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Telephone:

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Adelaide	(08) 8110 8999
Hobart	(03) 6220 3000
Melbourne	(03) 9248 5678
Perth	(08) 6210 9999
Sydney	(02) 9217 0999

PRODUCTIVITY COMMISSION

**INQUIRY INTO RURAL RESEARCH AND DEVELOPMENT
CORPORATIONS**

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

TRANSCRIPT OF PROCEEDINGS

AT ADELAIDE ON WEDNESDAY, 24 NOVEMBER 2010, AT 8.32 AM

Continued from 22/11/10 in Hobart

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

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

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

In the unlikely event of an emergency requiring the evacuation of this building, exits are located through the back doors of the room you came in. Turn to the left and follow the exit signs which lead you outside down to the street. The emergency assembly point is immediately outside. If you require any assistance today please speak to Aaron Morey, who's our staff member on the team at the back of the room. Finally, can I also ask the audience to check their mobile phones are either turned off or switched to silent.

Now I would like to welcome our first participant from the Seafood CRC, and if you could please give your name and the capacity in which you're appearing today.

DR STEPHENS (SCRC): Thank you. I'm Dr Len Stephens and I'm appearing in my capacity as the managing director of the Seafood Cooperative Research Centre.

MR WEICKHARDT: Thank you very much indeed. Over to you and thank you for your submissions before the draft report and for your notes preceding this discussion. If you would like to outline some of the key things you want to cover

then we will progress from there.

DR STEPHENS (SCRC): Thanks very much. I note that you said that you have this document that I sent a few days ago, so if it's okay I might just hit the highlights of those, if that's all right.

MR WEICKHARDT: Yes, assume we have read it.

DR STEPHENS (SCRC): Thank you. I just would like to preface my remarks by saying that one of the reasons I'm here is I have worked on a number of rural R and D corporations over the years and also as a CEO of AWI. I just thought it would be interesting to share with the commission some of the possibly more operational issues that I have some experience with, which may or may not be relevant to the detail of your review.

There are six things I'd like to cover and they're listed there. I'll begin with the first one, support for the overall model. I'm not alone when I say that most people are very pleased, on the commission's observations, about the R and D model. I'd just like to emphasise that one of the things we're particularly pleased about is no suggestion of amalgamating R and D corporations because it's always been my very strong belief that if you do a Porter's five forces on the business of an R and D corporation, one of their fundamental strengths is their uniqueness and their closeness to industry. The closer they get to industry, the more unique that is. If you attempt to amalgamate then you undermine one of their fundamental strengths. So building on it, and with the suggestion of Rural Research Australia, if you like, but building on the model and extending it I think is a good idea.

Can I talk specifically now about the Fisheries R and D Corporation. The Seafood CRC has FRDC as a very important core participant. I'm new to the seafood industry, in that I've worked for the industry for three years, and I do understand that it is quite different to the land based R and D corporations. I accept and agree with the recommendations of the commission in relation to the 0.25 per cent funding for public good staying as it is and keeping the public-good work for FRDC rather than including it in RRA. I think they're all good commonsense decisions. I just thought you might be interested in that observation from a purely independent point of view.

There's one point I would like to make, though, and it's a feature that makes the fisheries industry very difficult to work in and very challenging but also very exciting, and that is the extraordinarily large number of both small and large sectors that are there; all fiercely independent and, especially in the wild-catch fisheries, very, very dependent to a large degree on what government will and will not allow them to do. The big industries are quite capable of looking after themselves but there are many smaller industries which do not have effective national service bodies.

They have associations but it's very difficult for the industry to act corporately at a national level; very difficult for them to arrange services which many of the other land based industries take for granted. I'm talking about PR; I'm talking about crisis response; I'm talking about trade and market access discussions; I'm talking about market intelligence - those sorts of things.

I know various sectors of the industry feel very strongly about whether or not they should or should not pay extra levies, so I strongly support the concept that you have put forward of changing the PIERD Act to allow FRDC to receive levies for marketing and promotion and so on. I think that really gives the industry an opportunity, over the next couple of years, to make that system work for them. My observation is it's needed. I do understand that particularly the big industries have a different view to that and they're big enough to look after themselves, so that's fine if that's the way they want to go.

Can I now move to cooperative research centres, please. I took a lot of guidance from the review of the cooperative research centres that was done about three years ago, soon after this current Labor government was appointed. My take from that, and my discussions with the staff since then, has been that the program has been solidly reinforced by the government and seen as a good thing to do in the whole of its public R and D funding approach. If we accept that as a fact, then I think it's obvious and fundamental, and really important, that a rural R and D corporation or a rural industry works very closely with the CRC program to make sure that the programs work together hand in hand and deliver benefits.

I have listed a couple of points there about how I think rural industries can work with the CRCs and RDCs together and there are just four examples there, and I can use examples from our industry. If a rural industry has some long-term strategic, difficult opportunity to pursue or problem to investigate, where the solution is not inherently obvious, it is going to need a large-scale investment. To me, that's an obvious thing for a CRC to grab, and our perfect example is the southern bluefin tuna breeding program, literally a multi-hundred-million dollar program. You couldn't do that through an RDC very easily, and there are plenty more examples like that.

Similarly - and again I'll use one from our own examples - the fisheries industry has necessarily been very focused on what I call "in-the-water research" for the last 20 years or so. There has not been a lot of activity focused on post-harvest activity and serving the customer. In comparison to other industries, there's a lot of evolution that can occur there. FRDC would have not had the mandate or the funds to get into that area heavily. They do some but nowhere near as much as the CRC has enabled us to do.

There are two examples there which I think are perfect use of the CRC

program by rural industry. Companies like Simplot, Sydney Fish Market, Tasmanian Seafoods and others, who do not have levies collected from them and pay through FRDC and therefore can use the research levy, have in fact been able to join the research community by putting their money into the CRC and then join the fisheries research community through the CRC and have an input and profit from all of that broad work, not just what they're doing in the CRC. That's new commercial money into the industry, is the way I see it.

The last thing - and I know various rural R and D corporations have different approaches to postgraduate training, but in our case we have increased tenfold the number of graduate students working in the industry at the moment. Again, that's because CRCs have different rules. A CRC is required to fund PhD students. There's no option. You are required to do it. So I think that's a good process.

I will move on to Rural Research Australia, if I may. Again, as I say there, it's cautiously supported. The reason for the caution is, as it says in the report, that a lot of work needs to be done on the remit of what that organisation would be. I'd just like to make, if you like, an operational statement from the sort of 10 or so years I was working in R and D corporations. There was always this message around that the R and D corporations don't cooperate and that we're not working as aggressively as we could on some of the larger industry policy issues, be it drought, be it water management, be it energy, greenhouse gas and so on and so forth.

A number of us tried very hard to talk to parliamentarians after they'd made that speech, or talk to secretaries of DAFF and so on and so forth and say, "What do you mean?" because there was hundreds of millions of dollars' worth of collaboration going on, so where was it not good enough? Nonetheless, we realised there was a problem, and it was our job to, if you like, try to articulate it.

I guess I kind of make the cautionary note to say, "Well, if RRA is going to be established, it'd be a shame to just let the rural R and D corporations forget about all that and go and do their thing." There's a real opportunity there for coordination. The coordination really needs to be, I reckon, almost at a CEO level, and I've put an option there to say, "Well, the rural R and D corporations are a very important path to market for rural industries," and, as we learnt in Land and Water Australia, that worked very well if they did the research and then the R and D corporations were part of the delivery to the farmers. If the RDCs are, if you like, committed to that delivery through a consultative and executive commitment, then I think that could work effectively.

The other comment I'd make is that, I guess by virtue of your requirements, you know, you can suggest a kind of a budget-driven mandatory change to this process, so you can say to the rural R and D corporations, and the government can

take up the recommendation to, if you like, remove a particular function and funding from that group of people and put it into a new one. But we know that there are a lot of other activities in energy, greenhouse gas, water and so on and so forth, which still goes on in government, both state and federal, and you've made that point in your report. I just think, as I say, it would be an opportunity lost if that's going to happen; that it doesn't go further.

That takes me to the area of collaboration that you've mentioned in your report, and you've mentioned about a need for the government to have better information about the number and level of R and D projects that are ongoing. I say "hallelujah" to that. I think that's very important, because there have been times when industry and government funds have been acting independently and not communicating with each other and causing problems - embarrassments really. I think of the National Heritage Trust Fund and I think of a number of other projects: Future Farming and those sorts of things.

My point is that sometimes, as a rural R and D executive, when you've talked particularly to government about those programs, you've felt that there was almost a requirement to keep the R and D corporations at arm's length, because they were perceived as biased in some way, representing the industry, and this money over here was meant to deliver a government policy, and there's probably some truth in that. But there are other times when the funding from one program directly flies across the objectives that an R and D corporation is trying to deliver. I could expand on those if you want me to. Yes, there's a need for cooperation and coordination. Let's not confine it to the R and D corporations, let's confine it to a few more other organisations as well, to the extent you can within your mandate.

The last point is about evaluation of rural R and D corporations. I've used the word "anguish" in my notes. I think again over the last 10 or 15 years I have seen increasing levels of anguish about: why don't rural R and D corporations evaluate themselves better? Every time we do it, why isn't it better? It doesn't ever seem to be good enough, you know.

I strongly believe that it's a really good question for governments and industry shareholders to say to their rural R and D corporations, "Well, if you claim to be close to your industry and very good at delivering R and D results, then give us the evidence." I think that's a really good question and I think the R and D corporations should be able to answer that, and I do believe over the last five years we have improved and I think there are improvements to go. I think that's a better question than using endless economic evaluations of rural R and D corporations as a stick to drive change.

Sitting on boards of these companies, I've had occasion to think long and hard

about: why aren't we better at that? I'd just like to emphasise that point that I've made there about inputs. This is quite an operational issue, but it's an operational issue that I think has to be addressed if we're looking for change in this area. So many of our procedures, both in the research organisations themselves and the boards of the organisations, are focused on inputs: where is the money coming from? Who's going to spend it on what? If I can cut to the chase, it's very rare for a CEO or a general manager of a rural R and D corporation to be stood up and really grilled about outputs, whereas they are grilled daily about what they're going to spend on a particular project.

I ask myself: why is that the case? Why doesn't that happen? Because the people on boards and in industry associations and so on are very good at running their own business and grilling their staff to achieve outputs and so on and so forth. My view is, it's actually just difficult. It's a technique that needs to be learnt. You can't just absorb it by osmosis, in a sense. Hence, my recommendation that there's some level of learning that needs to go on in that for a generation of people involved in managing R and D in Australia. I mean, I think it's that fundamental.

So I put three what I think are really important questions there, and they go to the role of accountability, which I think is part of what you're asking in your report: who's accountable and where? I think they're very important questions.

How should we measure R and D outputs and outcomes? Who's accountable? What's their name, address and telephone number? What are the mechanisms that we use to hold them accountable? I don't know what your observation is. Mine, however, is that when I read all of the strategic plans that come out, the annual operational plans that come out, that are submitted to the minister each year - very long, very verbose, enormously strong on policies and principles and so on - if you look for a table that says, "Here are the 25 quantitative objective things we are going to do and here's the measure we're going to use," they're not as frequent as I would like them to appear, that I would like to see in R and D corporation reports.

As a consequence, if you have those, that makes your reporting easier. So at the bottom of page 3 I've got a few suggestions. I do think the whole process of evaluation needs to be simplified. It is, I think, in danger of being regarded as a specialist activity all of its own, which happens aside from and in isolation of program managers and yet it is really a fundamental tool of a program manager to invest in funds and monitor it and see how it's going. If that's removed to an external source of economic consultants, you lose a lot from it. I think I've probably made my points there.

I'll just reiterate the point that I do think it would be valuable for an educational institution to be given a kind of 10-year mandate to develop some courses in that area

and deliver them in a way which will attract people in industry to attend those courses. The goal in this whole process of evaluation from my perspective is this: I don't very often see the answer to this question and if I take Fisheries R and D or Dairy Australia, two companies that I'm directly involved in, if we're able to say, "Well, this corporation, in consultation with this industry, agreed on these 25 things that we are going to do and these things are known to affect our profitability or our social capital or our environmental sustainability and we can measure them and we are going to improve them by this much in three years' time," and then you come back in three years' time and say, "We did 10 per cent of them," or 25 per cent of them or 50 per cent of them or whatever it might be. Those numbers are fairly rare if you scan all the various reports that we've got.

That leads me on to non-performing RDCs. I think it's one of the points you've asked for information or suggestions on in your report. I do note AWI and I do note that there is some angst about the performance of AWI and, since I was CEO of AWI for nearly four years, I thought I might offer you the opportunity to ask me any questions, if you have any questions about it particularly. I did pick up the report, thinking that I would find a whole lot of incisive comments about AWI in there and I have to say that it was a little bit disappointing that there appears to be an observation that there's disquiet but, as I say, apart from the fact that there were problems with transparency of board appointments and consultation, I think the fundamental problem is still not really well articulated.

We know it's a problem for the minister, we know it's a problem for people in the community, but I think we need to work harder to define what it is that goes wrong when rural R and D corporations go wrong. I've listed four points there that I think would be one way to categorise problems with RDCs, and the first point I make is about company law. I'm not aware that ASIC is needed to take any action in relation to rural R and D corporations in relation to company law, defaults. That is one level of community satisfaction, if you like, that there are no HIHs there.

Poor management, conflicts of interest and inappropriate governance: they are going to be present in any organisation. My view always has been that it's a bit like, you know, we live in a democracy and shareholders get the management that they deserve and the shareholders have an enormous amount of power, especially at annual general - - -

MR WEICKHARDT: Len, can I stop you there. I'm interested in what you've got to say but we've got about seven minutes left.

DR STEPHENS (SCRC): Sorry, yes. Thank you very much. And you've got the points.

MR WEICKHARDT: I suspect that my associate has questions. I certainly do.

DR SAMSON: Thanks for that, Len, and for the notes. Given we've only got a little bit of time, if I can jump to something else that you haven't covered. One of the things that we're interested in is that we talk to people at the coalface of a whole range of industries, and we're trying to get our heads around the value of the incentive structure of the government matching funds. As you will know from our report, we're proposing that for most of the RDCs over time the government reduce its matching contribution. Not surprisingly, some people have said, "Well, if the government reduces its contribution, you'll find that levy payers will vote to reduce the levy." Equally, we're interested in: if the government were to increase its matching contribution, does the logic say levy payers will vote to increase their levy? It's a judgment thing. Nobody knows exactly what will happen until it happens, but given your extensive experience with a whole range of industries, do you have any thoughts on that relationship: the behaviour that the government matching levy imposes?

DR STEPHENS (SCRC): The only comment I'd have is that every industry is different. I've worked in industry where the industries would quite cheerfully say, "If industry withdraws its funds, well, we think this is so important we're going to continue anyway and we'll work on the government to get the funds back." I know there are industries, depending on the circumstance, if the government offered more, they would certainly offer more. It's a difficult thing to apply generally to all of the RDCs and I'm sure if something like that is applied across the board that each industry will respond differently. I don't know how that helps you make your decision but to me that's the factor, I would say.

DR SAMSON: Thank you.

MR WEICKHARDT: Len, I'm interested in your comments about the balance between an industry-specific RDC, which you've said some in government have at times seen as too close to industry or captured by industry and therefore not to be trusted with some extra pool of resources that might have a broader aspect and yet, as you've noted, the application of whatever research is done by an organisation like RRA is critical and therefore some engagement by industry is critical. You've suggested this advisory body that might have the industry-specific RDCs sort of engaged with an organisation like RRA. Some people have suggested a board membership by the council of chairs or something of that sort might be useful.

DR STEPHENS (SCRC): Yes.

