to do the R and the D in a world best practice way to deal with the challenges that confront us, then we do need to collectively put more into this space.

That's one of the reasons why part of NFF submission last week was around the whole wider picture discussion and then where we fit in with that to take it forward to deal with those challenges, because if we don't, we all know and we can all put on the record that the amount of mouths to feed in Australia and the world in the future; we all know the pressure is around resources, and those resources in the resource basket for dairy, we put everything from land and water all the way through to human capacity and people. If we're going to take those things forward in the way in which we need to be cost competitive, world best practice, I think we're at a point where this is a good discussion to have about how we set ourselves up best to do that.

MR WEICKHARDT: Just on that score - and I'm sure we'll have a debate when we come to Dairy Australia about the mathematics of comparing different levels of assistance - but the reason we arrived at the judgment we did was not just because of one particular set of comparisons. We tried to look at this whole issue to inform our judgments from a wide number of different comparison points. You've mentioned in the dairy industry, in common with many other agricultural industries, that it's an internationally traded product, international competitors. I guess among agricultural industries, dairy might be a bit unusual in that our closest global competitor is probably one of the most efficient, and that's the New Zealanders.

One of the things that struck us when we visited New Zealand on this inquiry was that both the government and the industry we spoke to seemed to be speaking with one voice, to a degree, and we heard from several different sources the comment that they now regarded government funding of research as a privilege, not a right, which is not a sentiment that I've heard often in Australia. Despite the fact that when John Kerin in his second reading speech said, when he set up the RDCs,

that he saw the government money as a sort of a seed investment to get farmers to understand the importance of research and to invest in research themselves and in due course he saw farmers investing significantly more money than the government, that doesn't seem to have occurred here. There still seems to be a bit of an expectation that the government funding of research in Australia is a right that rural producers have and an obligation the government must stay there for.

You referred to treasury before and said there's pressure from the treasury. Of course there's pressure from treasury on all sorts of funding. Government don't have their own money. They give out your money and mine and it costs them money to raise that money. So they quite rightly should be looking at ways in which they can make sure they're spending that money wisely. So one of the reasons that we said we think it's important government have a set of principles by which they decide what they fund and what they don't fund and we talked about this concept of additionalities: there are some areas of research where there isn't enough incentive for the private sector to invest and that's where government should focus its time, because that work won't get done. It's important work, but it may have diffuse benefits across a whole wide spectrum of sectors, not enough to motivate any industry to invest.

Coming back to my question, which was a long, circuitous introduction to it, why is it, do you think, that the New Zealand dairy industry, according to our calculations anyway, invest a greater percentage of private money into their industry and seem at peace with doing so and yet their nearest competitor in Australia says, "If the government step back, the world will fall in"?

MR JUDD (ADIC): I don't know that I would totally agree.

MR WEICKHARDT: What, the world won't fall in?

MR JUDD (ADIC): No, I don't think the world will fall in. That's number 1. But number 2, if I look at the split and I look at the levies collected and the government contributions, I think industry is putting a fair bit out of its pocket up on the table. We acknowledge absolutely and understand fully the commitment that government makes in that regard. When I talked about treasury earlier, as I said in our opening comments, we're not afraid of scrutiny or discussion about it. I think that's prudent that we do that. I talked about collaboration and leverage of funds. If I add that onto the total funding pool, I believe the industry with the private sector has got a fairly substantive amount of money on the table. When these guys hop in here in a minute, they can probably put more detail around that.

But I think part of this discussion that may well, I think, help the broader discussion - and it may well not fit into what you can do in regard to the terms of reference - if we look at these bigger challenges that we've got and we look at how

we can deal with them from an R and a D perspective, if we look at - and if I throw the states in here, that's another issue around what's going on with R and D. One of the initiatives that dairy has been a part of is the whole realignment of RD and E. In that regard we've got our initiative called Dairy Moving Forward and we've been part of that discussion all the way through.

To get a better outcome on research dollars - and I think that's part of the innovation that we should have a think about and from a government point of view and from a private sector point of view - and you're talking about New Zealand. When I was talking about collaboration, we do do that with New Zealand as well. But I think one of the challenges we've got, if I look at the bigger picture for a minute, and it's in relation to your question for us all, is how do we get a better outcome for the dollars we put on the table and what can we derive back from that, not only directly to the industry but back on that investment. Those investments are huge, they're going to be more into the future. We know what the costs of doing these things are, and they never get less, they always get more, and in some cases a lot more, and advances in technology take us to a different level of cost input to explore these things.

This is a wild suggestion from left field, it's not even in our paperwork, so I'll frighten the hell out of everybody probably. But when I think about this - from the collaborative desire, if you like, for everybody to work together - I think of what has gone on with the proposal around RD and E, from a federal and a state point of view, I think about what I hear in world forums around R and D - and the same challenges are confronted around the world - and I don't think we explore or deal hard enough with what we can actually then get out of that R and D we derive.

Firstly, for our own industry, to make sure we implement world's best practice and are as cost-competitive as we can be. But I think there's opportunities there to share. We probably can't explore it in this regard. But for everybody to get a better outcome and a better bank for their buck, I think that's some of the discussion we can have.

MR WEICKHARDT: Perhaps if I could just ask one last question, because we're close to being out of time. We were speaking to the folks in the wool industry before. The Australian Superfine Wool Growers Association put it to us that in the wool industry the requirement for a wool poll every three years is quite disruptive and they were strongly advocating a move to a five-yearly cycle rather than a three-yearly cycle, as I understand it, but I don't understand it fully. In dairy there's an option to have a poll on the levy either every three years or five years, or somewhere in between those two. From your point of view as an industry representative body, do you have a view as to the right frequency for such a poll?

As I said, I put it to the wool people, there are pros and cons of a more frequent

poll. If I looked at things with my optimistic hat on, I could say, "Well, if the industry wanted to increase the levy they could do it more frequently if there was a more frequent poll." On the other hand, if you were a pessimist, you'd say, "Well, they could vote for zero more frequently if there was a more frequent poll." In terms of the balance of pluses and minuses, do you have a view as to frequency and the ideal?

MR JUDD (ADIC): As an industry, we should put on the record, number one, we think the poll option is the right thing to do, and I think that has been well-received by producers. So as we changed the model and we went to what we now have in 2003, that was a cornerstone, so that's a tick. The second one is we have always around industry had the discussion that around that five years is okay. I couldn't sit here and say to you that I've got people coming to me violently wanting it less or down to whatever, two or whatever, or the other way either.

I'd also have to be honest and say we haven't really had a major discussion about that, other than the fact we do need to go to a poll in 2012, and, with what we read in the report from this process, could well have to front up then to another one not too far down the track after that. That's a broad view. It probably doesn't totally answer your question, but I conclude it by saying at this stage around that five years is I think, from everything I know, quite acceptable.

I think a key point though is that the levy payers still have an option to be polled, we would never walk away from that, and I think providing the right amount of discussion across industry to come up with a proposal to go to poll is a critical thing whenever you do that, and we have got a good process in place that involves the industry in that. The recommendations actually end up coming from us, as ADIC, and not Dairy Australia, which is how it ought to be.

MR WEICKHARDT: One other question just on the poll. In the wool industry, as we understand it, the poll is made after the board has suggested some options with a research and a marketing split between the two of them. But in the wool industry there's an ability for the board on an annual basis to vary what they actually spend on marketing and what they actually spend on R and D. As I understand it, that's not the case in the dairy industry.

It's certainly not the case in the meat industry where they have fixed amounts for R and D and fixed amounts for marketing. But we did ask for feedback in the draft report from other RDCs as to whether or not they think it's a good thing for the board of the RDC to be able to flex on an annual basis the amount they spend on R and D and marketing within that total levy. From the dairy industry point of view, from your point of view, do you think the ability to flex the spending on R and D is a good thing or not?

MR JUDD (ADIC): We have always taken the view and the Dairy Australia board always seeks the view of industry as to what the priorities are at the time. I think that system works well, because it gives you the option and the opportunity, if there is a particular issue on a particular time, to be able to redirect or direct funding if there's some need or necessity that you might not know about even today. So I think that flexibility is a good thing, number one; and number two, provided - and it has always been the case that we have got a good relationship in that regard - it is responsive to industry needs at the time and that is taken into account, then that's a good thing, I think it gives a better outcome to the dollars spent.

MR WEICKHARDT: Thank you very much indeed.