MR WEICKHARDT: How do you think, apart from that involvement in an advisory committee, one can best get the balance right between an RRA not being

captured by the industry-specific RDCs and therefore everything reverting back to close-to-farm, on-farm immediate priorities versus, "We don't want this to be a CSIRO where maybe good work is done but there's a sort of detachment and lack of adoption"? Have you got any suggestions about how to get that balance right?

DR STEPHENS (SCRC): I believe that one way to do that is for the government to mandate proportions of funds that can be spent in particular areas. That might sound a bit paternalistic but I think initially that would be one way to go. I have the same view. You have a question there about the split between marketing and R and D levies, and my view has always been that that split ought to be difficult to change - at least require some sort of government involvement - and, similarly, with RRA. If it's the government's intention that those funds be spent on longer-term, strategic, difficult questions that are of importance to the national community, then I think that should be mandated and the funds linked to that. Whether it's 75 per cent or 50 per cent, that's a thing to be decided.

I do also think that all of the industries I've worked in, the leaders care passionately about issues like the environment and so on and so forth, so that I think linking them into the mandate, having that broad connection, having the connections so that people realise, "This body's role is different to my other role," that it does have a national collective role. As I said earlier, at the CEO level, I think that's really important, particularly in its formative years and - I'll go back to it - objective, quantitative performance targets that people are accountable for and reported against.

MR WEICKHARDT: I sympathise with a lot of your comments about evaluation and certainly, whilst we were intent to try to commend ongoing work on economic evaluation, that's not the only form of evaluation that we wanted the RDCs to go through. In fact, we were trying to steal some ideas from the CRC evaluation program. It's a tough one because the outcomes of the research, as many people have pointed out to us, are sometimes not experienced for five years, 10 years, 15 years; and so, at any one point in time, holding people accountable for what might happen in 10 or 15 years' time is tough. But I totally agree with you that improving this area is critical to get better bang for the buck and more efficiency and effectiveness.

DR STEPHENS (SCRC): On that last question, we're all aware of horizons and every board and every industry association I've ever talked to are always happy with 20 per cent on blue-sky stuff. But they want to know what's going to happen next year as well to profitability; and you can split the portfolio.

MR WEICKHARDT: Just lastly, you made a comment on AWI. AWI appeared at the Hobart hearings and I wanted to stress to them this was not an inquiry about AWI. Our terms of reference were to look at the RDC model. But the reason we commented on AWI is that we received feedback from multiple directions that the

performance, or perception of performance, of AWI was having a negative impact on confidence about the model itself. I guess our analysis was, AWI's travails were mainly due to, if you like, execution and implementation issues rather than displaying a failure of strength in the model. Would you agree with that?

DR STEPHENS (SCRC): Yes, I'd agree with that, absolutely.

MR WEICKHARDT: Okay. Thank you very much indeed. I'm afraid we're out of time now.

MR WEICKHARDT: We'll move to the Australian Southern Bluefin Tuna Industry Association. Welcome. If you could give your name and the capacity in which you're appearing, please.

MR JEFFRIES (ASBTIA): Brian Jeffries, the CEO of the Australian Southern Bluefin Tuna Industry Association.

MR WEICKHARDT: Thank you. Over to you. You might give us a brief summation of what you want to say, please.

MR JEFFRIES (ASBTIA): The structure of our submission, commissioner, is simply to outline who we are, what type of industry it is, why it is research-driven and then to go on to some of the recommendations that have been made by the commission draft report. We generally agree with the approach to FRDC but there's a range of issues on which the commission has asked for advice or has made recommendations.

Just on, first of all, who we are and the first part of the submission, four points: first of all, we obviously have a high opinion of the RDC model, particularly FRDC. Over a long period it's proved to be a very competent, effective organisation, independent of what one may think of the RDC model. In fact, it's a good return on capital for the country and for the industries who contribute to it, in our view. The point that the commission makes there, which I think helps us, is what the commission refers to as "systems integrators and brokers". FRDC has proved to be remarkably adept at that, so it's not just leveraging in their case the actual taxpayer-matching dollars. It's really raising a whole range of funds elsewhere from other pots of money, international and national - ARC funds is one good example.

The second point, just as an introduction: southern bluefin is an extremely unstable industry. It's subject to very strict government regulation. It's an international fishery subject more to government trade policy rather than government conservation policy, I might say, and government whim; but that's something that you have to take into account in terms of what business decisions you make. But the point arising from that: despite this instability, we do choose to contribute the full dollar, everything we can, to FRDC. Just commenting on a little point that Len made and the commission raised, we would be very pleased to contribute more to FRDC if we could, if it was indeed allowed.

The third point is just that southern bluefin farming is a very young industry. The global technology was developed in Port Lincoln only in 1991 and modern tuna farming has only existed since 1998, so you can imagine, compared with most rural industries thousands of years old, et cetera, that this is a very young industry and the global technology is still being developed in Port Lincoln itself and needs research.

There's no way we could operate without very substantial research.

The last point is that, even despite those issues, we do have instances of market failure in terms of the levy contribution. The major part of the contribution in our case is voluntary. It's through the state mechanisms and it requires a lot of hard work to persuade everybody to contribute. There is clearly in every industry a free-rider mentality; not in this industry as much as most others, I would say, but it's still there and the statutory levy is an important part of maintaining the effort and the contribution.

The recommendations in the draft report, the point about whether the current model has led to improvements in productivity and competitiveness, yes, it has. In our case, the benefits are obvious. As a result of the original FRDC project in 1991 with the Japanese government and with ourselves, we have a global technology which Australia has not only pioneered but of which it is the leader.

The second thing is coincidentally that our whole management system on southern bluefin is a product of an original Productivity Commission - or what it was called then - report on individual transferable quotas, et cetera. The third point I just want to make there is the point that the commission well discusses in the report about the social and environmental benefits rather than just purely the business benefits; tuna farming is now the largest value-added industry on the whole of Eyre Peninsula. There are obviously social and environmental - and spin-off business investment which has followed from that and again, the root of that was a FRDC project in 1991 to develop the technology.

The second point on those general issues: the commission comments on what some submitters to the inquiry have looked at as alternative models; that is, to use the RDC contributions to further fund CSIRO and universities. In our experience, that would not be a wise decision. CSIRO in our case are an international centre of excellence but need to be very accountable for raising leveraging funds themselves and are already, as you know, funded to a very high level by the government itself.

The second example given there of universities: we have limited regard for the actual research skills coming out of university, even though we use them extensively. One of the reasons for that is that this mix of priorities that they inevitably have in terms of their responsibility to doctorates and post-docs and things like that, sometimes - often, I should say, rather than sometimes - complicates their research effort. So even though we get some very good research out of it, I'm not quite sure it would be anywhere as good an investment for the country as the RDC model.

We support the idea of Rural Research Australia to invest in the cross-industry issues. The only problem we see is - and we see it very clearly today in the research

and outcomes of climate change studies - we've been dealing with this issue with very large government funding now for seven or eight years, yet we really don't have, to my knowledge, a localised effect study in which a local industry or group of industries or local government can contribute towards a micro-mitigation policy. You can see this best in fisheries. We're just hanging out, so to speak, for a study of Spencer Gulf, the Great Australian Bight, simply to say that this is the problem down at that level, and this is what the mitigation strategy may be. The problem would be, with RRA, if the studies were simply left at the macro level rather than the effective localised level.

The guiding principles which the commission has outlined are eminently sensible. That's the first time I've seen that type of list for the RDC model and it's very worthwhile. The question that the commission constantly raises in the report, rightly so and was raised with Len, is the question of whether the government contribution has led to incremental funding. I can only speak for fisheries in general and there's no doubt that that's the case. There's no doubt, speaking particularly for our industry, that we would not have put in the extra dollars ourselves if there had not been a leverage there.

The leverage is not always as localised to the businesses that the commission may imagine. A lot of those problems - FRDC, for example - are not just the 0.5 public-good component but also the 0.025 industry component matching. That is not always directly related to a short-term return on investment for the industry. You can see clearly from the list of projects that it's often related to longer-term projects or with longer-term outcomes.

On the other specific recommendations in the draft report: 8.2, that the formal ministerial involvement in priority setting and approving FRDC's plans should remain; we totally agree. The government is putting in a lot of money. The minister, at the end of the day, is the one accountable to the parliament and the people so he or she should have every right to monitor and, to some extent, guide.

8.3, the very vexed question of marketing levies as far as the seafood industry is concerned; we are not a supporter of an RDC, particularly in this case FRDC, entering that arena. We have no objection to it being tested. We have no right to object to it being tested with other industries but, in terms of our industry, and I know a range of others, we certainly wouldn't vote for it. It would have to be a voluntary decision by that individual industry and that's the case now. People are free to contribute that money to FRDC and elsewhere.

Why? We just don't think it's a core skill of RDCs. I don't know if you're going to comment on the performance of RDCs where they do have that role but one questions - the commission, I thought, might have gone into more detail about

whether it had a view as to whether that money had been well spent, et cetera. The difference, as Len said, is that seafood is such a diverse industry. Imports themselves are 80 per cent of the volume of domestic consumption and 50 per cent of the total value of domestic consumption. The actual clutter that you would get in terms of promotion would be very, very difficult. We have our own promotion program. We don't regard ourselves as a big industry but that program works very well. It has substantial EMDG support, which is already a major government assistance program.

The question of constant debate within the industry, spending needless time debating whether there had been cross-subsidisation between sectors, I think would be just counterproductive, but at the end of the day it's not our right to question whether it should be tested with other sectors within the seafood industry. That's their right.

Draft recommendation 8.4 to grant an option for an RDC to appoint a director, basically from the Commonwealth government; we strongly support this issue. We were very disappointed in the outcome of Uhrig and the subsequent application to, for example, the Australian Fisheries Management Authority Board. The loss of the government director there was a - if I could quantify it, I would, but probably took the efficiency of the board and its relationship with government a long way backwards. I could see where that would be the case with RDCs as much as it is with a statutory authority. I think the government should revisit that whole thing and I think the way the commission has put it here, that that would be up to the particular board, is the right way to do it.

8.5, require of all RDCs "a regular, transparent and comprehensive program-wide evaluation process"; absolutely. I think the whole evaluation process is currently diverse between RDCs and other related organisations that we really need some more common approach to it and it needs to happen.

The questions of 8.5, 8.6 and 8.7, the reporting functions, you might say: we do see a real risk there that they become too regular, with over-expenditure within the reporting structure rather than on the research itself, although we agree certainly with the level of accountability. What we have suggested, for example, is that the DAFF annual reporting be two years rather than one year and the significant scale external evaluation be four years rather than the three. We do have a real concern about overreporting, et cetera. I think it's really up to DAFF and the minister in the cases, particularly the industry-specific ones, to exert more leverage on the board make-up and therefore more governance, et cetera, rather than necessarily more reporting.

Draft recommendations 9.2 and 9.3 make a lot of sense. The only issue with 9.1 is the PC's request for whether an RDC should be allowed to vary the allocation

of funds between R and D and marketing without seeking the approval of levy payers. We would be concerned at that. We wouldn't vote for FRDC being involved in marketing. That would need to be very accountable.

One of the reasons FRDC is so strong and popular, for want of a better word, is that it really is very accountable to each section, even though we mightn't necessarily - and we certainly don't - get the full one-for-one leverage, certainly on the Commonwealth fishing side. FRDC still annually explain - we have a debate with FRDC about why that didn't happen. Were the projects good enough? That's most often the actual explanation. So there is a very strong accountability and governance and relationship with individual sectors and that's why people continue to contribute so heavily.

Other issues: the PC has raised the issue of whether industry representation should be an allowable function of an RDC. There is a view in some parts of the seafood industry that, yes, that should be the case. We don't think so. Again, we think that compromises the role and the core skills of FRDC in this case. It's not their skill and really would lead, I think, to debates which would lead to compromises on what people were prepared to contribute.

Point 2 there on other issues - and this is the only area that I think the PC might revisit - the PC rejects the concept of levying processes, largely based on submissions which said that the cost of the process - a levy would inevitably be passed back to the rural producer. We disagree with the logic. The issue with extra levies from processors, for example, is to increase the size of the pot. If it didn't do that, then the levy would be a waste of time in the first place. We feel that most processors may be willing to actually contribute, and that would increase the size of the industry and the revenue of the industry, and the return on the levy would be through that rather than a lower return to the producer itself. Thank you.

MR WEICKHARDT: Thank you.

DR SAMSON: Thank you very much, Brian. Everybody alludes to the fact that the seafood industry, the fishing industry, is different from any others in the sense that it's made up of lots of different-sized players, and the levy process and the way the FRDC goes about funding its program is quite complex compared to other industries - single-commodity industries. If you were in charge of the whole system, is there anything you would do to simplify the whole levy collection process within your industry, which is really lots of different industries?

MR JEFFRIES (ASBTIA): Let alone abolishing the states, no. It's very difficult. For example, the majority of our levy is, as I said, contributed voluntarily through a state piece of paper so to speak, associated with a state grow-out licence. The only

way you could do it would be to put that totally in the hands of the - be it FRDC or DAFF levies collection area, or whatever it may be. Despite the complexity, which is really due mostly to the interaction between the state and Commonwealth, the system works reasonably well.

DR SAMSON: It struck me - I think the FRDC were possibly the first RDC I talked to when I came on board this exercise and, listening to Patrick - explained the process by which they garner money. It did seem to be, compared to the other RDCs, that a disproportionately large amount of FRDC's time is spent actually getting hold of money. We could see benefits, because it seems to be a system in part where they have to go out to you, to your industry, and say, "Look, we're thinking of doing this," and persuade you to make a contribution. Do you see that as a good way?

MR JEFFRIES (ASBTIA): Well, we're strongly in favour of compulsory levies and we've persuaded the South Australian government to amend the act here, so as from, we hope, April next year the state based part of the levy will be compulsory. The Commonwealth levy is already compulsory. That would be the way to rationalise it, commissioner. But we don't see - FRDC may think they've got a problem, but we only see half an FTE at the senior level and then three-quarters of an FTE at the junior level.

DR SAMSON: They weren't saying it was a problem. They were just, in a very neutral way, explaining how they go about their business.

MR JEFFRIES (ASBTIA): Yes.

DR SAMSON: It seemed to me, compared to other RDCs that just sit back and the money arrives - - -

MR JEFFRIES (ASBTIA): I noticed that, yes.

DR SAMSON: There's a bit of a high transaction cost, if you like, in terms of the FRDC's time.

MR WEICKHARDT: That's the downside, but the upside is maybe happier levy payers because they're constantly hearing, "This is why you should give more," or, "This is what we did with your money last year."

MR JEFFRIES (ASBTIA): Yes.

MR WEICKHARDT: It cuts both ways, I guess.

MR JEFFRIES (ASBTIA): I might say, even I notice the actual wealthier ones that do have the money rolling in - and the GRDC is one - actually take a very regional approach, commissioner. They go very often, I notice, to the regions; I see them at airports. I think people are very sensitive to that issue.

MR WEICKHARDT: Can I just expand a little bit on this issue of the FRDC model and, to a degree, it also relates to the CRC model. Some have put it to us - and this is sort of an extreme view but I'd be interested in how you react to this - that there are people who react very warmly to the CRC model and the RDC model but that their warm and fuzzy feelings about it are totally associated with the fact that the government chips money into it. People have said, "Look, the hassle of running a CRC and getting cooperation between all these disparate bodies" - or indeed in an RDC, the same thing of handling the disparate views of different regions, subindustry sectors or whatever - that that hassle factor is only counteracted by the government applying some lubrication that makes the hassle, if you like, bearable.

In the absence of any government money, do you think in your industry the CRC or the RDC would exist? Would industry have voluntarily said, "Well, we should cooperate on these things?" or would people retreat and say, "I'll simply do my own R and D and try and capture the benefits myself?"