MR JUDD (ADIC): Thank you very much. Thanks for the opportunity, we appreciate it, a good discussion.

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

MR HALLIDAY (DA): Ian Halliday, managing director of Dairy Australia.

MR PHILLIPS (DA): Chris Phillips, general manager of trade and strategy at Dairy Australia.

MR WEICKHARDT: Over to you.

MR HALLIDAY (DA): Thank you very much for the opportunity to attend today and speak at the hearing. Dairy Australia welcomes the Productivity Commission inquiry. The DA board and management have afforded a high priority to respond to the Productivity Commission to ensure the best possible outcome. Dairy Australia is the industry-owned national service body for the Australian dairy industry. It is one of nine industry-owned rural RDCs. Dairy Australia was formed in 2003 following the merge of the ADC, Australian Dairy Corporation, which was the statutory marketing authority and the DRDC, which focused on innovation across the supply chain.

Dairy Australia's primary purpose is to drive a range of innovation and service activities to support a profitable, competitive and sustainable Australian - dairy industry. DA operates as a company limited by guarantee with a skills based board. DA's charter and funding agreement require it to undertake a broad range of activities across the entire supply chain on behalf of stakeholders. So we are somewhat unique to many other RDCs in the breadth of activities that we undertake.

We at DA believe we have earned and retain terrific support from all stakeholders, including both industry and government and to date through the many regular discussions and dialogue we have with stakeholders. We at DA believe we are meeting their needs and expectations and that the RDC model does work well. A good example of that was evidenced earlier this year when the then agriculture minister, Tony Burke issued a letter to all RDCs outlining the priorities on which RDCs should be focused, and I think DA was in a terrific position to respond, saying that we complied with almost all of those priorities covered across the supply chain.

With regard to the draft report, DA welcomes the commission's conclusion that the RDC model is fundamentally sound and has important strengths as a vehicle for planning, funding and delivering rural R and D, including strong linkages with primary producers that bring both a strong end users' focus to research funding decisions and to facilitate the better uptake of R and D outputs to the benefit of both industry and the broader community and also an accumulated expertise in funding and managing research and capacity to act as a research integrator in order to

minimise unnecessary duplication and effort.

DA also welcomes the commission's recognition in the report that, (1) Australia has benefited significantly from past public and private investment in rural R and D, and there have been significant positive spillovers accrued to the Australian community from the R and D undertaking by RDCs, and secondly, RDCs have and continue to pursue administrative efficiencies within the RDC network.

DA supports the commission's findings that RDCs should be cognisant of the intent of the primary industries' RD and E framework in determining their overall and regional spending; also that there is a need to develop and assemble more comprehensive and consistent data on rural R and D spending and performance, that there is a need for more coordination between federal and state departments and industry about government spending programs relating to rural R and D, and that rapid change in the current RDC model is likely to be disruptive.

However, several of the draft report findings and recommendations do concern DA. We do not support them as currently drafted and key amongst these are the suggested phased reduction in government-matching funding contributions to industry based RDCs, draft recommendation 7.1; the incorporation of additional specific public funding principles in rural funding agreements, draft 5.1; the creation of a new statutory RDC, Rural Research Australia, to sponsor non-industry-specific R and D, recommendation 6.1.

The recommendation from the Productivity Commission draft report of most concern is the call for a phased reduction in the ceiling of government-matching funds from .5 per cent of industry GVP to .25 per cent over 10 years. This recommendation appears to run counter to the logic of the draft report's basic finding that the current RDC model generally works well, has strong industry support and has helped deliver considerable benefits to both rural and broad Australian communities. We also have serious misgivings on the basis upon which the recommendation has been developed vis-a-vis significant preferential treatment to agriculture R and D versus other sectors.

If implemented, the funding cuts would have significant consequences for DA and the dairy industry. At current production levels, it would ultimately see the funding available for dairy R and D fall by up to \$9 million per annum, a cut of about 25 per cent of DA's current funding of eligible RD and E. Such a reduction would have significant consequences for DA's capacity to fund longer-term and higher-risk R and D activities and/or programs that have significant social spillovers in areas such as health and nutrition research, education and capacity development and natural resource management, such as water use efficiency. These areas presently account for about one-third of DA's current R and D program.

We understand the PC's push on cross-sector issues but don't support the conclusion on the establishment of RRA. We are a strong participant in the PISC and PMIC RDC framework and we were one of the first industries to have articulated an industry-wide strategy, as Wes mentioned Dairy Moving Forward. We do actively get involved in cross-sector R and D if it makes sense to all our stakeholders. Industry alignment and engagement is crucial to dealing with the broad issues.

MR WEICKHARDT: Ian, can I just ask you to pause for a moment.

MR HALLIDAY (DA): Yes, that's fine.

MR WEICKHARDT: Assume we have read the document that you've sent us.

MR HALLIDAY (DA): I was just about to finish now.

MR WEICKHARDT: It's your time. If you want to keep going through it, that's fine.

MR HALLIDAY (DA): No, I was just about to finish now, so that's fine.

MR WEICKHARDT: Okay.

MR HALLIDAY (DA): So rather than RRA, we do support a revamped RIRDC, but ideally with additional funding, not at the expense of the additional funding model. This will really be further outlined in the Rural Research and Development Corporation submission later this week.

MR WEICKHARDT: Okay.

MR HALLIDAY (DA): So it's a question, I suppose, as to whether you would like us, through Chris, to go into a bit more detail about our submission that we put in yesterday or just ask questions.

MR WEICKHARDT: I read your submission. I don't think we'll use our time most effectively by debating the mathematics of how you compare assistance levels or indeed I could confess that probably Cliff and I won't get terribly much satisfaction from having that debate. It's an important debate and it's one that we will react to, but I think today there are other issues that both Cliff and I would probably like to spend time focusing on. I don't want to detract from us getting to the bottom of all this, but my sense is that, if I can put it this way, there's no fundamental disagreement between the starting points of what goes into these comparisons; there is disagreement between what you've put in the numerator and the denominator and arguments about whether or not farmers pay tax or don't pay tax.

At the end of the day, as I mentioned to the previous participant, this particular issue is not one that has by itself led us to the recommendations. It's one of the factors that's led us to the recommendations. But we had a long discussion with Mick Keogh, who has raised similar issues at a previous session we had and I think at the end of the day, he said, "I can no way buy that rural industries are 11 times better off, but I could buy three times better off." I think so far as Cliff and I are concerned - - -

MR HALLIDAY (DA): Could I make a comment on that in the context of Mick's one, because I know that's in relation to his supplementary submission and there is an error in that supplementary submission as well. So even though Mick could buy three times, we in no way could buy three times as the number. We believe the number is quite close to parity and it does have a significant bearing in the report because the argument about the disparity in assistance leads one to issues about additionality and where government funding is best directed, and we think that's a very crucial part of the analysis. So while it may not be productive to have a debate here now, it is one that is very important for us to actually work through, because it's not an issue about numerators and denominators, it's a matter about actual levels of support and whether there is consistency between the rural sector and other parts of the Australian economy. We believe they're much closer than anything that is being presented in the commission's findings today.

MR WEICKHARDT: I'll look forward to having that debate with my colleagues. My suspicion is that we may agree to disagree on some of the analysis but let me say - - -

MR HALLIDAY (DA): I think the important point on that is that there are numbers that Treasury has put out in its working examples in the explanatory memorandum of the new Tax Act which are different to the commission's and which basically would not support the numbers that are in the draft report here. I think that needs to be on the record in that sense.

MR WEICKHARDT: You've put it on the record and you're quite welcome to do that, if you have a different point of view. We will work through that. But I'm sure people present numbers in different ways when they're trying to make different points and Treasury at the time it raised that point was probably trying to demonstrate how generous they were being.

MR HALLIDAY (DA): They were explaining how the scheme works.

MR WEICKHARDT: Other people may re-present the numbers in a different way. I wanted to stave off a discussion on this issue. You - and you're not alone here - have raised an issue about whether or not Rural Research Australia, RRA, is

the right way to go and you say you think a RIRDC mark II might be a better option, but you've also said that you think in the dairy industry that you strongly believe in working on cross-sectoral projects and things that are of importance to the dairy industry. One of the reasons that we recommended the establishment of RRA was that a large number of people put it to us that there were examples of cases where the current industry-specific RDCs were not cooperating and working on projects that really were of strong cross-sectoral interest and there was a fairly siloed approach to activities.