MR JEFFRIES (ASBTIA): Because of that diversity within the fishing industry, I don't think there's that many synergies between industries, but in our case we would commission, as we do - we often commission CSIRO separately from FRDC or a CRC. We very often commission universities - UTas, University of Tasmania. We currently have a large program with - - -

MR WEICKHARDT: This is directly?

MR JEFFRIES (ASBTIA): Yes.

MR WEICKHARDT: And you claim the R and D tax concession for that?

MR JEFFRIES (ASBTIA): Often it's not of great value. That's no incentive in our view.

MR WEICKHARDT: Okay.

MR JEFFRIES (ASBTIA): The issue we look very closely at is, the success of research depends on the quality of the people, and we could not internally within our industry create that kind of expertise structure. For example, the most common problem with finfish culture is parasites. That's very detailed technical expertise, so we in fact commission the University of Queensland and the Queensland Museum -

that's partly funded through FRDC - to do those jobs. There's no way we could do it, but there's no way you could run our business without parasitologists' expertise, so you would have to do it, commissioner. You would have to go outside anyway.

DR SAMSON: What criteria do you apply to decide whether you're going to seek to fund a piece of research through the FRDC as opposed to commission it yourself directly with a research institution?

MR JEFFRIES (ASBTIA): It's often the subject itself. FRDC will not fund, for example, stock assessment monitoring projects. Sometimes you can dress them up as innovative and pioneering and, yes, you get it underneath the chicken wire, but - - -

MR WEICKHARDT: They won't support them because they don't think the government would match the dollars for those? It falls outside the definition? I'm now asking a question. It falls outside the definition of an allowable piece of research?

MR JEFFRIES (ASBTIA): The limited correspondence that we've seen between ministers and FRDC does imply that, at least. The problem for fishing particularly is that the movement to individual transferable quotas means more monitoring at the margin of the resource. If you want to set your total allowable catch right at the margin of the sustainability of the resource, that means a huge leap in what we call stock assessment monitoring, so there is a real risk, particularly at the Commonwealth fishery level, that people will balk at contributing to FRDC if they had a choice - because it's compulsory - just because an increasing share of that money is needed for stock assessment. That's a cost to individual transferable quotas. There are benefits to it as well.

But, to get back to the core point, we invest in people and expertise. There's no way you can have a critical mass of your own expertise. You have to go outside, so you would have to do it. But definitely we wouldn't do as much without that government - and it's not a government dollar in our case; it's about a half a government dollar that you get at the end of the day. FRDC are quite - that's what I'm saying: they're very competent and efficient. The actual internal administrative charge is 8 per cent, which I regard as very low.

Also, it's often as simple as buying the expertise from within the Commonwealth government. I mean, this is where people underrate governments. There is a lot of imaginative thinking in governments. If we have a problem with the Japanese market, we often go to a public servant and say, "Well, this is our problem. What would you do?" That's bludging off the system, I guess, and FRDC are exactly the same.

MR WEICKHARDT: Utilising your taxes. I'd put it that way.

MR JEFFRIES (ASBTIA): Thank you, sir. But it's about people, and the people exist outside our system. You've got to contract them either through FRDC or not. On stock assessment, we pay often directly to the research institution, not FRDC.

MR WEICKHARDT: All right. Thank you very much indeed for your input. I much appreciate it.

MR JEFFRIES (ASBTIA): Thank you.

MR WEICKHARDT: I have to say I regret that you export 99 per cent of your product. I'd prefer to consume a bit more of it here.

MR JEFFRIES (ASBTIA): Yes. If the dollar gets much stronger, that might be the case.

DR SAMSON: You wouldn't be able to afford it, Phil.

MR WEICKHARDT: Our next participant is the Low Rainfall Collaboration Project. If you could give your name and the capacity in which you're appearing today, please.

DR WILHELM (LRCP): Certainly. It's Dr Nigel Wilhelm. I'm representing the Low Rainfall Collaboration Project. This is an umbrella project which GRDC funds to support five low-rainfall farming systems groups across south-eastern Australia. So it's an attempt by GRDC to evaluate those activities, which are quite geographically separated but have a lot of common issues and pressures. There are two people that work on that project: myself, as a scientific consultant, and a communications consultant, Geoff Thomas, who you'll be meeting in a later capacity in the day.

What I was hoping to do was quickly sketch out the background to that, especially given that we're shifting from fish to dryland agriculture and the very fringes of dryland agriculture, and my particular role, and then I have half a dozen points I'd like to make which are in response to your draft report rather than reinforcing our submission that was made at the beginning of the process. If that's acceptable, I'll continue along those guidelines.

MR WEICKHARDT: Absolutely.

DR WILHELM (LRCP): As I mentioned, the Low Rainfall Collaboration Project supports these farming systems groups. These are farmer-led groups. They are mostly now incorporated bodies. They are self-help organisations, essentially, who recognise that their businesses, to move forward, needed a lot of help and support in their local region, with activities that were specific to their local pressures.

Most of them started under their own initiative and have become incorporated bodies. They have farmer-led management boards to identify the issues which are of highest priority in their region in trying to attract activities to address those issues and help their businesses and communities move forward. Some, it's true to say, have also been initiated by GRDC, because GRDC sees the farming systems groups as an important vehicle for accelerating the uptake of research outcomes, especially in recent times with the withdrawal of state resources from that role, which has typically been the case historically.

There are now five of these, which run in an arc from the very western fringe of agriculture in South Australia right through the marginal areas of South Australia, Victoria and New South Wales. The New South Wales group occupies a big slab of country between the pastoral leases and the relatively lush plains, at last, of the mid slopes of eastern New South Wales.

My role in the project is to provide research and science support to those groups, characteristically staffed by very young and enthusiastic people, which is typically the sort of staff that you attract to these very remote areas, quite dislocated from science and R and D and government resources in general. So they are very enthusiastic. The farmers are very committed but often don't have the expertise or the resources to actually address the issues they recognise in their areas. They know what the problem is, but often don't know how to address it and how to attract the resources to address it. So I serve a role in that.

I've been an employee of the state government in South Australia for 20-odd years in an agricultural research capacity. It's in my role in that collaboration project that I'm representing the commission today, not as an employee of SARDI, the research arm of the state government of South Australia.

The points I'd like to make to the commission in response to your draft report are, firstly, that we certainly support the general recommendation that there are a lot of strengths in the RDC model. With these farming systems groups, a major source of income support and resources comes from GRDC and, in general, their relationship with GRDC seems to be very sound and there is very good communication between the two, so their experience has been that the model works reasonably well in their circumstance.

They certainly recognise, though, that RDCs along commodity lines do have weaknesses. 90-odd per cent of the farm businesses in these regions have multi-enterprise businesses, so obviously there are RIRDCs which apply to each of those enterprises, and the communication between those is not particularly good. So the farm businesses have to address different commodities but there isn't an overarching RIRDC, I suppose, which addresses those as an interactive process, which is what the farmers are doing all the time.

I think it's also fair to say that GRDC has certainly led the field in trying to address those between-commodity issues or the integration of those commodities at a commercial farm, and two prime examples of those in recent times are the Grain and Graze project, which was a deliberate partnership between GRDC and some of the livestock groups - and GRDC certainly has led the charge in trying to keep that partnership going into a second phase of funding - and Pastures Australia, which also recognises the very multipurpose role of pastures in a crop and livestock enterprise. So they are two initiatives where we recognise GRDC has attempted to cross those commodity-driven lines.

We would like to point out that, in reading the draft report, our interpretation of the report is that because there are a lot of private benefits accrued from agricultural R and D, the government should be in that space. We would argue that that shouldn't

be the case for agriculture and we defend that position along three lines, I suppose. We're certainly not arguing that private benefit doesn't accumulate. We recognise that and we think that's a strength of the model, not a weakness, because we believe that agriculture is a different sector of the community along three lines. One, it produces food. That's something that agriculture hasn't got through to the general community very well, but that makes it distinctly different to other sectors of the community. It produces the stuff that humans and animals need to survive.

The second point is that farmers manage about 50 per cent of the landscape of our continent and nearly 90 per cent of the natural resource management activities that are conducted are done so by farmers. So they are stewards of most of the continent of Australia and, in that role, their activities have both public good and public threats, depending on how they operate their businesses. So we think that makes the sector distinctly different, in that a lot of the private benefits that farmers accrue will also flow on, both directly and indirectly, into the public-good impacts due to their management of large tracts of our environment.

Thirdly, agriculture is very often the dominant industry in a lot of those rural districts, so the health of those communities largely depends on the health of the agricultural sector. So there are those indirect flows of public good in supporting and progressing the rural communities that exist in those areas where agriculture is the dominant industry.

For those reasons, we believe that the economic model that says if there are private benefits being accumulated from R and D, then the government should be in that space - we think agriculture is an exception to that model.

Another reading we've made of the draft report is the expectation that if the government were to withdraw increasingly from the agriculture RD and E space - particularly the E space, I guess, is what we're seeing most strongly in recent times - the private sector will fill the space as the government retreats. We don't believe that will happen to the extent of completely replacing the government resources. We've seen a very good case study of that. We believe, certainly in South Australia where the state government has been withdrawing a lot of resources from extension in the agricultural sector over the last probably 20 years, to a degree the private sector has responded to that vacuum and replaced it. The number of commercial advisers and consultants in South Australia has increased dramatically over that period, such that in the beginning of that period there were something like 10 per cent of farmers who had commercial advisers that operated with their business. That figure is now closer to 50 per cent. Our point is that there are still 50 per cent that don't.

The advisers that we have still can't service the demand that the agricultural sector has for informed and professional advice about the latest technologies and

integration of those technologies. We think this is of particular concern in the R and D fields. We do see some private sector activities taking up the challenge of agricultural R and D, particularly in rural areas, but what we see is them addressing very much the reactive issues and short-term issues; so the pressures that the farmers see in their businesses over the next year or two. It's what we call rates-and-dates research. It's testing the latest varieties, the latest chemicals, finetuning the technology that already exists.

What they don't address are the longer-term issues and pressures that agriculture is facing and we don't expect they ever will. So we think there will always be a role for government to address those issues which are on the edge of our horizon and are looming large but obviously don't impinge on the daily activities of farm businesses at the moment. Three of those I would like to cite are climate change - we don't see the private sector ever addressing climate change as an issue for agriculture. Increasing energy costs is going to have a big impact on our highly mechanised agricultural systems. We also believe that we're very much at the end of the honeymoon period with agrichemicals, in that we've enjoyed the benefits of their use, their relative cheapness, and we're now starting to wear the weaknesses of those systems with resistance in weeds and pests and diseases. So we need to be a lot smarter about managing those chemicals into the future. We don't see the private sector taking up those challenges.

There are two more points I'd like to make. One of the features of the government support or sharing of the RIRDC income stream is providing some stability to the income stream. I guess that has become quite pertinent in the last decade or so, certainly where the grains industry has taken a substantial hammering with one of the worst droughts on record, and that certainly has caused a lot of angst within the R and D sector of not only commissioning new research but also maintaining the existing resources in terms of both people and infrastructure during that very lean period. Certainly the government contribution has helped ease some of that pain because it's not so matched to seasonal conditions as levies are, even though it is still related. So we think that's a very important feature, to try and take some of that seasonal impact out, of trying to maintain an RD and E community against those sort of fluctuating pressures.

The last point I'd like to make is that one of the issues we see at the moment at the very marginal areas - and it's right through the industry - is succession planning for the RD and E industry. Agriculture is very much living off the findings and the people who have been working for the last 20 to 30 years. We will approach the end of that knowledge base soon, but what we don't see is those people being replaced. So, while we think agriculture can benefit from the knowledge that exists within the RD and E community and can be adopted over the next 10 to 20 years, at the end of that phase we're very concerned that there will be a new knowledge base that can

move the agriculture forward, past that 10 to 20-year horizon. We know there are some big challenges in that time frame beyond the next 10 to 20 years.

We think we're in a period where there's an increased need for RD and E support to keep agriculture viable, sustainable and protect the environment of the Australian continent moving into the future; so not a time for those resources to be diminished. We think it's a very good investment for the government to support those industries because of the public-good nature of good and sound stewardship of the landscape through agribusinesses.

We certainly support the government appointments on the board. We see that as a very positive step to improve communication between the policy-makers and industry to make sure that things are focused on the real issues that agriculture faces, and we also recognise that there is a dearth of sound evaluation of the impacts of agricultural RD and E across the continent, but also recognise that it's not the economic impact that's in most short supply; it's actually trying to capture those direct and indirect flows of public-good issues which accrue from R and D and hence agricultural activities. It's trying to capture that and the social impact of viable rural communities which we think is very important, very much a feature of agriculture and RD and E activities, but is very difficult to capture in the evaluation process. But we do believe it's possible and efforts should be made to improve, fully understanding the complete impacts of advances in technology and farm practices.

MR WEICKHARDT: Thank you.

DR SAMSON: Thanks, Nigel. Nigel, you talked about in the face of the apparent withdrawal, particularly from state governments, of the extension work.

DR WILHELM (LRCP): Yes.

DR SAMSON: There has been a sprouting of private consultants to fill that space and, in your view, that inevitably leads to a focus on more short-term immediate production based work at the expense perhaps of some of these larger-scale, longer-term blue-sky issues.

DR WILHELM (LRCP): I think it's just not a space they will ever go to.

DR SAMSON: Okay. Those issues and the examples you gave, I think, were climate change, increasing energy costs and perhaps hit the wall with agrichemicals. All of those things are cross-sectoral, cross-commodity.

DR WILHELM (LRCP): Correct.

DR SAMSON: And therefore perhaps in our view would be ideal issues to be picked up by this new entity that we're proposing in our draft report, Rural Research Australia. Do you have any views on the appropriateness, the efficacy, of the RRA concept?

DR WILHELM (LRCP): Certainly in the feedback I got from the groups, in many ways it seemed an LWA arising from the ashes. We certainly saw LWA largely fulfilling that role when it existed, just trying to fill those gaps and looking at more of the NRM-type issues that related to primary industries and NRM per se. Our impression was always that with LWA it had good intentions but very few resources to do much about it, and was very much trying to broker with the other industry-focused RIRDCs to actually make things happen.

Most of the feedback from the groups is that they still think it would be more effective if those cross-sectoral things or the NRM things were embedded in the commodity-focused RIRDCs, mostly because they are the people they see most often, I think, and they are most familiar with and comfortable with. I think it also harks back to the strength: their belief in the fact that private benefits accrue from R and D is a strength. If people have a vested interest in doing something, then it's more likely to happen and will happen faster and better if there's personal gain at the same time. So I think they are more industry aligned.

DR SAMSON: I understand that. Perhaps from your perspective, as somebody who sits with a sort of helicopter view of the system perhaps more than a producer, do you - one of our contentions is that 22 years of experience with the model would indicate that the degree of voluntary cooperation and collaboration amongst the 15 current RDCs is less than optimal.

DR WILHELM (LRCP): I don't think we would argue with that.

DR SAMSON: Therefore, the time may have come that we try something else that is less reliant on voluntary collaboration of the commodity based bodies. So that's what we're trying to achieve, largely based on a lot of feedback from people who say that in the last 22 years it has not really been a feature of the commodity based model.

DR WILHELM (LRCP): It certainly has - taking that helicopter view and combining it with a coalface - I mean this issue of 90 per cent of the farm businesses run livestock and grain, and relationships are very poor between those RIRDCs, has been a constant source of irritation to those farm operators. So certainly there are opportunities there to improve that situation. My view from that Low Rainfall Collaboration Project aspect, I think there are opportunities to do it that way, to create the RRA-type structure, but I would caution with: the devil is always in the

detail. It's how that would operate that would determine its success or failure.

DR SAMSON: Sure.