One of the examples that was quoted to us by land and water Australia or a previous chief executive of Land and Water Australia was that when Land and Water Australia were trying to get a project together on irrigation, they went to all the people who are using irrigation and most of them said they would be happy to collaborate, but the largest user of irrigation water in Australia, they say, is the dairy industry and the dairy industry refused, in their words, to put a cent into it. So how do I reconcile your belief that dairy is quite happy to work on these cross-sectoral projects of interest to the broader community and yet they weren't prepared to contribute to a project on irrigation?

MR PHILLIPS (DA): I don't think anyone was actually at DA at the time of that exercise. Dairy Australia right from the start was an active participant in CCRSPI, which dealt with a lot of the cross-sectoral issues around - - -

MR WEICKHARDT: This wasn't related to CCRSPI.

MR PHILLIPS (DA): No. But if it's a particular program on an irrigation project, every project would be looked at it in terms of its relevant merits as a project. I'm not sure of which one we're actually talking about in this case where Dairy Australia or the dairy industry chose not to participate. Our question on issues like irrigation is irrigation and water use is definitely an issue which moves beyond the bounds of any one particular industry, but how they impact on particular industries is the crucial issue and so there is a general level of research about water use, water efficiency and water policy and Dairy Australia has been an active participant in cross-sectoral R and D work on those type of things. It is then very important if we're talking about R and D.

It's only useful once it's actually adopted and taken up in farm practices and that's where the industry specific understanding of farm systems, farm irrigation - so water efficiency for dairy farming is fundamentally different to water efficiency exercises for horticulture, so it would depend on how the particular project was set up whether it would actually be relevant from a dairy industry context or whether we could actually see that it would deliver a return to the broader community. So I can't answer on that specific case, but I'll give you an example of broad cross-sectoral issues which is in the submission in relation to our Confidence to Grow program,

which was about climate change.

So we worked with CSIRO about trying to understand how climate change was going to affect the climate across eight different production regions across Australia. By itself, useful information, but in terms of encouraging farm adaptation and farm change, which adds to Australian sustainability and our ability to deal with issues around green house, maintaining sustainability of farm systems, that information wasn't enough unless you actually took it through the industry lens and DA did another set with industry stakeholders and CSIRO and other people continuing to participate to understand how do you take what's going to change in the Tasmania or Queensland climate, what does that mean for farm systems through the linkage of animal welfare, animal health, milk production systems and what that would do to the contents and milk composition and therefore to the marketability and how that would flow through to markets and back to farmers.

That's the kind of industry understanding which we believe the industry based RDCs bring into those broad cross-sectoral challenges like climate, like water, animal welfare. In most of them there is a level of basic research, but it's actually the linkage back to industry, the ability to understand what happens in industry, align the R and D in a way that makes sense to farmers that they can actually take up and adopt in their farm business systems. That's the question I guess we have in RRA from a structural point of view, whether it will be too far removed from the industry, from the understanding, a detailed knowledge of how farm systems work, because it's not a one size fits all generic solution.

Often these results and the way to get successful adaptation which has ongoing community benefits comes through a detailed industry knowledge of how it would affect individual farm systems, which are quite different for dairy than they are to beef than they are to horticultural or grain. So unless you have that industry expertise built into the process, you're not going to get the kind of results that we actually think will deliver the best bang for buck for both industry and government investment in these areas.

MR WEICKHARDT: I think we're in heated agreement on that score, but what we didn't receive any good evidence of was that the RDCs in history - maybe you tell me they're all changed now, but in history that they had been particularly effective in collaborating, at doing that longer-term blue sky work that is necessary to form a foundation to do the adaptive work of, "What does this mean for the dairy industry," and to apply it. The appearance, based on model submissions to us, was that each of the industry-specific RDCs look to somebody else. Somebody else was going to do this. CSIRO was going to do it, Land and Water Australia was going to do it, the government was going to do it.

MR PHILLIPS (DA): I think to use Confidence to Grow as a good example there,

once we had actually done the original work with CSIRO, we actually talked to other RDCs and said, "There's no need for everybody to go and duplicate this bit of work because it's already been done. You're not going to find a different climate result in Queensland by you, as the horticulture industry or the beef industry, working with CSIRO. That knowledge is there. What you now need to do is take it through the farm-specific funnels."

MR WEICKHARDT: But that's a good example where you were using the fundamental work that had been done by CSIRO.

MR PHILLIPS (DA): If we're talking history versus current, I think that was a point that the superfine wool people brought out in their thing. We're judging history or the present. In the last few years there's been a significant extension in the understanding of the emerging challenges of climate change, water and those areas and I think there's been quite a clear willingness on the part of RDCs like DA to engage collaboratively with other RDCs and with government to try and come to a better understanding of how do we deal with those challenges, how do we maintain the sustainability of Australia agriculture in a way that meets both our industry needs but also the broader community needs. We're currently working in a whole range of processes in terms of nitrous oxide, methane gas issues with the meat industry. We've also collaborated with the New Zealand industry in those areas.

That's another interesting dimension because a greenhouse result in New Zealand, given different soil structures, different climate conditions, might actually deliver the same result in the Australian context. So we also have to bear in mind the regional implications and for us, as an industry that operates from north Queensland down to Tasmania across to WA, there is a significant dimension to how does the regional characteristics of an industry also affect the way in which that kind of research will affect our particular farmers in particular areas. So I think 10 years ago maybe there were not seen to be these broad cross-sectoral challenges, they weren't seen as important. I don't think climate change was seen as as big a challenge 10 years ago as it is today. But certainly in the last few years, I think dairy would argue we've worked quite strongly with both the federal department and with other RDCs in trying to address that.

In fact the government had been quite willing to use DA as the body to manage and implement some of its broader government policies because it recognises that we have the understanding of climate change and those broader challenges. So programs like Dealing with Today: Planning for Tomorrow are ones where the government has actually helped us to implement government policy programs and information programs as a way of helping both ourselves and in the case of feed.FIBRE.future in 2006-7 where the government asked us to implement it but it was a program which would benefit not just dairy, but also beef and sheep farmers around Australia on a broad cross-sectoral issue about the shortage of fibre because

of the drought.

MR WEICKHARDT: So you don't believe there are any gaps? Weeds, salinity, things about storing genetic material so that the pasture you have today, if there was some problem with it - you're doing all that work, are you?

MR PHILLIPS (DA): No. There has been over the last 10 years what we'd have to call bracket creep in terms of the responsibilities of RDCs in terms of the number of areas of R and D that we've actually extended into because we see broader challenges facing our industries. Not to say that there are not gaps and issues there, but also just to recognise that there is this one level of generic research which will deliver the outcome for all people. It's to say in some particular areas our issues with soil salinity would be quite different to those facing the forestry industry or the grains industry. So these broader challenges have different industry-specific dimensions. I think the main thrust of both this and our original submission on this area was simply to say we recognise the need to keep working collaboratively to deal with these broader challenges, but we also need to recognise the industry-specific dimensions of those and that's why we believe the current industry RDC model is an important tool for making sure we get the best bang for our buck, not only of industry investment, but also of government joint investment in these areas.

MR WEICKHARDT: We would agree with a lot of what you just said, other than the degree to which there is collaboration on the cross-cutting issues. After 22 years of experience it is not deemed to be sufficient by one of your major stakeholders.

MR PHILLIPS (DA): We can only answer from a dairy perspective on that exercise.

DR SAMSON: That's part of the issue, because you are one of 15 R and D corporations, and we have been at pains, I hope, to fairly recognise that almost on any issue there is a spectrum of response, a spectrum of enthusiasm, amongst the 15. We tried very hard not to impose on the overall system some draconian micromanagement that may or may not address deficiencies in one of the 15. Having said that, though, we do believe there are sufficient areas for improvement across the whole 15 to make some of the recommendations that we have. So not at all to decry, belittle, or under-acknowledge some of the things that Dairy Australia have done, but that is not to say what you have done is mirrored throughout the whole system.

MR PHILLIPS (DA): That is why we support - not necessarily support RRA, but we do support a restructured route to fill in the gaps.

DR SAMSON: I know you have said, and we respect, that you are leaving, perhaps, Dennis Mutton to carry the main charge on that issue, but are you able in a very broad sense to give us a taste of why you prefer a RIRDC mark II to an RRA?

MR PHILLIPS (DA): Probably the extra cost associated with setting up another RDC with all the overheads that go with that. I think we have already got an established RDC through work and I think, to Chris' point that he has been elaborating on, it is this whole extension and take-up. We wouldn't want to lose sight of making sure we get the practice change on-farm where it is required. Establishing another RDC, I think there is real risk that we might be supporting priorities, but we are not going to get the practice change on-farm that we are looking for.

DR SAMSON: Just as an observation, and it maybe reflects the way we have written it in the draft report, but people are seeing a very black and white boundary between an RRA and the industry based RDCs, and that is certainly not what we do or did think would be the way. We strongly agree with you, that if we were to move to an RRA-type model, it would only work if there was very, very close collaboration/cooperation with the commodity based or the industry based RDCs.

MR PHILLIPS (DA): I think there is also the element in their response in terms of the source of funding for RRA, because we actually believe that if it comes at the expense of the current industry RDC partnership with government, in terms of the funding, that is a concern for us, in terms of drawing funds away from the current industry partnership to fund RRA. If the government wants to address some of this cross-sectoral issues then that is appropriate, but we actually see that it should actually be at the expense of the current funding base.

MR WEICKHARDT: That is a somewhat different point, of course.

MR PHILLIPS (DA): Yes.

DR SAMSON: We might argue that in fact what we would be doing is moving money from the industry based RDCs into an RRA to do things that you therefore wouldn't have to do. Some people put to us, "We don't need an RRA or anything; we are doing all that." Whether it would actually result in a reduction in the research for the on-farm productivity-type stuff is debateable.

MR PHILLIPS (DA): One of the questions for us or for me - it might not be a DA view, but just my own - but in terms of the ambit of where RRA would actually work, because we actually, as DA, work in quite different ambit to some of the other RDCs. We do a lot of work out beyond the farm gate, in terms of health, nutrition, manufacturing research, and some of the cross-sectoral challenges there, like in health and nutrition. Would that sit within the ambit of an RRA, because what is the actual ambit of work that people expect to be done in there?

Because when we look at the PIMC framework in terms of animal welfare,

where DA has been an active participant in collaborating with other sectors on that, one of the things that all the groups, when they got together, said is, "Let's not create another structure to deal with animal welfare on a cross-sectoral basis. There are industry-specific challenges associated with this. We need to get together and have an informal exercise twice a year or so, where we discuss what things are developing within each industry, how that is affecting us, some of the challenges that - it might be in dairy that might flow over to beef, pork, or elsewhere. But we don't need to create another formal structure to actually deal with those challenges."

So it is a horses-for-courses approach and that is one of the concerns we have about the rigidity or prescriptiveness, perhaps, of an RRA framework versus what we see as the need for flexibility. Because, I think as Wes said, the original premise for DA, as industry services, was about flexibility and an ability to adjust to changing industry needs, so we don't want prescriptive solutions in a rapidly changing environment.

MR HALLIDAY (DA): I think you will find, through the submission from the Council of RDCs, that will be the thrust of; not everything should be going through RIRDC. There might be some existing programs that are in place at the moment and you should just let them continue. I was going to say, the animal welfare strategy has been a terrific example, I think, this year and there has really been no funds afforded to it, but it is moving along. So I think there does need to be that flexibility to enable RDCs to make the call if it is going to suit their stakeholders.

DR SAMSON: I absolutely agree. It goes back to the point that Wes opened his presentation with; we are not in the business of change for change's sake.

MR WEICKHARDT: Can I go back to a point that you made in your preamble and it is also in your submission, where you say several of the draft findings and recommendations significantly concern DA, and the second bullet point was, "Incorporation and specific public principles in rural funding agreements, draft recommendation 5.1." Can you tell me what part of recommendation 5.1 you don't agree with?

MR PHILLIPS (DA): It is more the issue, and this relates around - as we said in the submission: the principles in themselves; a number of them are uncontroversial and in fact they are basically principles which DA follows in its normal course of operation with industry at the present time. It is, do you want to make these formally put in place and therefore open to strict interpretation or potentially perverse interpretations?

There are a couple in there, particularly the additionality exercise. As we say in our submission, additionality is a very important objective in public funding of R and D; it is a very difficult one to prove. So actually putting explicit additionality

provisions, not only in the high-level principles but also in the conditions of funding - which is, I think, recommendation 8.1. For us, who is actually going to decide the level of additionality? When we actually apply for the matching funds: we have already done the R and D, so how would we actually prove that R and D we did and then apply for matching funds, after the event, we wouldn't have done in the absence of the matching fund regime.

MR WEICKHARDT: Let me just react to that one. We haven't in our wildest dreams considered that anybody was going to, on an ex post basis try to say, "Now I see the outcome of that research, I have decided that is not additional research." What we had tried - - -

MR PHILLIPS (DA): But that is one of the questions, in terms of the conditions, how would that be - - -

MR WEICKHARDT: Can I just finish? What we were trying to do was establish some principles by which government could think about the work that it should fund versus the work that industry should fund. Recommendation 5.1 lies at the heart of almost everything else that follows, of trying to establish some principles where government thinks about what it and only it can do, as opposed to what others can do. Otherwise, where do people and government, when they are trying to judge policy, stop? You could say some is good, more is better, and why not a 5 per cent cap on GDP. I would like to understand, in terms of recommendation 5.1, what part of it don't you agree with?

MR PHILLIPS (DA): What I was saying is, the concerns we have are how that principle would actually be applied, given that additionality is very difficult to prove in practice, when it is put in place. There is another provision in there which is giving due account of the non-R and D factors and their impact on productivity. Again the question is, how is that principle to be applied in practice; what does it actually mean in practice?

Because, as we say in our submission, you have mentioned sometimes, at parts of the report, that other factors beside R and D may be important in maintaining farm productivity, like scale or development of new technologies. Where we would argue they are not actually independent things: changes of scale have actually occurred because of an iterative process of work, and farmers working through with the researchers; how does change in scale affect farm production systems, animal feeding systems, animal welfare systems? So changes in scale, other non R and D factors, also have an R and D component, so that clause is not very clear, how the principle would apply.

MR WEICKHARDT: Chris, when Dairy Australia is given some money by your levy payers, do they say to you, "I'm only giving you this money on the condition

there is no judgment required by Dairy Australia of how to spend that money. I will only give you money - - -"

MR PHILLIPS (DA): No, that's not the way I interpret the issue of that principle as it's drafted. That's what we said, as they're drafted, we have some concerns as to what they mean and does that leave them open to be prescriptively interpreted down the track in a way which might deliver some perverse results?

MR WEICKHARDT: If you have ways in which you could improve the drafting of them, it would be absolutely fine, but to say that we should not be recommending to government - - -

MR PHILLIPS (DA): I don't think that's what we said in the submission.

MR WEICKHARDT: - - - "Here are some principles by which you should judge where you should spend taxpayers' money and where you should spend it wisely," I absolutely reject. I mean, that's our obligation.

MR PHILLIPS (DA): That's not what we've actually said. We actually said the way they're currently drafted actually causes concern because there are ambiguities in the way that they have been put there.

MR WEICKHARDT: Okay. In that case, I ask you please to suggest ways in which their drafting could be improved. But the whole area of government spending money requires judgment, it will always require judgment. The way you spend as a research organisation requires judgment. People later on may say, "Well, you didn't actually execute that judgment wisely," that's fine, but at least if you've got some principles by which you make some judgments, you have got a better chance of getting it right.

MR PHILLIPS (DA): We're comfortable if - you know, it's how these would be actually put in place and will they impose costs in terms of additional administration to the RDCs and to DAFF administering government departments in trying to prove whether these principles are being met, or more particularly the conditions in 8.1. If they're going to become part of the statistics funding agreements, then they are ones which are going to have to be reported against. So they're not high-level principles; they may actually prove to be conditions that we may have to show - additionality as a condition of receiving funding under the statutory funding agreement is more than a high-level principle of judgment. It's a condition that we may or may not get funding from the government, depending on how different people interpret them.

MR WEICKHARDT: What I'm asking you to do is make some specific recommendations about how these could be improved, rather than simply saying you've got concerns about them, because a vacuum is no solution here.

MR PHILLIPS (DA): We believe that the principles, because they are matters of judgment and commonsense, have been basically applied and adhered to by DA in its operations, so it's one of the questions, do they need to be made more and more explicit in the process? But that's a judgment call for the commission.

MR WEICKHARDT: We put these in place or made recommendations because quite frankly there wasn't a good articulation that we could find of the principles by which government think about what it funded and what it didn't fund.

MR PHILLIPS (DA): Yes. As I said, there's issues of ambiguity as we see it as they're currently drafted, but all things can be improved through redrafting.