MR WEICKHARDT: It's a nice dilemma and a balancing act that we're sort of seeking to find here. It was our impression, when we were consulting during the period before the draft report, that perhaps particularly with the industry-owned corporations where boards are elected directly by levy payers, that those RDCs were very conscious of the immediate demands of their levy payers and perhaps less prepared to look at bigger pictures and collaborative type of projects. The fact that you say LWA had good intentions but limited resources is an interesting comment because the fact that some of this work - as you pointed usefully - does have private benefits would suggest that self-interest should have motivated people being prepared to put more resource into LWA.

We gained the impression that the LWA model was a nice model, which is why we've sort of built on it in the RRA suggestion, but you'll note in the draft recommendation we've specifically said that LWA should have more of its own resources and be less susceptible to having to beg for resources and cooperation. On the other hand, we don't want RRA to be in a situation where it's in an ivory tower and doesn't collaborate. So we're seeking to try to find the best balance but, as Cliff said, our recommendation was born from the observation that lots of people said to us, "Look, despite admonition, encouragement by the sector, by researchers, by government to do more of this cross-sector work, there does seem to have been a real gap."

DR WILHELM (LRCP): My impression of LWA is it always suffered an image problem because it didn't have an industry that supported or aligned with it, so it didn't have a champion per se to sort of support or promote its case. The industry-led RIRDCs have got a diverse and often vocal shareholder base, so they have to try and balance their portfolios, but the upside of that is they do have an industry that's there championing their cause and is committed to it because their real dollars are going towards it. LWA doesn't have that and I suspect RRA will also have to ride that where there isn't a community or industry base that will sort of champion its cause.

MR WEICKHARDT: The champion would have to be, in the main, the government and the agency but the last participant was suggesting that it might be useful to have a steering committee that was made up of the CEOs of the industry-specific RDCs that was directly engaged with RRA to ground-truth the sort of work that it was working on, and the eventual applicability and extension of that work. I don't know whether you've got any reaction to that.

DR WILHELM (LRCP): Certainly those links would have to be real and

meaningful. The actual mechanism for that on the board, perhaps that might be a way of getting direct input and, as you say, ground-truth the priorities. But, as you say, those industries also have their priorities and pressures which aren't necessarily completely compatible with what the RRA would be attempting to achieve as well. There would be some interesting board meetings, I imagine.

DR SAMSON: Nigel, the other area that we've become quite interested in is a number of people representing quite small industries. They have talked to us about how they struggle a little bit under the current model - not necessarily new or emerging; some quite mature industries, but just small, and the fodder producers were one group that spoke to us with some passion. They are a small group of people. Of themselves they are too small to fund and go through the process of getting up a levy for R and D. They put to us the not-unreasonable position that, given the range of other commodities that use fodder, they are surprised and disheartened that there's absolutely no success whatsoever of getting other livestock industries to put money in some sort of concerted R and D effort for fodder.

That was another example of (a) an inherent difficulty of the current system for small-scale industries to raise levies and therefore become part of the R and D community; but another example of where there seems to be obvious scope for collaboration across commodity R and Ds, and it didn't happen. Do you see a problem with the small-scale industries buying into the system?

DR WILHELM (LRCP): It's always an issue for small-scale activities to get support which they believe is consistent with the opportunities that small industry may present. In the case of the fodder industry I'm certainly familiar with quite a few activities within GRDC's portfolio and with the low rainfall groups which deal directly with fodder and pasture feed, et cetera. I guess I'm a bit surprised that they wouldn't see a lot of small but an important proportion of GRDC's existing activities already being relevant to their industry. My impression, looking from the outside, is there is that sort of activity going on. Obviously it's not of a level of satisfaction to them. Whether that's real or perceived, I would like to learn more, I guess. There's a substantial amount going on in that area.

MR WEICKHARDT: Thank you. A question I'd like to ask relates to your comment that now about 50 per cent of the farms in the areas that you're covering have their own private agronomists. The 50 per cent that don't, would you categorise them as either free-riding on the 50 per cent that do - in other words, they sort of stick their head over the fence or they talk to somebody and find out what they're doing and therefore they free-ride on their neighbour - or alternatively, are they so small and marginal that they're probably not for the long term? Or are they so big and capable they do it themselves and they don't need to hire anyone in. What is the explanation for why they don't have their own agronomists?

DR WILHELM (LRCP): We sort of work on an 80:10:10 rule, if you like, with a lot of activities in agriculture. There's a 10 per cent who are very good at what they do, very well informed, very competent managers of multi-million-dollar businesses and will be doing - or have the expertise within their business to do the things that private consultants are supplying other businesses. So there's 10 per cent who are doing it within their own business, so don't need external consultants. There's a 10 per cent who won't deal with them anyhow. They are not interested in progressing their business, they don't see a future in agriculture, they may be too embarrassed to expose their naivety about their agricultural expertise. They are the tail of the industry, which every industry has, and they are not going to seek external advice, regardless of what happens, and probably will exit the industry for a number of reasons in the near future.

There's the 80 per cent in between and that's where the bulk of that 50 per cent lies. Some will obviously borrow from across the fence. That's still a very important communication tool: wait to see what the neighbour does and, if it works, they will try it too, so they will get that trickle-down effect certainly. But increasingly we're seeing advisers moving into the finance/farm management area of expertise and that doesn't cross the fence. It's actually dealing with the business itself: succession planning, budgeting, depreciation, all those sort of issues, which we think are increasingly important to keep businesses viable. It's not their productive capacity, it's their business management capacity. That doesn't cross the fence. Of that 50 per cent, the 50 per cent that don't are probably those that still haven't twigged to the fact that business management is probably the key skill most lacking in the sector at the moment.

MR WEICKHARDT: There are private consultants out there, are there, but they simply haven't decided to engage them or haven't realised how critical they are?

MR WILHELM (LRCP): There's a dearth of consultants with sound farm management skills - you know, financial skills - so they certainly aren't servicing the demand that's out there. The sector is responding, but slowly.

MR WEICKHARDT: All right. Thank you. One last question from me. You talked about the fact that the government co-contribution does provide some stability in the income stream to the RDCs. Nobody has raised this previously but, as you were speaking, it occurred to me. At the moment I think the government co-contribution is based on a three-year moving average of the GVP.

MR WILHELM (LRCP): I believe so, yes.

MR WEICKHARDT: Is there any merit in considering whether that should be a

five-year or a 10-year average? Clearly sometimes these things can work to your disadvantage. If you're in a rapidly growing industry and you're being averaged down to earlier years, you probably would see that as not being a good thing, but on the other hand if you're in an industry which has a terrible couple of years, having a longer average might work to your advantage.

MR WILHELM (LRCP): I guess the whole sector is very much coloured by the last decade, which has been challenging to say the least and has really rattled the cage of agriculture. There are what were considered bulletproof districts up until 10 years ago and they now know that they're not any more. That's really changed the paradigm in a lot of situations. I would think in the light of that, a longer-term time frame would be welcomed, because we're recognising that things are getting more variable, more uncertain, so a bit more stability would probably be welcomed.

MR WEICKHARDT: All right. Thank you very much indeed for appearing and thank you for your input. We're going to hear from one of your members. We're going to Mildura and I think Birchip Cropping Group are appearing there.

MR WILHELM (LRCP): That's correct, yes.

MR WEICKHARDT: Thank you very much. We're going to adjourn now until 10.15.

MR WEICKHARDT: We're now going to resume the hearings. Our first participant is the Council of Chairs of the RDCs. If you could please for the transcript each individually give your name and the capacity in which you're appearing here today.

MR MUTTON (CRRDC): Dennis Mutton and I am chair of the Council of Rural Research and Development Corporations.

MR BURNS (RIRDC): Craig Burns, managing director of the Rural Industries Research and Development Corporation.

MR GOUCHER (CRRDC): Gary Goucher, consultant for CRRDC.

MS McCLUSKEY (CRRDC): Su McCluskey, CEO of the Council of Rural Research and Development Corporations.

MR WEICKHARDT: Thank you very much indeed for all coming along. It's much appreciated. Your contributions to this inquiry are very important to us and much appreciated too, so we're looking forward to hearing what you've got to say, if you can give us an outline of that. Then we can perhaps move to asking questions.

MR MUTTON (CRRDC): Thank you very much. It is a pleasure to be here. We have all introduced ourselves. We are here actually representing the views of the 15 research and development corporations as a collective and have their support in both our presentation to this hearing and the content of the submission, which will be lodged with the Productivity Commission I would think within about four or five days, so we expect to have it in very much around deadline day. The sorts of areas it will cover we'll explore a bit today, but obviously not to the same level of detail, and there are some other what I would call mechanistic things that are in the submission which are probably appropriate to be handled in a submission that it doesn't make a lot of sense to be spending a lot of time on today.

As you can imagine, this Productivity Commission review has been of the highest priority for the collective research and development corporations. It is obviously to a large degree directed at their organisation and their performance and therefore it is very close to their collective hearts, and a lot of work has gone into that process. As you're well aware, Philip, we've had ongoing discussions with the commission and a preliminary submission to the work.

I think it's important to have on record that we do welcome the commission's conclusion that the RDC model has many strengths not necessarily found in some of the other research frameworks, including very close links with industry that maintain a relevance to the R and D that's commissioned; a strong path to adoption; and we

also clearly see that as a very strong asset for the RDC model. We'll talk a bit more about that later in terms of adoption of public-good research as well as what might be seen as the private-good research.

You've also highlighted the systems integration role that the rural R and D framework performs and the expertise in procuring and managing R and D in the rural R and D space. On the considerable effort that has been put into measurement of the outputs from that research, we believe that we have seen commendable benefits out of the investments that have been made, and a strong and ongoing commitment from all of the RDCs to ensure that we do in fact continue to evaluate that. We by no means suggest that our mechanism is perfect, but we think it's up there in the "serious" pack in terms of performance measurement, and we would be very happy indeed to continue to get feedback from other places and to work with other organisations to continue to improve that mechanism, including to ensure that the issues of public good, which there have been some challenges in measuring, are more able to be brought to account in terms of performance measurement.

There are many recommendations in the PC draft report that we see as being very important and that we support. Those sorts of things include the need to assemble better data on R and D spending. It's not only about better data on R and D spending but to me it's about getting better data on which good decisions can be made in terms of R and D spending. So it's not only the expenditure but it's the basis on which that expenditure is done.

Your recommendations in relation to better coordination of the various R and D programs for consolidation of reporting on funding and performance across the whole of the RDC network and reviewing the performance of the LRS - so all of those and others that we certainly commend and are fully supportive of. There are obviously a number of other areas where we have a difference in view to the commission, and I wouldn't have thought that you would have seen that as surprising in some areas.

MR WEICKHARDT: You're in good company.

MR MUTTON (CRRDC): The sorts of things that we really would like to just explore with you today, and would genuinely be interested in opening up a dialogue as part of this hearing today on some of these areas, include cuts to RDC funding and matching contributions, public versus private good and your proposal to establish a new rural research authority. They're probably the primary areas that we'd like to at least spend a bit of time on and see if we can enter into dialogue over those issues.

Our follow-up report to you in writing will contain further details on those and the report will also have some views and some information in terms of some of the

underlying economic analysis that was used by the PC in coming to some of its conclusions. But I think the detail of that can come to you in writing, and I think it's appropriate that that's the way that's handled.

In terms of the reduction in funding and matching contributions, the council doesn't support a reduction in the current level of funding to RDCs and sees some rather interesting and fundamental issues about cuts to matching contributions. One of the challenges that we see in this is some of the fundamental inconsistencies in the recommendations that have been made by the commission, specifically in terms of the RDCs, and I respect the terms of reference but chose not to delve into other areas of expenditure in R and D which contain both public and private money in terms of the efficiency and the effectiveness of those systems and whether the cuts that are being recommended in terms of RDCs are in fact the most effective place if savings, if you like, were planned to be done.

So we see some inconsistencies in your view that this model seems to be working pretty well and delivering, but on the other hand, without looking at the other areas of delivery of R and D, we're in a position where the only recommendations are made in that quarter. In essence, in terms of what's happening, you could actually argue that as much as \$110 million was being taken out of the current RDCs, some of which is to go back into the consolidated account and others to go into a new RDC. So we acknowledge that the commission is limited in its terms of reference in reviewing other parts of the framework, but I think that it would have been helpful to have some observation in terms of that area to actually see if we see that as the best place to remove funding if funding is removed.

The issue of public versus private good is, from our position, quite a vexed one. The issue here is that it isn't in our view practical or possible to try and draw lines between public and private good. They are inextricably linked, and a lot of what are perceived as public-good programs would have private-good spillovers or outcomes and vice versa, and to seriously look at trying to differentiate that to a degree has a tendency to polarise the debate; even get to the point where industry-related RDCs lose the understanding of the relationships between the two in terms of their decision-making, because a lot of the programs that are being delivered by RDCs do have both private and public good. We haven't been all that good, and I acknowledge we haven't been all that good, to actually measure some of that public good, but it's obviously a work in process. You can have a tendency to get an entrenched silo mentality in terms of that and it may, in my view, also lead to poor adoption.

There are also comments in the review about the level of blue-sky and strategic research and the like, and we've tried in the report coming up to at least provide you with some examples and some documented evidence from a number of the RDCs in

terms of the work that they are doing in those areas. We also acknowledge that that's not consistent across all of the RDCs. Some do it better than others. But what is the message that we really want to ultimately send to the RDCs in terms of how they go about their research business, how they better integrate their research business and get better outcomes and, as a result of that, get a return on government funds that have been invested? We think that trying to go down the track of a separation is more likely to have suboptimal outcomes in terms of R and D.

We've done a lot of thinking about the proposal that you had in your draft report about the establishment of a new rural research authority aligned to public-good research and we think that there are more effective ways to deliver it which don't require the establishment of a brand-new RDC, with start-up costs and ongoing operational costs.

We do acknowledge that the government has been saying, certainly in the recent past, that there are areas of purely public research that they have as priorities that they don't seem to get traction on. I think it's also important to note that the mixed messages have also been coming out of government as to what they might want in terms of public-good research, and disinvesting in RIRDC and closing down Land and Water Australia I think are two examples of very strong mixed messages. We do believe that it is important for the strength of direction of what the Australian government and partner governments around Australia really want to see happening - is a critical component of A Way Forward.

We do see a brand-new RDC as being quite costly and will certainly have a range of ramifications in terms of many of the other RDCs, including RIRDC, which currently spends probably about a third of its budget already on clearly public-good R and D. The proposal that we are putting forward - and although we've got a reasonable level of clarity in what that means, it is obviously still a work in progress and would require strong input from the Australian government and partner governments in terms of what might happen, but our proposal is that RIRDC itself should be significantly restructured and its role further expanded to address the public-good R and D. That is clearly not being addressed appropriately under the current RDC framework.

We do see that a program needs to be strongly developed on business cases so that we do not get the mixed messages coming out of either government or other sources, so that there are supported business cases and those business cases will be the basis on which a program is developed in the public-good space.

As I mentioned earlier, we do acknowledge that there are some challenges for industry-related boards, and having, I guess, the drive through their board decision-making and priority-setting to handle some areas of nonspecific industry

public good, so we do acknowledge that there's got to be a better mechanism, with strength behind it, for that to happen. So a couple of really important steps that we would be strongly advocating are that there has to be a mechanism urgently put in place to actually identify the research targets in the public-good and any new cross-sectoral R and D areas that there is expectation that the RDCs will pursue.

There are some frameworks that can help to do that. We've got in place, under the Primary Industries Ministerial Council and the standing committee, now a PISC R and D committee which is not just state governments but includes the agricultural deans, it includes CSIRO and it includes strong representation from the RDCs. You've got, in my view, some strong mechanisms to start helping the government develop a clear focus on public-good research and to get a program in place that has got support, it's got rigour and, therefore, the opportunity for ministers to put in place instructions to RDCs to actually contribute and ensure that that work is carried out.