MR WEICKHARDT: Please help us with your suggestions.

MR PHILLIPS (DA): More than happy to.

DR SAMSON: Okay. In the draft report, we addressed the issue of what used to be government directors and we're certainly saying for the statutory authorities, the option - putting forward the option, by mutual consent, of an RDC, that the government could appoint somebody in the sort of old government director role, because a lot of people said to us that they thought the removal of government directors has been quite a retrograde step and channels of communication, sort of mutual understanding had taken a few steps backwards as a consequence of that. Do you have any thoughts on that recommendation?

MR HALLIDAY (DA): I think from our board perspective - I've only been in DA since January - I think we have got a terrific board. It is a skills based board. We have three farmer representatives and then we have a number of businesspeople on our board and I think they work very objectively. If our chairman was here, I'm sure one of the comments he would make is that we would like to have access to the minister for agriculture on a more regular basis just to be clear about expectations. Max Roberts, our chair, has mentioned that to Minister Ludwig in recent times. So we I think from a DA perspective don't necessarily support having government representation on our board. We think it functions well. I think Wes Judd mentioned earlier on we do have a lot of dialogue with our industry stakeholders through the ADIC, through the ADF and the Australian Dairy Products Federation. We talk about priorities. We get them to sign those off on a regular basis. We review where we're at. Then I think we have very formal review sessions with DAFF as well in Canberra. We do that at least twice a year and generally it's quarterly.

MR WEICKHARDT: I'm sure the majority of the ag industry would say they would love regular sessions with the minister, but in reality, the minister's time is going to be limited. In the absence of getting regular access to the minister, what's

your solution?

MR HALLIDAY (DA): Obviously regular dialogue with DAFF. It's been good since I've been there. We do have quarterly meetings. There is good dialogue between DA and DAFF and so that's certainly satisfactory at present, but just to enhance the process, we would like to get improved access to the minister, just like any other RDC.

MR PHILLIPS (DA): One technical aspect on the recommendation in terms of the - because we're an IOC in the context, there would have to be a clause in the statutory funding agreement, which is what I think was the draft report suggestion in terms of an agreement to put a clause in the statutory funding agreement to allow for consensual appointment of a government member. Given that would require a change in our constitution, it's a problematic question of chicken or egg: could we actually agree and sign to a statutory funding agreement change like that in advance of a constitutional change for DA, because our members would have to actually vote 75 to 80 per cent, so we couldn't actually do the funding agreement until we changed the constitution.

DR SAMSON: You raise an interesting issue. We had a bit of discussion with the wool industry guys about that, were you an industry-owned entity and responsible to your stakeholders at the end of the day. It must be quite difficult when you're actually negotiating these things with DAFF, these SFAs, to only commit as Dairy Australia to things that you can deliver of your own authority, rather than implying you're committing to something that actually is contingent on your shareholders voting on it later.

MR PHILLIPS (DA): As a Corporations Law company, that would be normal. We can only commit to legal agreements which are within our ambit and our ability to do so.

MR WEICKHARDT: But legal requirements have conditions precedent in them all the time. You could say, "Subject to a subsequent vote by levy payers, we will do the following things." I don't think that's beyond the wit of man. The more important issue is if it is subject to the levy payers, would the levy payers want that? If the Dairy Australia board wouldn't support it, then it's probably not even thinking about it.

MR PHILLIPS (DA): It's not a priority for Dairy Australia at this stage and I would say that the history of DA is that the industry basically believes that the industry alignment, the industry ownership and linkage was the important thing in making sure that DA stays close to the industry, so they would probably see it shifting back to a direct government - I mean, you would be aware we do have a currently serving public servant on our board at the moment, not linked in with the

current minister, so we do understand that understanding government is part of the broad skills base that helps RDCs work effectively, but I don't think the industry would see it as a priority to take that direct government membership link back.

MR WEICKHARDT: Okay.

MR HALLIDAY (DA): One last comment: I think from a DA perspective, we see it important to keep a good open dialogue with all key stakeholders, whether that's industry or government, and I think we've done that pretty successfully in the past.

MR WEICKHARDT: Can I change tack a little bit. One of the issues that you've raised in the context of RRA is the issue of the rate of adoption of work like that. We're interested that in some of the RDCs, the RDCs have talked about the fact that state governments have moved out of extension work and that in some cases there have been gaps filled by private sector agronomists or other people, in terms of helping the R and D become adopted. I'm interested in your take on how rapidly the output of Dairy Australia's work is adopted.

One of the people who submitted at our Melbourne hearings basically - if I could paraphrase what they said - said that they felt the government should be making no contributions to the industry-specific RDCs, that there was a wealth of information available to any sensible, knowledgeable farmer, that all that was waiting for them was to adopt the work that had already been put on the table, and those that helped themselves would get on, and those that didn't would disappear. To what degree do you see the industry adopting rapidly, and to what degree are some of the benefit-cost analyses that sort of suggest a long tail, in terms of benefits coming through; to what degree is that related to the rate of adoption by the industry or other factors?

MR PHILLIPS (DA): I don't know that there is a general answer in terms of the rate of adoption of R and D that we do. We do have a strong partnership with the Department of Primary Industries, in terms of the dairy extension centre, as a way of actually making sure that industry and government have a partnership and making sure there is appropriate technical expertise to support the assisting farmers understand and adopt the R and D findings that we have.

We have a large farmers program that we have established over the last year or two, which is specifically designed to say we do need to help what we see as the group of farmers who are the more innovative, the ones who will actually be moving forward in the industry going forward, rather than potentially what the position was 20 years ago with equal support for all farmers. So we are actively trying to make sure of things. Also our partnerships with individual companies and private research providers, to make sure that the information can actually flow out to our farmers in a way that makes sense to them and is easy to adapt.

You only have to look at water usage in the dairy industry over the last decade - there has been fundamental change in the way the industry uses water in this industry, because of the need driven by successive droughts - for us to change the way we interpret farm water-use efficiency R and D into farm practice change. So in some areas that take-up has been more rapid than in others, it depends on the individual piece of research. There are still ongoing challenges, particularly in terms of our industry. The increased variability and volatility of climate, the increased scale of farm businesses, creates a whole new set of challenges and it's a more complex environment, so there is a whole new capacity, development, education and skilling-up of our human resources in the industry to make sure that people are able to make the right decisions to interpret the R and D finding in a way that makes sense for their farm.

You have talked about a New Zealand example. In New Zealand they say they have got five farm systems operating in dairy; we actually say that their five farm systems fall within system 1 of our farm systems. We say we have got five farm systems. All of New Zealand would basically fit in system 1 of our system, and we have more systems. So we have gone all the way from a full pasture to full total-mixed-ration feedlotting in our industry with farms switching in and out of pasture to total feed ration within the one season. That's something that never happened 10 years ago. So there is much more need for industry to be able to adapt and understand the changing environment. So it's a constant challenge for us.

The other element you mentioned was in terms of evaluation of the take-up and tails. We don't basically assume once a thing comes in that the benefits are there forever, we decay the benefits fairly rapidly, and in terms of bringing forward R and D we also are very specific to say, yes, we may have brought some R and D forward that may have happened in the absence of DA, bringing forward and working to bring that much more quickly to wide use in industry, but let's not assume that that wouldn't have happened in four or five years' time without us, in four years' time just assume that it would have happened anyway; so when you're measuring the value, discount anything beyond four years as that's the counterfactual, it would have happened anyway. So we have to be very clear when measuring the benefits that we don't overestimate and assume that they're going on forever.

MR HALLIDAY (DA): I would just add too - it's certainly something that I've recognised - that some of the innovations are continuum. So we may have introduced new R and D five to 10 years ago, just through climatic change or complexity, to the whole farm management system. What we thought we'd addressed as an issue five to 10 years ago has now started to resurface, for different reasons. So we're now having to put more effort and more focus into addressing issues that have been caused by other problems. Also what Chris was saying too, there's five farming systems and eight different area regions in Australia. So I think

it's a bit unfair to sort of be comparing New Zealand to Australia, just because of the sheer complexity that we have from a dairying perspective in Australia.