There are strong frameworks there which might be currently underutilised that can be given, in my view, the mandate to actually build a clear public-good related research program, which obviously, in my view, also needs to include other relevant agencies at the federal government level, because if we're talking about public good we're talking about issues that relate to the climate change agency, they relate to the water and environment agency, they relate to the innovation agency, and in my view also relate to Simon Crean's agency in terms of rural Australia.

Just park that, because in terms of questions that you might raise about, "Where else does money come from?", I would argue that some of those portfolios are not necessarily contributing to that whole bucket of public-good research into the impact on rural and regional Australia. Now, some "yes", some "no", and we know the space is a bit complex, but I think that a very strong program of public-good research could be developed and supported and signed off with ministerial directions in terms of how that might be funded through existing mechanisms. To me, all that is there. It is a matter of will and strength and commitment, but at the moment my argument is that there's a bit of a void because there are mixed messages and it hasn't necessarily been clearly put in place. In terms of that, ministers can provide instructions to RDCs to actually do some things that the government wants them to do. It hasn't, up until now, done it in any significant way.

In terms of RIRDC, we believe that, with RIRDC already being a 30 per cent funder and deliverer of public-good research and with some clear restructuring and direction, it can be the RRA. Now, you might ask questions and say, "What happens to some of the mature industries that might be sitting in that area?" bearing in mind, I think, the comments that you've made in your report that it is difficult for industry-driven RDCs to get their heads around some of the public good, and this is not a subject that's been explored at great length amongst the RDCs, but I'm happy to

provide a personal view that says there have to be ways to actually realign some of the mature industries, with RIRDC ending up being an RDC that looks after public good, relevant cross-sectoral and emerging industries which still have a reasonable level of market failure.

To me there are some answers, about rather than going back and putting the bulldozer through and creating a new RDC, but I'm also clear in my mind that it has to be given the mandate, it has to be resourced appropriately, to actually do some of that work, which in some circumstances is challenging and difficult. I leave my comments at that stage and suggest that we start trading questions and answers.

MR WEICKHARDT: Thank you very much indeed for that. Can I maybe make a bit of a comment about this public-good and private-good debate which has been raised by many people. Let me say that the commission and all my colleagues are in heated agreement with you that most of the examples we've seen quite fortunately have a great mixture of public good and private good and we are not seeking to try to put dividing lines between those. As you say, for the benefit of adoption of a work, it's helpful that there often is a considerable mixture. Clearly there are shades of different greys but there's a hell of a lot in the middle.

The point that we were trying to make in our draft report was not a distinction between public good and private good but a point about government funding work that was additional. Now, I didn't hear in your introductory remarks, but I note in your bullet points that you provided, that you say:

CRRDC does not agree with the commission's seemingly heavy reliance on the concept of additionality as a useful guiding principle for government support for R and D. The commission -

that's the Productivity Commission -

acknowledges that it's difficult, at best a rule of thumb, and only a starting point and it cannot be relied on to give clear guidance to policy-makers and administrators.

On that topic, I was interested in the document that you provided us which talks about the assessment process, and you say in this:

There are two critical - and often interrelated - questions that a good cost-benefit analysis must attempt to answer:

- what is likely to happen with the project, or what happened with the project? and
- what is likely to happen without the project or, what would have

- happened in the absence of the project (this is also known as the "counterfactual" or "baseline scenario")?

And you go on to say:

At a higher strategic level RDC business managers should, and should be able to turn serious attention to the second question because benefits of a project equals benefits with the project minus the benefits without the project.

And then you go on to say:

Only if there is demonstrated market failure, and if there are no other R and D institutions working on the same (or similar) problems either here or abroad, can one legitimately assume that "nothing" will happen (or would have happened) in the absence of the project.

Now, the point we were making to government is, "You have limited resources, it costs money to raise taxes, you've got demand from all sorts of directions for taxpayers' money, and therefore you have to be prudent about where you spend your money." It was exactly that point of the counterfactual of what would happen if the government didn't spend money in certain areas that we were seeking to try to shine some light on. Is this easy? Your document points out it's not necessarily easy but it's something that a mature, sensible, thoughtful person ought to be able to get their head around. And does it require judgment? Of course it does, but I put it to you that the government and levy payers entrust RDCs with money and they trust the RDCs will spend money in a wise way. They don't have clear, absolute guarantees that that money is going to yield returns. There's judgment involved. There's judgment involved in all this stuff.

So I come back to the point about the principle of additionality. We can talk all sorts of things about the application of the principle, but to us the principle of additionality is a very important one and it doesn't lie one-to-one with the issue of public versus private good. It obviously has something to do with where benefits are spread and how benefits are spread. There may be projects where there are very large benefits to society but they're spread so broadly across a wide range of industries that no one industry will have an incentive to fund them.

We see clear market failure in that situation. We see a clear reason why government should fund it. On the other hand, your own evaluations show many cases where there are clear and very large benefits to industry. Is industry grateful for the government's money? Absolutely. Anyone would be. But in reality, going back to your analysis of the counterfactual, what would happen if the government

didn't fund that stuff? Our case is that much of industry would eventually decide it had to fund that, and there's evidence of it happening in lots of areas in Australia and also overseas already.

So I come back to my question, which is why have you, if you like, rejected our principle of additionality and what is it you would try and do to try and make it, if you like, less risky for the government to apply and become a useful guidance to where government should spend money or where it shouldn't?

MR MUTTON (CRRDC): I will ask Garry to make a few comments as an opener.

MR GOUCHER (CRRDC): Thanks, Dennis. Our problems with the approach to additionality as a guiding principle I think are twofold. Firstly, at a policy level, as the commission notes, it's complex. It's hard to get a grip on. If it is so indistinct as a guiding principle, we question whether it is actually going to be of good value in guiding both politicians in making broader policy decisions and administrators in applying the policy. I guess I'd take as an example of the problem that we have, the way in which it's been applied in the tax laws amendment bill that's currently before the parliament, where the objects of that bill say that this bill attempts to support research that would otherwise not occur.

But the reality of it is that that bill does not do that. It does not try to separate out research which would not otherwise occur. It just provides support to all R and D. Now, that might be a fine distinction but it is an important distinction because if the bill was truly trying to achieve its objects it would somehow try to differentiate research which would not otherwise occur. It would not occur without the support that's provided through the tax concessions. So my reading of that is that the objects are paying a kind of lip service to this principle of additionality but the bill itself doesn't actually go after that point.

MR WEICKHARDT: I don't want to get into a debate about that particular bill but I suspect you'll find that the policy-makers have agonised about devising the criteria for qualification of that R and D such that they believe it will encourage more additional research than previous attempts have done. You'll note there's a very thick tome from the Productivity Commission in 2007 on that very topic.

MR GOUCHER (CRRDC): Yes.

MR WEICKHARDT: I don't want to divert ourselves into it, but the concept itself is easier to articulate than it might be to devise in a general scheme but we're talking about a very specific scheme here where the government does have some ability to choose what it funds and what it doesn't fund.

MR GOUCHER (CRRDC): Indeed. There is an important distinction, though, between getting more research done and getting particular types of research done. The second point that I wanted to make, though, is about the additionality question and what it leads to in the case of the RDCs. Your suggestion is that industries would eventually perhaps increase their levy rates to replace the money that's withdrawn by cutting the matching rates.

We have serious doubts about that. Given the high benefit-cost ratios that have been found, we would think that if industry was prepared to do that - to increase its levy rates - you should already see that the levy rates were at least uniformly up to the threshold for matching money and, indeed, have gone beyond it, because that is what you would expect if you've got such high cost-benefit ratios: that there would be a wealth of work that could be funded that would pay such great dividends. The fact that that has not happened I think is, at least in part, evidence that industry is very reluctant to go down that path.

MR WEICKHARDT: Some parts of industry, because in some cases it clearly has happened.

MR GOUCHER (CRRDC): Yes, in some it has, but certainly not uniformly, and I think there are more that are below the line than are above the line. That clearly says that there are at least differences between industries, and to treat all industries as being in that category where they are ready, willing and able to tip more money into the bucket - ie, that the research is not additional - we think is at least questionable.

MR WEICKHARDT: I accept the fact it's questionable, and many people before you in these hearings have questioned it too. I can also ask you to have a look at the end of the Melbourne hearings, and if these words had come out of the Productivity Commission you would have condemned them as being from heartless, dry economists, but these came from a farmer. I paraphrase his words. His basic attitude was, "God helps those that help themselves. The government levy should be zero. There's lots of good stuff out there that good farmers could apply, and the ones that don't apply should go broke and make room for those that can look after themselves."

So there is a spectrum of views around this, and I guess we got the same spectrum of views when we did the work on drought relief. You know, many farmers resent, if you like, the handouts to keep the weak alive, and there may be some sectors where genuinely the economics of that particular industry are not enough to justify the industry stumping up more money. The question is: is this the best way of the government keeping those industries afloat, or should they keep those industries afloat?

There are, quite clearly, some industries that are prepared to pay well above the

government contribution today and appear to be happy to do it. We heard this morning from the fishing industry. They were saying "absolutely delighted" and they'd like to spend more and like the idea that the levy could be increased and, you know, they think more money is good.

So I accept the fact that there's a spectrum of people out there, and predicting the behaviour if the government did reduce funding the industry-specific RDCs is of course problematic, but, as I was trying to point out when I read that section from your own document on the counterfactual, these are dilemmas that you guys face every time you make an R and D investment or you assess an R and D investment.

MR MUTTON (CRRDC): Yes, we do.

MR WEICKHARDT: Okay. Cliff?

DR SAMSON: Dennis, I guess to give credit where credit is due, but also in doing so to highlight one of the problems we have, on almost any issue there is a spectrum of response from the 15 RDCs. We don't underestimate the issues you're trying to speak to as a collective, but almost on any issue there is this spectrum of enthusiasm, commitment, effectiveness from the 15. Some do things very well; others less so. The experience, as we see it, of some 20-odd years of operating the model is that that has been so for a long time.

In part, it was that analysis that led us to think about the concept of an RRA. Therefore, in looking at and assessing any counterproposal that your council comes up with, I guess absolutely central in our assessment of that proposal will be what will be in there to guarantee the effective participation of all the RDCs in any way forward in terms of this cross-cutting, blue-sky, national interest, longer-term work, where history has taught me that if there is any element of choice in the matter, some of them will not participate.

I guess you've hinted at the possible solution of ministerial direction, a power that I think in the 22 years has not been exercised very much at all, and I think on the one occasion it did, it was by mistake. I know it's a work in progress and you're going to put more flesh on the bones in the submission you make, but if you could just sort of elaborate a little bit as to how you see shifting a world where participation in collaborative efforts is largely voluntary and has not resulted in the outcomes that government would want.

MR MUTTON (CRRDC): I think there are a couple of pre-comments that I'd like to make in terms of that before I dive in off the diving board. You've made comment that, over the 20 years that the RDCs have been in place, there are those that have done a really good job and there are those that haven't done quite so good a job.

Initially all of those RDCs were legislative statutory bodies, and there has been some shift and change over time, rightly or wrongly. But the issue is that in each of those RDCs, whether they're industry-owned companies or not, they have a contractual arrangement with the Commonwealth government - the Australian government - in terms of the expenditure of R and D dollars.

To me, one of the things that hasn't been managed to a level that it could have been managed is the strength of that relationship and conviction on the things that the Australian government might have wanted done. We know there's been scope creep in this exercise over time, when they were originally set up for basically productivity based research, with the Australian government putting half of the money in and industry putting the other half in through levies, and that has changed over time; not overtly, I don't think. It has sort of happened without anybody standing up and saying, "Well, I want half of the research done in the public-good end of the spectrum." That hasn't ever, in my involvement, been said.

MR WEICKHARDT: The water in the frog's end has been warmed gently.

MR MUTTON (CRRDC): To me, the elements of a change - and, quite frankly, it doesn't matter which body does it, the elements still remain - are that there's got to be strength in the relationship between the government's agenda in terms of work being done and the bodies that are in fact charged with the responsibility of managing the research and development, and that link, in my view, has to be strengthened in a way that enables that to be done at a greater level of certainty.

I think that the effort that individual RDCs made in the RD and E framework and the industry strategies and the cross-sectoral strategies was more than probably the collective governments want to admit in terms of input. They were clear drivers in a lot of those cases, both in cross-sectoral as well as the productivity related strategies for individual industries. If we take grape and wine as an example, the amount of effort that went in through the RDCs and the industry to drive that strategy was immense and a lot of the others around the place were likewise. In fact, a number of them would have fallen over without that input and that strength and that support.

So it is important to understand that things like cross-sectoral and related are not off the agenda in any shape or form but I think if there is a greater level of relationship management between the government stakeholder and the RDCs in terms of programs - and as I said, the minister has some directive power if he chooses to use it to get some particular stuff done. I believe the organisation that does the majority of the public-good work still needs to have a skills base around the board table which not only has people that understand the public-good component and the government policy component. They also need to have people sitting around

that table that understand delivery and adoption in terms of making sure that that stuff happens. If the work is done, the research is done and it sits on a shelf or in a hard drive and goes nowhere, the government has truly wasted its money.

MR WEICKHARDT: It's wasted our money. We totally agree with you.

MR MUTTON (CRRDC): Yes. And so to me, the importance is making sure that you've at least got understanding, relationships, linkages to ensure that in a lot of cases land managers - which happen to be farmers to a large degree but other people that are managing land - are able to have that research understood, adopted and therefore a worthwhile and a good return as an outcome. So I think there are some measures that need to be put in place to make it work.

As I said earlier, I do acknowledge that there are difficulties in some areas about getting some of those things on an agenda of an industry based RDC but you already have an RDC that has a third of its work in public good, a third of its work in emerging industries and about a third of its work - correct me if I'm wrong, Craig - in some mature industries which are seen as being small but mature. So to me we've got the basis of an organisation that can be shifted to do that with the right relationships, that has got strong relationships across the rest of the RDC family. Craig can speak for himself, but every day of the week there would be collaborative meetings going on in his building amongst X number of RDCs over jointly funded projects which are in the cross-sectoral or the public-good space.

So all I'm saying is, irrespective of what you do, you are going to have to address the same challenges. If it is purely an RRA which is about public good, I think some of the challenges are bigger because to build the relationship management across the basis of users and adopters is going to be, in my view, quite challenging. You've already got it in spades but you've just got to use it a hell of a lot better than maybe we've done in the past.

DR SAMSON: Could I ask Craig then, perhaps, and I know again it's a work in progress - as we've gone through the hearings and the submissions, many of the smaller industries that currently come under the RIRDC umbrella, almost I think without exception, have told us that they find it a good place to be and that it's very useful and they get value out of their relationship with RIRDC; and some of them are quite substantial industries - rice is hardly new and emerging.

Given that and given it's a work in progress, Craig, if the end result was to be an enhanced RIRDC along the lines that Dennis has outlined, your thinking at the moment - would it be that you retain those industries but create an operational separation or would there be perhaps an attempt to find them homes in some of the other 14, or a mixture?

MR BURNS (CRRDC): Thanks, Cliff. The issue of what's established and mature and so on in RIRDC is an interesting one. In rough terms, as Dennis indicated we've got these three portfolios of activity: new and emerging, which does include some of the bioenergy work and so on, which has got a clear public good as well, so it's probably more than the 30 per cent or a third that Dennis was talking about that I'd classify as public good. But there's the new and emerging portfolio, there's what we call an established portfolio, and then national rural issues.

Now, the established ones, the examples that people often refer to of industries there are rice and chicken meat, being more substantial than the others. But they're not so substantial in terms of the income that comes in from levies, so for the current year, the 09-10 financial year, RIRDC's total income was 26.5 million, but only two million of that was from levies. Of course the rice industry hasn't been producing so much lately, so that accounts for a bit of that, but it's not as if these so-called established industries are so large that they're bringing in a lot of levy income for us. So they might be established in that they've been around for a while but they're not big and so they can't capture those economies of scale that some of the other industries capture now.