MR PHILLIPS (DA): Probably a good example of Ian's one on that is mastitis, about which people would say, "We had a Countdown Downunder program in mastitis in the 90s and therefore the issue is solved, all the knowledge is there." But in fact, because of the shift in farm systems into hybrid-type systems where it's pasture and then feedlotting on feed pads, we have actually found that mastitis is an issue that's come back, but, as Ian said, for a different reason and a different understanding of how the farm interacts under different feed regimes, and so people have had to look at the old R and D and then say, "How do we actually adapt that and modify it to meet the new challenges and the industry dynamic." So it's not a "once it's done, it's done," it is a constantly evolving thing, because we're dealing with a biological animal mixed with pasture and the interaction between the two.

MR SAMSON: Just a final question from me, if I may. We say in the draft report that we see R and D obviously as a very important contributor to productivity gain but not necessarily the only contributor to that. Your industry probably more than any other has undergone massive structural adjustment in relatively recent times. Is it possible to get a handle on how important that structural adjustment has been to maintaining productivity or improving productivity in the industry in addition to R and D or is it really just impossible to do, which I'm prepared to accept it is.

MR PHILLIPS (DA): I seem to remember a report that the commission did in 2007 which talked about the complex causal pathway of productivity, and I think that's the case. I mean, scale has certainly occurred across the industry, but we can't make the assumption that large farms are more productive farms. We know from the farm monitoring work we do with different state governments that large farms can actually have low productivity versus some of the smaller farms, it is about the interaction of the different components: the feed base, the animal welfare, the farm milking technology. So it's not a one to one, in terms that scale leads to more productivity. That's what we found anyway, in practice.

MR SAMSON: Sure. Thanks for that.

MR WEICKHARDT: Out of interest, in those multiple farm systems, does the dairy industry consume fodder?

MR PHILLIPS (DA): About 30 per cent of farm business costs at the moment in dairy would be for purchased fodder.

MR WEICKHARDT: You might like to read the transcript of the Melbourne hearings. The fodder industry appeared before us - and this goes back to the sort of issue - - -

MR PHILLIPS (DA): We talk with Colin Peace on a regular basis.

MR WEICKHARDT: Okay. In relation to the issue of sort of the degree to which the industry works effectively on these sort of cross-sectoral things and whether things fall between the gaps. The fodder industry plaintively said to us, "We tried to get a levy up. We reckon there are a whole lot of issues on fodder, but none of the other industry RDCs will tip money into the bucket," and they can only collect a levy on I think exports of fodder at the moment. Do you have any reaction to that?

MR PHILLIPS (DA): As I understand, there is a levy on the export fodder segment. I think Wes has just left, but that's probably an issue that is more directed to industry, because it is actually industry that makes the decisions about whether they would support a levy on a key input for dairy. As I said, purchased feed is a significant component of their overall costs on some farm systems, so industry would look at that and ask where the actual gains and potential benefits are out of working in a new paradigm there with the fodder industry.

MR WEICKHARDT: I think the fodder people were saying they recognised, because there's no single or easy collection point, apart from export, that getting a levy up on the internally used or within Australia fodder is difficult, so what they were hoping was that the existing RDCs that were using fodder would tip some money into a common bucket. But they said they hadn't got anywhere on that score either.

MR PHILLIPS (DA): I think we have certainly been involved in pasture and feed R and D in quite a considerable way with the fodder industries. We do share a lot of knowledge with the fodder industry. We use them to provide us with information. A regular report we do is a home-grown report, which is a lot of information on fodder market conditions and developments, to alert our stakeholders as to what are the likely developments on some of the key inputs into their farm system. So we think we have a good working relationship with them. but I don't think they have actually asked us, as DA, to formally engage in that discussion about a levy.

MR WEICKHARDT: Well, maybe I'll give them your phone number.

MR PHILLIPS (DA): Colin has our number. If he wants to raise it, he can.

MR WEICKHARDT: Lastly, from me, can I just repeat the question that I put to the last participants on the issue of the frequency of the poll or the flexibility of whether or not money between R and D and marketing should be able to be varied by the board of the RDC. Have you got any reaction to that?

MR HALLIDAY (DA): We're coming up to my first poll, and I just know the

effort and time required and expense that we're going to go through to do a poll. We have only ever had one after DA was formed, and that was in 2007. So the next one is in 2012, and there is that flexibility of between three and five years. We'll consult with industry about when they believe the levy should be undertaken, but at this stage it's going to be early 2012, which will be the expiration of five years.

MR PHILLIPS (DA): I think that the flexibility that Wes talked about before is probably important, because when we did the 2007 poll that occurred at the time of a drought, and industry had originally had some proposals about levy rates, which they then changed just before the levy poll because of the dramatic change in industry circumstances, and industry said at the time, "We actually think we'll come back as soon as possible for another one," and then as industry circumstances changed again the industry, ADIC, basically said, "We don't think it's appropriate to actually rush back to another levy poll." So that flexibility and ability then to make your reviews and levy poll circumstances attuned a bit to the circumstances that are happening in industry are pretty important from our perspective.

MR HALLIDAY (DA): The flexibility I think is absolutely paramount. What I mean by that is - and I mentioned before - we do have regular dialogue and discussion with the ADIC, the Australian Dairy Products Federation, about what their priorities are and how we internalise those from a DA perspective, as well as government. So maintaining that flexibility I think is important for us.

MR PHILLIPS (DA): We also have in our planning process we have eight regional development groups, which basically go through what are the strategic challenges and issues facing each of the dairy production regions, and so build that into our thinking. So even between the formal levy poll exercises there is a lot of consultation within the industry about how the strategic challenges are emerging and what are the plans and the best ways to actually deal with them and what are looking for from DA as a way of dealing with those challenges.

MR WEICKHARDT: How many industry bodies are, if you like, formally named that you need to consult with under your act?

MR PHILLIPS (DA): Two. The Australian Dairy Products Federation and the Australia Dairy Farmers, and both of those constitute ADIC. ADPF and ADF are our group-B members of DA and we're formally obliged to consult with them. The agreement allows for the minister to nominate another industry representative body if it decides that they have sufficient coverage of the industry that they warrant, being a group-B member, but at the moment he has only decided the two.

MR WEICKHARDT: I was intrigued when we had the discussion with AWI, I hadn't realised - which is a piece of unforgivable ignorance on my part - that the wool industry apparently don't have a named industry representative body. I guess I

was pondering as was listening to you whether or not that might be an important missing ingredient in terms of the wool industry's ability to sort of be attentive to, understand and consult with a body that represents their levy payers.

MR PHILLIPS (DA): It has certainly been an important part of our partnership with industry knowing that there is the ADF and ADPF there, that they can basically tell us, "This is the post-farm and the farm gate views of the world," and we can take that into account in our planning and thinking. But as Ian said, it's not just that they're there are group-B members, it's that we have the regular dialogue and discussions with them and work and work through with them on it.

MR HALLIDAY (DA): I think we do enjoy the benefits of a strong industry structure. The way we explain that to everybody is that you have DA and the regional development programs doing the research, collecting the data, and then from an agropolitical perspective we can sort of then hand that over to the ADIC and the ADF and the state representative groups to lobbying-type work.

MR WEICKHARDT: Thank you very much indeed for your dissertation and for your input. Is this document that we have got now the final submission?

MR PHILLIPS (DA): We could make modifications to it, but - - -

MR SAMSON: Other than your redrafting of recommendations.

MR PHILLIPS (DA): At this stage this would be our submission, and, if you have questions or issues you want to raise with it, as we did with Greg Murtaza before, we're more than happy to answer questions or explain further.

MR WEICKHARDT: I'm sure we'll have supplementary questions or comments about the funding comparisons. But as Cliff said, if you have some redrafting suggestions, if you were now the prime minister of Australia and you wanted to make sure that your minister of agriculture was going to spend taxpayers' money wisely, what principles would you give them? If you have got some suggestions, please let us know.

MR PHILLIPS (DA): All right; or some that may not be there.

MR WEICKHARDT: Thank you very much indeed. We are going to adjourn briefly now.

MR WEICKHARDT: We now welcome our next participant, TQA Australia. If you could please give your name and the capacity in which you're appearing and then give us a brief summation of what it is you would like to talk about.

MS LOVELL (TQA): Okay. Jane Lovell, I'm the managing director of TQA Australia. The comments that I wanted to make I guess are at the practical end of the research and development corporations and my experience within that realm. I guess I've just prepared a brief summary of some of my comments which I've forwarded to you. At this stage, I'll just say this is the first time I've done this, so I'm not really sure what the process is, so if you want me just to speak or if you want to ask questions - - -

MR WEICKHARDT: Assume we've read this but assume also that we're very focused on trying to improve the sort of recommendations or the conclusions we reach in the draft report. So if you want to give us a burst of what it is you think could be improved, changed for the better in terms of the draft report, we'd love to hear from you.