People often say, of course, "Why couldn't rice be at GRDC?" and so on, and there are all sorts of permutations about where some of those industries could go. But the fact is, a lot of those so-called established industries are still so small that they can't raise a levy. I think you might have even had a presentation from one of them that can't even get enough money together to have a vote as to whether they have a levy. They're that small. But they still need work done and they are clearly of a view that, if they go into another industry-specific RDC which is driven by the levy base, then they would be lost there. So in a sense there's a market failure in terms of them in the other RDCs. I've always viewed that RIRDC can provide a home, if you like, for those industries.

But also the counterpoint to that is, if you take a lot of these smaller industries that we have that are generally on the fringe of what you'd call the horticulture sector - so herbs and spices and gingers and all of these people - if they were to go to HAL, again how would they get a voice when there are so many competing horticulture industries who are paying levies? How would those small ones that would leave RIRDC get a voice to get their particular research agenda up in that forum?

I understand the argument for separating public and private - where you draw the barrier is an issue; but I do think RIRDC can walk and chew gum. We've just had a review of our internal structure and that's changing. I'm our new managing director. We've got a new chair, we've got a new internal structure. Over the last five or six months we've been implementing several recommendations out of a PWC

review of how we do our business, improving all of our systems. So I think those people that have argued to you that RIRDC would have to be dismantled and rebuilt perhaps are talking about a RIRDC from a different time.

What we've been doing in the restructures that we've put in place is really anticipating potential changes and looking at how we would adapt. So, yes, there's some tinkering maybe. Certainly I think if we were to receive this additional funding for so-called public good, it wouldn't be just a handover of money to RIRDC. I think we would need to build a business case, and in the council submission and in the RIRDC submission we'll talk about what that might look like and we'll certainly set out in the council submission a flow chart for the steps and how ministers, PISC, R and D committee - all of that sort of thing - will be involved.

But I do think that we can accommodate that, build the business case and have this collaborative effort with other people, without having to change significantly. But the critical point that I was going to make was that fundamental to that would be a change in the board so that you might have half the board - whatever proportion a minister would want to come up with - being there to represent the so-called public-good and government-driven interests.

DR SAMSON: Thanks.

MR WEICKHARDT: Thank you for that. I will say at the outset we accept that this is an entirely legitimate alternative model to the RRA model that we've put up, and we have been thinking and we will continue to think carefully about it. But one of the reasons that you advocate this is, you have said, "Why establish a new body given the costs of start-up and also the costs of maintaining a new body?" and I'm sure there will be many in government who have those sort of reactions immediately themselves. There's no doubt that there would be start-up costs, but I'm seeking feedback from you about the issue of ongoing costs. The evidence before the commission, from looking at a whole range of different establishments in this sort of space, not all of them RDCs, is that administrative costs have been maintained in most of them at about 10 per cent of total revenues, regardless of scale.

We're about to hear from SAGIT who, from memory, expend about \$1.5 million a year. Their admin costs are about 10 per cent. In the GRDC you spend about \$120 million from memory. Their admin costs are around 10 per cent. From that, my interpretation is that even well-run, efficiently administered organisations in this area struggle to get much benefit of scale; that administering research, putting appropriate managers who are across it costs money, and if you double the amount of research you fund, you've got to double that number of managers. So we don't deny the issue that there will always be start-up costs, but where's the evidence that the ongoing costs are going to be any cheaper if you have

this as part of a RIRDC than if you have it as a brand-new organisation?

MR MUTTON (CRRDC): I can't provide you with details of that at this point. But I think in parallel, and a very relevant component of that question, is that the collective RDCs do acknowledge that they have to continue to improve their efficiency in terms of what they're doing, and there is quite a lot of work being done on an ongoing basis in terms of a greater level of harmonisation of systems and contractual formats and all that sort of stuff, including strong efforts from the Canberra based RDCs to co-locate with obvious benefits in terms of that.

We would see that those sorts of efficiencies would continue to have an impact on operational costs of RDCs in the right direction and a lot of the work that has been going on in the collective in Canberra, including RIRDC, Fisheries RDC, grains and pork, is about developing some mechanisms by which we can extend those efficiencies across a greater number of RDCs. If RIRDC co-located with Fisheries, co-located with grains, co-located with pork, you've got some incredibly important additional synergies in terms of the sorts of things that we would be expecting out of an RDC in terms of building its capability in public good, including a closer relationship between Fisheries and RIRDC; those two organisations probably collectively will do a very significant amount of work in that space.

It's not answering your question directly and I acknowledge that around the traps most of them are sitting in and around 10 or a bit under 10 per cent. Whether there are economies of scale that haven't been flushed out of some of the bigger RDCs is another question, but the creation of a 16th RDC does have, in my view, some inefficiencies associated with it and we should be able to do the collective job for less. I haven't got the evidence in front of me to actually say categorically that I'm right and your question is not a sensible one, because that evidence I haven't got. I acknowledge what you're saying, but I'm also acknowledging that - what I'm really saying is that the beneficiaries of utilising a RIRDC as the RRA have got, in my view, benefits well beyond just the costs and efficiency and the overheads.

MR WEICKHARDT: I noted that you did say that and you talked about the contacts that RIRDC have with the other RDCs and I certainly acknowledge and I applaud the fact that there's lots of net cooperation going on, but I note in your original submission you stress that the majority of the RD and Es are highly collaborative; 80 per cent of the total investment -

... involves a financial or a significant in-kind investment from third parties - including from other RDCs, state and Australian government agencies, research institutes, companies and industry investment trusts.

So, given that that's the way the RDCs operate, it doesn't seem to me to be

impossible to imagine that a properly constituted new RDC called RRA could collaborate and cooperate closely with the existing RDCs.

This is all a matter of judgment and balance, I guess. We had a participant here this morning who was saying that some government expenditure in areas that sort of overlap some of the fields we've been talking about - whether it be climate change or water or regional or whatever - some government departments have been specifically very wary about giving such funds to the RDCs because they've seen them to be too close to industry. That was their words, and I assume the argument has been that this stuff will somehow be corrupted and turned from being truly additional work into being productivity-enhancing on-farm stuff with lots of fluffy language that suggests that it's really climate change work or whatever.

I guess what we were hoping one could do is to achieve a really ideal balance between having an entity that other portfolios saw as being a valuable conduit for doing this sort of research in an efficient way, at the same time had close linkages with the existing RDCs so the work was adopted and sort of applied, but it wasn't captured by the existing RDCs to the extent that that work was, if you like, corrupted. I think it's for that reason that at least two of the reasonably thoughtful participants in this inquiry - the Victorian DPI and Andrew Campbell - made a strong case that they would prefer to see a brand-new entity rather than a RIRDC mark 2.

I accept that there are arguments on the other side of the fence but we're hearing some caution by at least two people saying there are risks that a RIRDC mark 2 will be seen to be, if you like, a creature of the existing RDCs and therefore might not act as the lightning rod to attract funds from some of these other government departments which, as you say, may not be as likely to get eventual adoption by industry.

MR MUTTON (CRRDC): It's interesting that RIRDC - and again Craig can speak for himself - has been the recipient of significant funds out of government to do programs on the basis, presumably, that it was seen as being the appropriate organisation to do it within the existing system, plus having the capability to do the linkages with other partners in terms of those exercises. I would approach your comment from the other direction. If an agency feels reluctant to actually provide funds into an RDC system which is acknowledged as having high capability in terms of effectively managing and delivering outcomes, the marching orders provided by that funder in terms of what that gets used for is in fact the bigger question to be answered. They haven't actually put the rigour into saying, "Here's some money, here's the project that we want done. Go ahead and find the research providers to do this project for us." If they feel that they're putting money into an organisation and it's being siphoned off to do other things, where is the problem? I'd say it is in the agency that's providing the funding because they haven't actually managed it

properly.

MR WEICKHARDT: You may be right. I'm simply replaying to you the sort of feedback we receive.

MR MUTTON (CRRDC): I haven't read in detail DPI Victoria's submission. I briefly scanned it but I didn't get that firm position out of that exercise that you have interpreted it, in terms of yes, a separate new RRA - in terms of that - but I'll go back and have another read.

MR BURNS (CRRDC): Dennis, if I could just add, if you look at the existing RIRDC, 70 per cent of our income is from government. It's not so much a matter of the costs of establishing the new and all of that sort of thing; it's an issue of trust, I think. We've got several projects, programs, that are collaborative. There's one I added up here. There are about 15 different players in it, including not only other RDCs but Department of Health, the old Department of Transport and Regional Services, now renamed. These are all players who have seen RIRDC as a viable option for doing this collaborative and public-good work. A new organisation would have to build up that trust, not only with government but with the other R and D corporations and so on. Certainly I think this argument is not just one of the costs; it's one of linkages and trust.

MS McCLUSKEY (CRRDC): Perhaps I might just pick up on a couple of points that have been made. In relation to the RRA, we would actually say that structure needs to follow strategy and that until the priorities that the government wants to see in these areas is really articulated, it's very hard to say that in addressing those priorities, establishing new RDCs is the best way to do that. So what we've looked at is what are the existing frameworks we have that work very well, drawing on the PISC RD and E framework, as well as the existing collaborative and cross-sectoral co-investment that the RDCs undertake, and say where are the gaps; what structures do we have that we can use to try and address those gaps? And that's why we've approached it from, well, how big are those gaps? We actually don't know because they haven't been articulated that clearly.

Certainly we can identify areas such as investments in land, water, soil, salinity that could lend itself to this, and that's why we see that an enhanced RIRDC could be best placed to do that. As I say, it is difficult, until you've actually developed the strategy fully, to look at what the structure should be to deliver on that. I'll also just pick up on - - -

MR WEICKHARDT: Can I just react to that?

MS McCLUSKEY (CRRDC): Yes, sure.

MR WEICKHARDT: A number of people have said - and I think Dennis did in your opening comments - that the government has not always clearly articulated what it saw as the gaps, and I heard words like "the minister could direct people to do that". I'd have to say personally that I would be appalled if ministers started to direct R and D programs. I have a great view that it's better for the government to be approximately right than precisely wrong in terms of trying to pick R and D topics and themes. But it seems to me that there already exists a multitude of work that points to various gaps. Indeed, as I understand it, out of the PISC R and D framework work there are a whole series of cross-sectoral areas that have been identified that, if you like, at the moment don't have a clear owner.

You will note that during the draft report we heard people come up with ideas of what such an entity might have as a sort of topic. We've asked for information and input. We've received a good deal of that but it seems to me the best possible mechanism of an RRA or a RIRDC mark 2 coming up with a program and a strategy of what it invested its money in is for an appropriately selected board, which I suspect ought to have some either advisory board from the existing RDCs - that was a suggestion put to us this morning, that whatever this body is it would have an advisory council that was made up of the CEOs of the existing RDCs. Either that or there should be some board membership on this new entity that comes from that council of chairs. I'm not sure what it is. There should be certainly input there but there should - as Victorian DPI pointed out, the PISC framework work has also provided this.

It seems to me it would be much better that the board of that entity came up with the sort of program based on all sorts of input and advice, rather than the minister saying, "I want you to do research on X, Y and Z."

MS McCLUSKEY (CRRDC): I think that's clearly what we'll be saying in our submission; that we do see that the council with the PISC RD and E subcommittee, with other stakeholders across government, will work together and look at these priorities. Where we see the level of compulsion coming from - which I think, Cliff, might have been your earlier question - is that we see that RIRDC, of course through its board, will then work with stakeholders to develop a five-year plan. That will include investment in these public-good areas. It will also include investment in cross-sectoral areas that have been developed on the basis of a business case.

We then see that that plan will be approved by the minister, and the minister will then write to each RDC, directing them to invest in those specific projects to the extent of a certain amount of funding. So that's where we see that level of compulsion coming, so it's not purely voluntarily, but we do see that the existing collaborative projects and co-investment projects should be able to continue, as long

as they're the most efficient, effective way of doing so.

DR SAMSON: I look forward to reading the submissions.

MR WEICKHARDT: Do you have any other questions?

DR SAMSON: No.

MR WEICKHARDT: Forgive me, I was hoping to buy some time and ask you an incisive question here. I'm just reading a few of the things I've highlighted in your notes and you stress that you're wary of the number of additional principles and conditions and requirements that the commission has proposed should go into the legislation or otherwise be incorporated in the administration of the RDCs. You say they're not clear, they're not specific and they're not definable, and there's a high risk they will give additional administrative burden.

I mean, that wasn't our intent. Our intent was to try to ensure that the government spent our money wisely. But all I want to say is, in your submission if you have some specific suggestions about how those guidelines could be improved so that your taxes, as well as mine, are wisely spent, then that additional improvement would be appreciated, because I think to leave a vacuum here is dangerous.

We have little evidence at the moment that a brand-new minister would have a set of principles that allowed them to sort of say, "Well, yeah, now I understand exactly what I'm meant to be doing." I think your point, Dennis, is absolutely right, that when the RDCs were first established, John Kerin and Geoff Miller very specifically had the concept that it was far better for industry to decide how to spend money wisely than for the government to try and direct it. But I think they also had a clear idea that over time industry would sort of understand how important R and D was. This was seed money and over time industry would spend more.

I think the first part of their vision has worked brilliantly. Industry has spent that money wisely. The second bit of the vision, as Garry was saying, hasn't in all industries been revealed. That is, a lot of the industries still see the government money as a right rather than, as the New Zealanders put it to us, as a privilege. So I guess the government has increasingly started to become noisy, saying, "Well, we're putting 50 per cent of the money up. We're not seeing some of our objectives being focused on."

So there has been a change, and I can understand that the RDCs in some cases have been confused by that. Some have probably sort of done their best to comply with what they see as the high-level principles and some, I suspect, have completely

ignored them.

MR MUTTON (CRRDC): I think there's a broad acceptance that the ground has shifted from an RDC perspective. I mean, my earlier comments in regard to how we could get some more robustness in this system I think is important, and there are mechanisms by which the governments of the day can be supported in identifying the key areas that might make an important portfolio today in terms of public good and over time that portfolio will shift as things change and priorities change.

So I think it is important that there is a mechanism to be able to do that, and I acknowledge some earlier conversations that we had that basically said, "Well, maybe governments aren't necessarily the best people to put those priorities in place." But in the end they've got to support them and build them into a consistent approach to what's going on, and to me that's the bit that I think is going to be ultimately important, irrespective of how those things are developed. As Su said, a planning process which gets signed off by the minister as being the areas that are important for their investment in R and D is going to be a critical part of closing that loop.

We didn't raise today the issue of the principles, but it will be covered in our submission, and hopefully we can add some value to your deliberations in that area that might actually help your considerations with whatever principles are important to have in place.

MR GOUCHER (CRRDC): Could I inject a couple of comments just in response to Phil's question. I think things have certainly changed and industry hasn't maybe stepped up to the plate the way John Kerin and Geoff Miller might have anticipated when they created the structure those years ago. In a sense, maybe that's a real-life example about the preparedness of industry to actually step up to the plate and a demonstration of the difference between how a levy structure works and how an individual private decision about investment in R and D works, and the two are not synonymous.

You could construe that it's a real-life example that, well, industry hasn't actually looked at it as seed money and stepped up and gone past it. The second point is that, as you say, government is getting a bit concerned about where their money is being spent and how it's being spent and that there is amongst some in the industry perhaps a mentality of, "Well, it's our right to have that money."

Our view is that it is better to try and address that matter of right issue with some in the industry and make a clear statement to them that they are getting shared funding and they do have to deliver shared public and private benefits out of the R and D rather than to take some of the money away, partition it into a separate

organisation and a separate structure that's tasked with doing public-good work, which in turn actually reinforces the message that, "Well, the money that you've got left is in fact a subsidy," and that you can go away and do industry research with your levies and this bit of extra money.

We would view that it's better to deliver a message to industry in the way in which the network is structured that says, "Here is shared money, but you do have to deliver shared benefits out of it," so that those few in the industry that don't yet understand that message do actually get the message that that's what their responsibility is.