MS LOVELL (TQA): Okay. Thank you for the opportunity to be able to do this. It's great that you guys have come to Tasmania and that we can have involvement. I guess our reading of the draft report and our concern around some of the research and development corporations that operate in Australia are that from our perspective, we see food security being a major challenge in at least the next 10 to 20 years for Australia and we believe therefore that there's likely to be probably a need for greater public funding of research being probably into areas that your average primary producer isn't going to invest in.

We also have some concerns around the current operation of some of the research and development corporations and I guess I was a little uncertain as to the scope of the brief of the review, but against that, we think that there's opportunity to work more in developing resilience within primary industries and within primary producers and also to looking at some of the governance issues associated with the decision-making that's come out of the research and development corporations.

We firmly support the creation of an overarching research organisation or some level of coordination of some of those higher level research challenges that are going to face Australian primary industries related to food security but we do have some concerns around how effective the communication is actually going to be between the RDCs and within the RDCs with this overarching organisation and how it's going to effectively be represented and made relevant to Australian primary producers.

We also believe that the inclusion of a level of review of research proposals by probably commodity based or even some more agripolitical organisations does have

some issues associated with it and we are concerned at some of the agendas that may be being pushed within RDCs in that regard. That's sort of in general.

MR WEICKHARDT: Okay. In your written paper, you said under Conflict:

How will disagreement regarding priority setting and resource allocation be managed if an issue is of broader impact than a single industry sector but it is not a significant impact as in a cross-industry issue? How will this be resourced and managed?

These are good questions. Do you have any ideas? If you were in a position of all power, how would you propose that they would be managed?

MS LOVELL (TQA): I guess one of the things that we seem to have stumbled upon is that there's not always clear governance structures within the existing RDCs, so when you actually ask them that question, how is a decision made about funding a particular project, you don't always get satisfactory answers. So if you put me in the position of all power, I guess the first thing you would have to do is develop some fairly strong terms of reference and to explore the decision-making processes that are to be used, so to make it quite clear whether it needs to be a consensus or majority based and within that structure, whether if a number of commodities or RDCs decided that it was an issue that they needed to take forward - because you could very easily see that it could be an issue for livestock but not for grains or horticulture - to give them an avenue to be able to pursue that or for somehow that RRA to have divisions, but then you start to cut it up into commodities again, so I guess that's not really - I'm thinking as I'm speaking, so I don't really know what that solution is. But for me, it starts with having clear governance and clear terms of reference and clear decision-making.

MR WEICKHARDT: Your experience with the existing RDCs where you haven't been entirely satisfied with the sort of answers you've got to the questions you've posed, do you sense that this is a failure of the model or is it a failure of the execution of the model because what we're I guess most concerned with to start with is: is the model itself in need of improvement? To legislate that human beings should be always perfect is probably not going to work, but we certainly don't want a framework or a model that's fundamentally got those sort of conflicts or deficiencies involved in it.

MS LOVELL (TQA): I guess I had understood from the review that the draft report had supported the bringing in of primary producers in some level of decision-making within the RDCs. I believe I read that somewhere, that this peer review - the ability for primary producers to have a say in how the research and development dollars were being spent.

MR WEICKHARDT: I don't think it specifically made a recommendation in that area. We certainly talked about the fact that the RDCs had to be responsive to the levy payers and the levy payers should have a right to vote on the quantum of the levy at some sort of frequency because ultimately they're the people that are paying and if they don't think they're getting value for money, they ought to have some mechanism of communicating that. But we did talk about the scientific peer review of the work that was going on in the RDCs on a regular basis.

MS LOVELL (TQA): Yes. I guess most of the research and development and extension that we're involved with isn't in the scientific sphere, so what we find is that within - and I may have misinterpreted what you were actually saying in your model, but I read what you were saying as some of the structures that have actually been developed within the RDCs put CEOs or executive officers from commodity based groups or councils into a position of review of proposals. So that's how the effective concerns or issues of primary producers are actually filtered through some of these organisations. So in practice, they don't actually ask primary producers what the priorities should be. They have commodity chairs or CEOs of organisations that actually form a group and make those decisions. That is a good structure because you do need to have review by the end users, but my concerns come around some of the agripolitical backgrounds that those people may have or the vested interests they may have in the outcomes.

I didn't see this as an opportunity to particularly pick on or have the Productivity Commission take my particular issue and grind that axe for me, but I do think in terms of a structure, that can be a partially flawed structure, when the research and development corporation itself sees the project or priority as being important, but another group has the ability to veto that. I think you need to be quite clear on what the terms of reference and the responsibilities of that group is and to have strong governance around that group which is the bit that I have been unable to ascertain is in place. I don't know if that is within your brief but that's how I saw the structure, being slightly flawed at the moment.

DR SAMSON: At the start of your introduction and your written submission, you mentioned food security. I'm developing a personal worry, and it is personal - it's not the official position of the Productivity Commission - that food security is just going to be one of those phrases that everybody wheels out, at best everybody has a different view of what it means, and at worst nobody has got a clue. It will be up there with biodiversity, sustainability. People will tie themselves in knots trying to somehow address this issue of food security. I'll put my hand up, because I do not understand what people mean when they talk about food security. From where you sit, can you unpack that a little bit for me?

MS LOVELL (TQA): I thank you for actually raising that issue because I think that's the first part of the food security debate we actually have to have: what on

earth are we talking about when we use those terms? I think it means different things to a lot of different people. So when I'm talking about food security - I just threw a couple of words in there - it is the issue about population projections and needing to produce more food from a narrowing resource base. I'm not talking necessarily within Australia, I'm talking globally with those projections, because I understand the work that's been done for Tasmania, for instance - and climate change puts us in a reasonable position climate-wise - we're still going to have challenges with things like peak oil and peak phosphorus and those sorts of pressures that come into play.

So my concern, Cliff, is really of how we are going to feed the population going forward with the projections of 9.2 billion by 2050. I mean, you don't need me to rattle off all those statistics, but that's my concern. I believe that's going to put increasing pressure on Australian primary producers to be able to produce more with less.

DR SAMSON: I understand. I struggle a little bit when we try and then tie that into the specifics of our inquiry in R and D. I think everybody in rural Australia would be happy if the 2 and a half per cent productivity increase per annum could be maintained over a long time. We are a country that exports roughly two-thirds of what we produce. But in terms of our contribution to the world food supply, we are and I would suggest always will be a very, very small player in terms of physically producing and exporting food. Perhaps our greatest contribution will be through organisations like ACIAR that actually do, in developing countries, a lot of work. So I am struggling still to see how on the domestic front this should be one of the main drivers as people seem to suggest it will be for domestic agricultural RD and E.

MS LOVELL (TQA): So are you saying that you see that from a domestic point of view, food security is not likely to be such an issue for us as it is for other countries and therefore spending Australian taxpayers' money is not actually a compelling argument that's - - -

DR SAMSON: I think it would be a matter of fact that it will be less of an issue for Australia than it will be for other countries.

MS LOVELL (TQA): Yes.

DR SAMSON: I think there's no doubt, but I think there's a long continuum on that issue. No, I'm not saying that it's not part of our responsibility as global citizens that we should spend money on this issue. As I say, through ACIAR and Austrade and AusAID and the whole range of other government bodies, the Australian government does continue to invest a lot of money in overseas aid, much of which produces, if you believe the analysis, enormous returns on the investment, not only for the countries in which the work is done but even some of it throws back to Australia. I'm I think a little bit concerned, largely due to my ignorance on the matter, if people

start talking about food security and all of a sudden it becomes a driver of domestic agricultural R and D; that's when I'm just a little bit confused.

MR WEICKHARDT: Indeed. I think listening to the chief executive of ACIAR, he was pointing out that there has been real synergy and I guess a win-win outcome of the overseas activities of ACIAR utilising technology developed in Australia which has helped improve agricultural efficiency tremendously overseas. So to a degree, I think our tentative conclusion in the draft report was first of all, the Australian government has to get the policy settings right to encourage and foster an efficient, world-competitive agriculture sector within Australia. If it does that, Australia will produce food, as we see it at the moment, certainly sufficient to feed its own population very significantly and it will probably continue to export a good proportion of the food it produces. But more than that, that technology can then be used within the capacity of the Australian government to fund it to use its researchers to work overseas to help other countries improve their food production. But the first thing the government has got to get right is to make the Australian industry as competitive as it can, because without that, we are a small country and without the technology, if you like, to leverage our size, we will have little to offer the rest of the world and probably, given our agricultural industry size, if we exported twice as much as we do now, we would only feed a very small proportion of the world. What we can do is make a significant contribution by improving our know-how, technology, and that is why the RDCs and the industries they support are important.