DR SAMSON: Just briefly, on governance board appointment processes, which a lot of people have talked to us about, coming at it from various perspectives - and I think there's, however it's operationalised, a consensus that to aim for a skill based board is a good thing - the statutory corporations - Dennis, you'd know better than most - have a process for identifying board members.

One of the things that has been put to us and that we're mulling over is the actual selection of the chair of these boards. As you know, currently it's the minister for agriculture who appoints the chair, where custom and practice perhaps in the private sector of the rest of the world is that the board itself would elect a chair. Do you have any observations, from your experience within the system, on that that you'd care to share?

MR MUTTON (CRRDC): My personal view is that I don't think the selection process for chairs of the statutory boards is an ideal mechanism, because from personal experience I'm not sure how much of the process lies behind the appointment of chairs, and I think there could be more rigour put into that process, quite frankly.

In terms of the board voting for a chair from within, to me that is also a suboptimal arrangement, on the basis that chairs have got skills that a board member won't necessarily have, or should have skills that a board member won't necessarily have, and that's skills of chairmanship and all the things that go around that. To me you could, in a skills based selection process for a board, identify that someone around that group has got to have those sorts of skills, but then the board might not choose that person to chair the meeting and then you've got an informal chair sitting there driving from the side. I'm not trying to be flippant, but - - -

MR WEICKHARDT: As Cliff said, that's a process that happens probably in 90 per cent of corporations around the world and it certainly happens in the IOCs.

MR MUTTON (CRRDC): I would think it's probably a bit more sophisticated

than a group of people around a private board table saying, "You're it." The chairs that I know, of successful companies - there would have been a much more rigorous backroom process to get to that point in terms of the skill set that in my view is required for people to chair successful boards.

MR WEICKHARDT: I'm not denying that at all, but ultimately it is the board itself that, by hopefully a fairly diligent, thoughtful process, reaches the conclusion about who might be best to chair.

MR MUTTON (CRRDC): But as I said, best to chair? The best chair you could get? Different answer. You would find, I think it would be fair to say, that there are likely to be statutory boards around the place where none of the people that are sitting around a particular statutory board would make ideal chairs because they weren't selected for their board positions for that skill set. So if you build it in and there's a mechanism to build it in, or you have a selection process which is more rigorous for chairs, I think you should get better outcomes.

MR WEICKHARDT: All right. I have one last one and you needn't answer now, in the interests of time; but you made a point in your preamble and also you make a point in your notes of, "If you were going to cut money out of any program, why would you choose the RDCs? The RDCs seem to have done a pretty good job in managing their money and why didn't you" - the Productivity Commission - "look right across the board?"

I mean, accept that to a degree that's a deficiency although it's a difficult task. It's a difficult task for a number of reasons and one of them is that some of these other programs that directly put money into some research programs that are relevant to agriculture don't have agriculture as the only, if you like, entity that's relevant to them, so they might have a broader range of objectives behind them.

The other reason I think we didn't reach any conclusion on that issue is that we didn't come across any assessment of the efficiency of those programs but you said in your notes:

There are other programs that would appear to be less effective in delivering good outcomes for the community.

If, in your submission, you have any data that substantiates that, we'd be very interested in seeing it.

MR MUTTON (CRRDC): I'll take that on notice.

MR WEICKHARDT: Don't give us examples of pink batts and stuff like that,

because I think we could all point at areas like that. But I'm thinking of more thoughtful research programs.

MR MUTTON (CRRDC): Yes. I guess the reason and the argument behind making those comments in terms of this is that it seems in a rural R and D program where the RDCs are about, give or take a few bucks, 500 million of a program which has been argued to be anywhere between, you know, sort of 1 and a half billion and nearly three billion or whatever.

MR WEICKHARDT: I've never heard the three, but anyway.

MR MUTTON (CRRDC): I mean, Kate Grenot is using a figure now in her stuff which is 2.9 billion, so - - -

MR WEICKHARDT: That will alarm the Department of Finance.

MR MUTTON (CRRDC): But all I'm saying is that our questioning is about reduction in funding for one part of the system where there's no evidence to suggest that that's a better way to do it than perhaps other programs that fit into the rural R and D space; so it was more in that vein. We understand the limitations of your terms of reference. Every now and again you decided to jump outside those a bit.

MR WEICKHARDT: Surely not.

MR MUTTON (CRRDC): So the concern is more about that: this is part of the whole and the recommendations are only about part of the whole. That's the reasoning behind that.

MR WEICKHARDT: All right. Thank you very much indeed for your participation. I note that you said that you would lodge your submission within four or five days, which would be, I think you said, approximately on time. Could I commend "on time", which would be much appreciated.

MR MUTTON (CRRDC): What is the date which is now on time for you?

MR WEICKHARDT: 26 November. Start of business on the Monday morning would be acceptable, rather than close of business on the Friday night. I'm sorry, Su, that's your weekend gone. Okay, thank you very much. We appreciate your input greatly and we look forward to your submission.

MR MUTTON (CRRDC): Thank you very much for your time and fitting in an Adelaide leg to your hearings, which has now turned out to be a pretty full day.

MR WEICKHARDT: We're now going to turn to Geoff Thomas who I think has got about 15 hats which I won't read out here. Geoff, perhaps you can introduce yourself and the capacity in which you're appearing and the various hats you're wearing today.

MR THOMAS (AIAST): Yes, I'm Geoff Thomas. I am wearing two hats today: one is as the national president of the Australian Institute of Agricultural Science and Technology and the other is as the executive manager of the South Australian Grain Industry Trust. My comments will be primarily with regard to the institute, but I am quite happy to answer questions that you might see appropriate on the trust operations.

MR WEICKHARDT: Okay, over to you.

MR THOMAS (AIAST): You have a document before you, I believe, from us. You'll be delighted to know, commissioners, that is our submission, mainly because we have limited resources and we can't afford to revisit it too often. However, if you thought it appropriate to follow up on any detail of that, we'd be more than happy to do so out of this session. What we've done in the submission is to raise a number of issues which we see as important really in dot point form because many of them were covered in our initial substantial submission and we thought perhaps needed to be revisited with your agreement. I don't wish to read through each of the points unless you wish me to.

MR WEICKHARDT: Assume we've read this.

MR THOMAS (AIAST): I assume you've read it. I guess the first point that I want to make is that much is said about PISC, almost that it's the saviour of the system; not my observation, I'd have to say. I believe that the PISC agenda, which is, "Research is national and we ought to coordinate it nationally" - no-one would disagree with that; that the development which is the adaptation and validation of the research information at the field level, and then is extension, should remain the province of the states.

That's what the agreement was. What has happened, in effect, is that the states, faced with severe budget cuts, have cut across the board, including in research but particularly in development and extension and have used as one of the reasons that it follows the PISC guidelines. I don't believe it does, and I think there is yet to be evidence that the PISC process has led to efficiencies. It's led to some states saying, "We'll get out of this or get out of that," but it hasn't necessarily resulted in the transfer of resources to the state that is actually doing the work.

In the case of South Australia, I know for a fact that they're on pigs and

poultry, as part of their bacon and egg led economic recovery, and I don't think there are any resources that have come from the other states to build that area. So what have we gained, I guess is the point. All I'm saying, sirs, is that we need to take into account that there already have been substantial government cuts and that it is impacting on that area which is about development and adoption, which we believe has already been undercooked in the past and is one of the reasons why too much of the research that's been done hasn't been adopted.

I guess no argument would be complete, sirs, without some mention of public and private good. I mean, you can always have an argument about that, and I want to come back to that in the area of evaluation later on, because there are problems of definition. But our case would be that agriculture is somewhat different, in that technologies that come out of RD and E not only have an impact on productivity and the farmer benefit but have lots of other impacts as well, and I'm sure you've heard this until you're probably tired of it, but things like farming systems which improve natural resources management, the issues of feed security, the issues of greenhouse gas emissions - agriculture causes some; it does have within its power to manage them - and then of course there's the other issues of employment and regional benefit, which of course apply to other industries, not just agriculture, but I think agriculture is somewhat unique in the contribution that it makes. That, in effect, of course makes it damnably difficult to then determine just what is public and private good.

The other point that we made in our submission - and I think what it points to is the need for an overall approach rather than just looking at one part of the RD and E system - is that there are sections of industry at the moment which benefit from improvements in technology indirectly but make no contribution. In our submission you might recall that we dealt with things like the supply chain; you know, the storage and handling people. If you increase production by 20 per cent or more, those people benefit by that greater throughput.

Our belief is that they ought to make a contribution, since they benefit. When those groups, like the Australian Barley Board and the Australian Wheat Board, were grower-owned, you could probably have developed an argument that they didn't because, you know, the money went back to the growers, in effect, at any rate. But now that they're in private hands, and increasingly in overseas hands, you say, "Well, why shouldn't they make a contribution?" The trick is, of course, to look at a mechanism whereby that cost isn't just handed on to the farmer. That's the problem, but I suggest that the principle remains.

I don't doubt the difficulties, but that makes the challenge of solving it all the greater, I would suggest. But it does point to the need to look at the total research system, because it seems to me that at the moment the government and the growers are making the major contribution and the other people are getting a pretty good deal.

The next point that we made is probably the one that I had most difficulty writing, and it's this concept of research as an industry, if you like; as a function. With what we're talking about here, most of the rationale is about research in relation to an industry. But I'd suggest that our standing as a nation and our standing in agriculture has been very high, and I think still is, partly because, in my view, we've punched above our weight in the research area. That's not just been by CSIRO and universities and state departments. If you travel overseas, you'll even get their admiration about the inputs that farmers and farmer groups put into research. You know, if you ever talk about in kind, that is enormous. It's hard to calculate but enormous.

So we've got a good thing going, and I guess we're concerned that any reduction in funding - and I take your point that they're not necessarily going to be reductions, but perhaps industry will pick them up at any rate - which impacts on our standing is bad for Australia, simply because we're a relatively small nation; we've got few resources really in RD and E at the present time - and diminishing, I suggest, through previous cuts - which makes us more dependent, I think, on some of the overseas research. So we need to be able to play very strongly in that space. If we don't, then we're going to be the worst for it.

The next point I would make is about, I suppose, the underwriting effect that government funding has on the total funding pool for a corporation. We've seen that in recent years in the grains industry. If you compare GRDC and what's happened there, they work on an ad valorem basis as net farmgate value, so they've got a price and a yield component, obviously. They had to make some pretty hard decisions not so long ago as to how much they would fund.

Imagine how the South Australian Grain Industry Trust went. We will probably this year secure in the order of two and a half million dollars' worth of levies, which ain't real bad. Very nice, thank you. By hell, it wasn't so good when we got 250,000 and we had to cut programs. We had to go to suppliers and say, "You need to defer this, you need to defer that," which is damned difficult when you've got staff under contract.

So we're saying any further instability creates a problem, because these people that are employing these research people already have trouble with the three-year syndrome, which you'd obviously be very aware of. So any further instability just makes agriculture a less attractive option and certainly research a less attractive option. That may be one of the reasons why more and more people are going into the private sector, because they're sick of the instability, which is pretty tough if you've got a wife and kids and all of that, obviously.

The other area which I would like to mention - and I know the limitations of the terms of reference, but let's get it out there at any rate - is the investment by what I call the private sector, and that's not the industry funds sector but, you know, the private private sector. It might be companies - commercial companies - it might be somebody that says, "What about superannuation funds?" You know, they have rules, I know, but we need to look at all of those options. I don't say we need to have lots and lots of sweeteners, but we need to look at the system as it stands and: are there things in there which make it less attractive for those people to invest?

I know, for argument's sake, from my own dealings with industry and the like, which is substantial, that some of the processes which apply to states and to tertiary institutions - and I'm not blaming; I know we've got a tertiary institution here in the audience, and I'm not having a poke at him - in terms of contracting are laborious, to say the least, and the private sector says, "Can't be bothered." Now, those sorts of things - you know - and I wonder whether some of that also applies at the Commonwealth level. We acknowledge there's a lack of hard data. Battled with that for years and for that reason we say we need to be cautious about the outcomes that we're recommending here.

I'd like to say a little bit about this issue of government reps on boards, and I might even give my own opinion on the appointment of the chairmen of the boards on the way through. I think - and this comes with a sense of amazement to you, I'm sure: I believe that the draft report is too soft in this area. If I was in government and I was making a contribution, even after we cut it down to 25 per cent of this level, I would want representation on the board. And I'm sick of hearing, frankly, about, "Oh well, the government isn't getting what it wants," and on the other hand saying, "Yeah, but the government hasn't told us what it does want, so we do our best," and the government says, "Here you are again. You're not listening." "Listening to what?" You've heard all this go backwards and forwards and backwards and forwards until you're probably sick of it.

What we need is appointees on these boards who are in a position in government that they know what the government policy is, they know what the departments are about, and can bring that to the RDCs and can take back from the RDCs and say, "Look, there are some aspects of this particular industry, the grain industry, and where it's headed that we need to take note of." It's another source of information from government by people that are out there all the time, which I think it's crazy not to take the benefit of.

Just how you go about appointing those, I don't know. You'd have criteria like you do for everything else. They don't need to be a senior position, that they can commit funds on the run. I'm not suggesting that, but they need to know what the hell's going on within government and take it back and have sufficient standing to

have it listened to.

Whilst we're on the issue of boards and the appointment of boards: yes, that has been a concern. I wonder whether the criteria are strong enough. It's very easy to have the throwaway line of saying, "It ought to be a skills based board." What skills? What for? How do you turn them over, et cetera? I'd be horrified if the boards of these RDCs didn't have at least one person, and hopefully two people, on it that were capable of chairing it. Private enterprise can't be wrong all the time. I think if you said, "Well, we've got to select a chairman from within the board," then you'd make damn sure that the criteria and the board selection gave rise to at least one; and you'd need at least one in case the one that you elected got knocked over by a tram - if they were in Melbourne or Adelaide. Not a big chance in Adelaide. Very firmly, I think you appoint a board and you say, "Right, you go and run this thing." I don't know whether ministers interfere with the appointments of the chairmen of the boards, but I think it's unhelpful for there even to be a suggestion that they do.

The balance of portfolio: this is an interesting area, in that I think you infer in your draft report that one of the conditions of funding ought to be that the RDCs ought to fund more basic research. Nobody is doubting, and certainly the industry funds don't doubt, the importance of basic research, nor are we not concerned about the diminution of the amount of basic research. It's as a result of universities, CSIRO, everybody else, having to be more commercial, and "more commercial" doesn't find the basic stuff necessarily all that attractive. So I think there's an area of market failure there, and I don't know that saying, "You must do areas of basic research," is going to be the way to go. I could look at it from the point of view of a producer and say, "Well, hang on. You built this thing around the fact that the beneficiary pays; therefore, I'm going to put my money where I get the biggest benefit and I don't reckon that's basic research." I think we've got a conundrum there.

The other point - and I don't see it being raised very much in the papers - is this relationship between research and training. I would hope that the university this afternoon might highlight this. I think you'd appreciate that there is, particularly in agriculture - and I guess in most faculties, but certainly agriculture is the one that I know - a very close relationship between the image of the faculty, the research it does and its excellence in teaching. If you get good research people, vibrant research programs - you know, some of them don't have many teaching skills, but you do have the reputation and you attract students. So any diminution of research effort I think not only impacts on research but it impacts on training as well, and we can't afford for it to be impacting on training since we only turn out about 50 per cent of the graduates in the industry that we need now. So we can't afford any hiccups in that area, I suggest.

I've already mentioned the issue of D and E. Through what the states have done, they have in effect said, "Well, the farmers themselves, the farmer groups and the private consultants can pick up development and extension." Nice thought. The fact is that they don't have the skills, nor the other resources, to do so. You would have heard from Dr Wilhelm this morning. He and I worked together in the low rainfall area and I'm sure he covered this area, so I won't go into great detail, but to expect those sectors to pick that up is, I believe, a forlorn hope, and I believe it is an integral part of any research project. I'll come to that now in terms of evaluation.