MS LOVELL (TQA): Yes. I wasn't arguing for Australian taxpayers to actually fund the food security issues of the whole world, I'm just saying that that's the challenge that's in front of us I believe as a globe, like globally, but that even within that, there are going to be significant challenges I believe for Australian primary producers. I think the challenge is in front of us. I can see a ramping up of the need for innovation within the primary production sector of Australia, so I guess it's like a speeding up.

One of the issues that I guess we see at the coalface is that there's plenty of research often going on and there's some fantastic ideas and discoveries out there, often with a very strong scientific base, but it's in the effective extension of that to primary producers that we seem to be letting ourselves down. The other component of that is the short-term nature of projects driven by short-term funding rounds. I don't see those things actually working together to address the longer-term issues that we're actually going to be facing. So food security, for me that's the thing that's going to put the most pressure on the Australian population. We may do better than other countries but I think part of the reason that that is going to become such an issue is because of the speeding up of the level of change that's needed within primary industry, and I see the research and development corporations as having a pivotal role in (1) doing the research but (2) in feeding that research effectively out to primary producers in a timely manner.

The other point that I've made in the paper is that what we're actually seeing at the moment with the primary producers that we work with is they are basically weary and tired of short-term projects. So you come to them with a new idea or a new concept or a field day to try and extend information and they're pretty much over it. So that doesn't in effect drive uptake of the good research that's being done, so there's a disconnect.

MR WEICKHARDT: Why do you think they're over it? If there's good quality research that's going to help them become more competitive, effective, efficient, why are they over that? That would sound like the thing they should be getting really excited about.

MS LOVELL (TQA): Yes, exactly, it should be the thing that they're getting very excited about. I guess they're over it because in a lot of instances, and particularly here in Tasmania in the vegetable industry that I work a lot with, the prices are being driven down, so they're not being rewarded for their effort which I guess leads to a pessimism on their behalf. There's also an amount of scepticism that this is the new shiny project officer for the latest project that's being funded with their money but they're going to see this person once or twice and then that person is going to either move on, the project will shut down or it won't actually deliver the things that they were promised that it would deliver.

MR WEICKHARDT: The latter I understand and relate to. If you sold something on the basis this is going to help and it doesn't help, then I understand you being deeply pessimistic about it, but I guess if the outcomes of the research help significantly, even if the industry still is under price pressure, you would think that people would still be warmly embracing the outcomes of the research.

MS LOVELL (TQA): As I am not a farmer, I can't actually tell you what's going on in their heads, all I can tell you is what I see, and what I see is a reluctance to be involved in another project. You may bear in mind that a lot of the research and extension work or the development work that we're doing doesn't actually add specifically to the bottom line, it's around meeting requirements for international trade or domestic trade, so it's the management systems that producers need to put in, which they are very sceptical of because they have been promised - in the early days, people said, "You won't be able to sell your product without this," or, "You will get a price premium." Neither of those things have actually come to pass yet. Retailers continue to purchase from people that aren't certified and there is no price premium. So there's a scepticism around that. That's one part of it.

The other part of the work that we do is around trying to improve environmental practices with primary producers. Based on the best science that's available and the best guidelines that we can deliver, primary producers seem to be

reluctant to take those things up and the clearest saying is, "It's hard to be green if you're in the red." You've probably heard that before. But a lot of them are saying, "I'm not making any money, so I can't take up these new ideas, and anyway, you're just the latest in a stream of short-term projects for what is actually a long-term issue." So that all leads to a degree of scepticism. I think the QA angle has actually led to a destruction of goodwill because producers don't feel trusted. Now, none of that actually goes to the structure of the RDCs other than to say that I think it's fundamental that we take a longer-term view. These are longer-term issues and three-year projects aren't going to solve it. Growers are really over seeing somebody once who promises them all sorts of things and doesn't deliver, be it scientifically valid or other forms of extension of ideas. I don't know if that makes it clearer.

MR WEICKHARDT: Yes.

DR SAMSON: Indeed some of the RDCs have been involved with QA programs in the past. The GRDC stepped up to the plate to try and fill a gap. One of the frustrations farmers have is the number of uncoordinated QA systems that exist out there, so it's not totally - - -

MS LOVELL (TQA): Yes. Just to add to that, Cliff, I guess it's against that very background that I have a level of frustration where we have on numerous occasions put forward ways to try and consolidate that very QA mess. I've been involved with ministerial working groups on that and actually put proposals forward to RDCs to address it, with the support of Australian retailers, only to have individual commodity groups say, "No, we want to actually create our own." So that to me is part of the problem. It's what I've referred to in here about authority with a lack of leadership. You've got people who are in positions of authority directing the funding of Australian taxpayers' and levy payers' money and they're doing that without clear leadership. They're looking for the short-term gain for their particular commodity, not for the broader - and that's happening in my sector. I don't know where else that's happening.

DR SAMSON: Of course there are a lot of proprietary brands out there as well, aren't there, or there used to be, that people have got a commercial interest in.

MS LOVELL (TQA): Yes, absolutely. I don't think we can go back and unwind the QA mess but it is about to happen again around environmental assurance, and so the work that we've been doing is a leadership job in trying to stop it happening for the environment because I believe that the issues that producers are going to be facing are significant enough without having to run multiple environmental systems. That to me is totally inefficient, which is why I think the Rural Research Australia is a great idea because we need to have some consolidation. We need to drive together on this, not have lots of different systems competing and gobbling up producers' time and limited resources in the implementation.

MR WEICKHARDT: You made a point in your written submission too that committees and boards are not significantly diverse to represent the diversity of interests in industry.

MS LOVELL (TQA): Yes.

MR WEICKHARDT: Again, if you were looking at the way the RDC model is set up and the legislation behind it or the way it's enacted, what would you change?

MS LOVELL (TQA): I think - and there's one board in particular that I guess has taken my attention in this regard - you need to drive further the need for that diversity and for the board structure to represent the breadth of users, for want of a better word, that actually participate in that industry. So if it's an industry that, say, for instance, wants to engage effectively with indigenous communities, to have a board structure that has no - and I'm not saying you have to have an indigenous person on the board because we don't want to go to tokenism, I understand that issue, but to have a board that appears to have no empathy and no experience working with indigenous communities when that's clearly within their remit, then I think you've got some issues. I don't know how you can understand and comprehend some of those issues unless you've worked in it or had some empathy within it.

Within my organisation, we have clearly worked out what our scope is and we just advertise for the skills to make sure we've got a full complement, so I think the same sort of structure should be put in place and it seems that some boards are dominated by people with administrative backgrounds, not necessarily practical or representative backgrounds.

MR WEICKHARDT: I think it's true that in the latest rounds of strategic funding agreements that are being put in place that the boards are being urged to take up the latest ASX governance guidelines and I suspect that those governance guidelines will certainly contain some features that relate to diversity, but your point is that diversity is, to a degree, in the minds of the beholder, so probably if you're a farmer in Tasmania and you've got some regional issues and there's nobody on the board of that RDC that understands those or relates to those, you would probably feel aggrieved. Balancing those sort of issues of diversity so that all your stakeholders are happy is a tricky issue.

MS LOVELL (TQA): Yes, I accept that and I don't necessarily think that you can represent all of your stakeholders but I think when you've got significant sectors that are not represented, such as the traditional owners when you're an RDC that looks after things that are in the public domain, then I think there's a valid gap in the skills of that board.

MR WEICKHARDT: Mind you, representing all the traditional owners is a challenge too.

MS LOVELL (TQA): Yes, absolutely, 260 different languages, and that is indeed a challenge, but to have none and to have a board that appears to have no skill base connected I think is too far the other way.

MR WEICKHARDT: All right. Thank you very much indeed for your submission and appearing today. We appreciate your input.

MS LOVELL (TQA): Thank you, no worries.

MR WEICKHARDT: I think as there is nobody else in the hearing, I can now adjourn this hearing and we will resume the public hearings next in Adelaide on Wednesday this week. Thank you very much indeed.

AT 3.50 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 24 NOVEMBER 2010