I'm not going to deal greatly with the cross-sectoral issues, except to say that in our initial submission we looked at cross-sectoral issues both at the field level and at the financial level, and I would suggest that you might have another look at that. That issue of doing the joint development at the field level with research, consultants, extension, farm systems and groups working as a team is gathering pace very rapidly. It's now being accepted by PISC. It goes to the GRDC next week and is about to be built into some of the MLA programs. So it's on. It's a good thing that it's happened, and I suppose it's one of the good outcomes of being damn short of resources. We haven't had much choice.

Evaluation: nobody would disagree that we need to put more effort into evaluation. Why don't we? Because it's damned hard and it's resource-hungry and the direct benefits are not necessarily seen. If you've got the choice between doing another project which has got some pretty interesting outcomes and spending more money on evaluation, you're more inclined to do the former. That's the reality. So we can't just say, "Yes, we need more evaluation," because evaluation comes at the scientific level, with scientific rigour and everything else, and you can get into arguments about publications and all of that sort of stuff and its importance.

What I want the evaluation to be is the outcomes for industry, and I don't think we do that at all well. That's one of the reasons why we have arguments about what's in the public and what's in the private good, because our evaluation is such that we can't define it. We don't ask the questions, I don't believe. The other part of that, too, is: along with evaluation is what I call market research. We spend very little time when we go into development and extension, or even deciding what research priorities are required, studying the issues, defining the issues properly, I believe, and finding out where the farmers are at at the present time. What is their knowledge? What are their attitudes? What are their practices?

I put it to you: what other successful company that markets products - and that's all we're doing; we're marketing information products - would go out and squirt information out around the farming community like we do, without having done the market research? But why isn't more of it done? Because it's damned hard and it's resource-intensive. It's not an area for the faint-hearted. I think if one turns to the

RRA - and I've made some points there about some concerns; I'm not going to get involved in an argument about whether RRA ought to take over or whatever, that sort of stuff. I'm more interested in how do you define the research priorities and how do you get the end result out there where it matters, and who is the person that it matters for? It's research for what and how, to me, and until we define that, then I think we're having difficulty in terms of how to manage separate organisations or whatever.

What I am concerned about is some areas that aren't researched at the moment, aren't picked up adequately, I believe, by the corporations, and they're critical areas in terms of understanding where we're at, what the research priorities ought to be; even some of the rural policy stuff as well. They're things like the rural social research. Have a look at the current situation with the Murray-Darling Basin. What's come out? Plenty of technical stuff: how much water is flowing here and how much needs this and how much needs that. What's caused the problem? Lack of socioeconomic impact, understanding about socioeconomic impact. We all know of course that it's people who will drive the system, and they're driven by the socioeconomic impacts. And, strange as it might seem, politics are driven by the same thing. We don't do much work on it.

Farm business management is another. We are seeing a revolution at the moment in terms of farmer interest in the business management stuff. Part of that is driven by the Commonwealth pulling out of the exceptional circumstances thing and saying, you know, they're going to head for programs which make businesses more resilient. We've got very little capacity left in Australia these days in training in farm business management and in research. Armidale used to be the king. Bill Malcolm at Melbourne University I think now works three days a week for the Victorian DPI - and he's one of the top farm management economists - because the university couldn't afford to pay him. Now, for goodness sake.

The other one is communications research, and that's the stuff I was just talking about. What are farmers doing? What are the methodologies that we ought to use here? The other is in evaluation. When the Australian Institute of Agricultural Science had an R and D conference in Canberra earlier this week, one of the three pillars that came out of that was the need for better R and D; better evaluation. We said we can't just keep saying it. It really needs special treatment, because it is damn complex and I think it was shown there. John Mullen said, "One of the difficulties with public/private good is that there are about four different definition sets about what's public and private good." So decide which one you want before you start evaluations.

That, gentlemen, is basically where we're at. We've tried to highlight some of the weaknesses as we see it and some of the things which we reckon ought to be

punched up a bit. We appreciate that it's a difficult task because you've got limited terms of reference, but having been involved in the past in the old Industries Assistance Commission, we never let that necessarily stand in the road too much.

The other point that I make, and the first point in this paper, is that there is no vision for agriculture and there is no real vision for RD and E, so we don't know where we want to be, which makes it a bit hard to know how we're going to get there. Those sorts of points I think are worth making in these reports - albeit they're almost on the side of the terms of reference - because they are important and, unless we keep saying it, nothing will ever be done.

MR WEICKHARDT: Thank you.

DR SAMSON: Thank you. What you've just said about no vision for the future of R and D was the last thing you said. The first thing you said was to express some reservations about PISC and the national R and D framework, which I would suspect a lot of people are starting to look at as reflecting that missing vision, if you like. So it interests and concerns me that you're concerned about PISC and the national R and D framework. If you could elaborate a little bit there, because I agree with you: in the absence of anything else, people are going to start putting a lot of weight and a lot of emphasis on that, too.

MR THOMAS (AIAST): Why? We could send you a paper, and if you wish we will do so - a paper which Dr Wilhelm and I wrote on the PISC process. How did it emerge? One of the reasons it emerged was a concern by the states that they were going to be faced with resource constraints because they saw the way the budgets were going: health, education, welfare, that was all that mattered, and the smallest piglet wasn't going to get their share. So they developed this process to try and address that. Fantastic. When it first started, people at the universities and that weren't even involved, so you could be excused when we say that this was sort of a state-driven process to deal with basically what was going to be a state issue.

I would be concerned if, by those constrained terms of reference - "paradigm" has become the common term - it would then be regarded as the vision, because there has been, I believe, a real shortage of industry consultation and widespread consultation in many of the PISC plans, and industry is complaining about that. So if you want it to be a vision, then you need to engage the bloody stakeholders in developing the vision surely, and I don't believe that that's been adequately done.

I don't see anywhere in the overall PISC agenda where it says, "Here's where we want to be and we believe that these things are necessary in getting there, and here's who ought to do what and here's who ought to pay." To me, that is what a vision and associated goals ought to give you, or lead you to at least; lead you to that

point of saying, "Well, here are the areas that we're in and, according to the vision and according to the goals and the strategy, here are the things we won't be in." We don't have that, and it pains me to say that as the national president of the Australian Institute of Agricultural Science, the lead organisation of the profession for goodness sake. We've got to take some of the responsibility for that, too.

So we have studies like this which are somewhat in isolation, and what is probably equally or more important is you've got government policies being made in isolation because I don't think that PISC, for all its benefits - and I don't want to bag it to the point of saying it has none; I mean, I think it was a brave thing to do and a necessary thing to do, given the situation that was faced, but maybe it was too difficult a task.

DR SAMSON: Just to test your proposition, though, Geoff, and not to put words in anybody's mouth, take grains as an example and the work that the PISC subcommittee have done on the RD and E in the grains industry. I think people would say, "Well, the GRDC were heavily involved in that grains sectoral work."

MR THOMAS (AIAST): Yes.

DR SAMSON: Putting your other hat on, would you not see the GRDC as being a reasonable body to represent the industry in terms of its R and D needs going forward? Where do you see the deficiencies in the consultation process, vis-a-vis the grains industry?

MR THOMAS (AIAST): The group that looked at the plan for the grains industry had three people on it from the GCA or whatever - one from New South Wales, one from Victoria and I think one from Western Australia. They were people who were active in things like the VFF and the farmer organisations. There was very little consultation with things like SAGIT, for argument's sake, who could have made real inputs. A lot of other groups I think could have made real inputs into that process that weren't consulted.

I've spoken with Mark Sweetingham who's now involved in the leadership of that program, because obviously I'm involved in the grains area and I know it pretty well. The problem that we have now is that we have a plan, and unless we've consulted, or unless we consult very quickly, we haven't got buy-in by the key stakeholders. So how successful is it going to be - that's my concern - even if you got the plan right? I don't know what it's like in other industries, but by hell, I tell you what, in the grains industry, if you want to provide direction, best you involve the people that are going to pay for it and benefit from it. And I think there was a lot more work could have been done in that.

DR SAMSON: Okay, thanks.

MR WEICKHARDT: You make a point, Geoff, in your notes - and you referred to it when you were introducing this - that you think that other people in the total chain should also contribute but in a way that the cost is not simply passed on to farmers. At the end of the day, in theory, everyone contributes through the pricing of the product that they buy.

MR THOMAS (AIAST): Yes.

MR WEICKHARDT: The farmers contribute to the R and D on the tractor or on the computer they use or on the GPS system they use by buying a product, which I guess in a competitive market is partly priced with some relationship to its cost but also to the dynamics of the competitive market it's in.

MR THOMAS (AIAST): Yes.

MR WEICKHARDT: I guess the issue in terms of the R and D component of this is that, at least at the farm level, we acknowledge there is market failure in terms of expecting farmers to individually do their own R and D, because they can't capture all the benefits, and there are all sorts of other reasons why they might under-invest. But when you go further down the value chain to processors, in the main you would expect them to be able to capture the benefits of their R and D. So I'm interested in why you feel it would be reasonable for either farmers or for the government to make any contribution to the R and D that they did. I'm sure the processors would love it if you contributed and I'm sure you'd love it if the processors contributed to your R and D, but really why should they?

MR THOMAS (AIAST): If the argument that we ought to consider the chain - the total chain - and the interrelationships between the total chain and the benefit which value-adding activities - and, let's face it, we've got to be very careful that we don't confuse the activities in that chain in terms of who ought to contribute to what. If they're in value-adding and if that has a benefit to farmers - and this is an argument which we get with SAGIT and that all the time.

I'll give you an example. In the durum industry - a big pasta producer here - you know, we have this argument all the time - yes, we are prepared to fund durum research which is aimed at noodle quality or pasta quality which finds greater market acceptance, not only here but in Asia, but we also know that the pasta manufacturer gets a big benefit. So we believe that is a joint responsibility. In our case, of course, the government doesn't fund it at all; doesn't fund SAGIT at all. So we say to those people, you know, "Hang on, there is another beneficiary here," and frequently it's my task to approach them and say, "Look, we're prepared to put up X provided you

toss in."

MR WEICKHARDT: It's great if you can get them to chip in, but most people buy products because they do give a benefit to them. You buy your TV set or your washing machine or your computer because it has some benefits to you and the supplier - - -

MR THOMAS (AIAST): Yes, I understand that.

MR WEICKHARDT: - - - does some work to try to make it attractive for you. I guess I'm saying, well, if your customer says, "I really want something special from you that's going to help me sell more product, and I'm therefore happy to contribute to the R and D," that's fine. But in terms of the government setting up some sort of scheme to collect money from that particular processor and match it, I can't see any general principle why that should be a part of government's priority.

MR THOMAS (AIAST): What did I say in the submission? I had in mind the storage and handling types of functions rather than straight value-adding functions in this point. I can see where you're coming from in terms of value-adding. You get the benefit of that from the market. You buy the input as cheap as you can and you fiddle with it and flog it on and make a quid. That's fine. In the case of the storage bit - and I think, you know, there are real benefits there. There are some big gains to be made, and I asked the question: should they not make a contribution towards the research which led to that greater volume or greater value of product?

MR WEICKHARDT: They might say, "Yes, we're happy to do that, but on the other hand, when you guys have a bad season and you give us half as much grain, you give us a contribution to make us whole again." I mean, these things can be looked at in different directions and - - -

MR THOMAS (AIAST): You're not suggesting that we capitalise our gains and socialise our losses, surely.

MR WEICKHARDT: Something like that.

DR SAMSON: Never in the industry would that happen.

MR THOMAS (AIAST): No, not at all. Of course, there is the added difficulty of being able to stop the hand-off. In fact, there are some people in the storage and marketing sector that have said that they believe that it would be reasonable, and you could think of areas where it would. Say, for argument's sake, you were going to do research on grain storage on-farm, which would encourage farmers to hold grain on-farm but do so safely, free of insects, et cetera, et cetera. You know, if I was a

storer and a marketer of grain, I'd think, "Jeez, it's certainly in my interests to make sure that they - I don't have to build the storage. They can do more of it on-farm, provided it meets the NACMA standards." So there are areas of research, I would suggest, in which it would be legitimate.

DR SAMSON: Just a last question from - - -

MR THOMAS (AIAST): Sorry, I'm not saying that it's necessarily therefore just a levy-type approach.

DR SAMSON: Okay.

MR THOMAS (AIAST): It can be a direct contribution type approach. Okay?

DR SAMSON: Just a last question from me. You said at the start that you're going to have, hopefully, two and a half million dollars to play with, which is a lot better than when it was 250,000. We talked briefly with some earlier participants - at the moment, as you know, the RDC model works on a three-year rolling average for the calculation of the government co-contribution.

MR THOMAS (AIAST): Yes.

DR SAMSON: Given the 10 years that we've just been through and your very, very coalface experience, would you be an advocate for revisiting the three-year rolling average and turning it into a longer term - - -

MR THOMAS (AIAST): Yes. SAGIT plans on a 10-year scenario. We have a 10-year business plan into what our levies need to be and we've built into that a number of things. Just as an aside, you were talking about administrative costs to a previous witness. Yes, they are about 10 per cent. I've worked very hard to get them to less than 10 per cent, and I'm the one that's the largest recipient of part of that 10 per cent and, you know, I've got to rebid the contract. So I've tried to skewer them right down by efficiencies of systems, but it doesn't matter whether you're putting a million and a half dollars out there or \$150 million out there; a lot of the processes are common. You've still got to assess them, you've still got to evaluate them, et cetera, et cetera, and, try as hard as I might, I can't get below.

But in terms of what you're saying, what we work on is prudential limits. Our limit in SAGIT is, we like to maintain in reserve two years' annual spend. Our annual spend on average has been about one and a half million dollars. That means that we put, new, about \$500,000 out there each year, given that they're three-year projects. That might go up a bit now, but part of this two and a half million dollars, which is great, is going to have to replace the reserve to bring it up to that level, but

we will put more money out there. But, no, I believe that you need to be working on a longer time frame than three years, particularly if you're working on a volume based thing like we are at the moment.

DR SAMSON: Sure, yes.

MR THOMAS (AIAST): It's not always that you get better prices when there are lower volumes, but the countercyclical bit can work in your favour. We have looked at ad valorem and we believe that, for a fund of our size, it's probably too complex and not worth going down that track. You see, ours is a voluntary levy and you don't have the Commonwealth power to get the ad valorem detail and all that stuff, so it really doesn't work.

DR SAMSON: Sure. Understood. Thank you.

MR WEICKHARDT: Thank you very much indeed, Geoff. We appreciate your input and contribution. We're going to adjourn now and we'll resume the hearings at 1 o'clock.

(Luncheon adjournment)

MR WEICKHARDT: We'll now resume the hearings. The first participant after lunch is the GWRDC. If you could please give your name and the capacity in which you're appearing.

MR McEWEN (GWRDC): Thank you, Philip. Rory McEwen, the presiding member of the Grape and Wine Research and Development Corporation - the new kid on the block.

DR LEE (GWRDC): Terry Lee is my name and I am a member of the board of the GWRDC and chair their R and D committee.

MS HARVEY (GWRDC): Kate Harvey. I'm the general manager and acting executive director of GWRDC.

MR WEICKHARDT: Thank you.

MR McEWEN (GWRDC): And another new kid on the block, so we've got a very experienced campaigner here on both sides of the fence for many years, and a couple of new ones. To try and add some value to where you are and what we do, I thought it might be useful if we just shared with you the conversation we're having internally. We are writing a submission and so the directors are having a conversation, and we haven't got a landing on a whole lot of issues, and I would wonder, on some of the issues, whether we will ever get a landing - the diversity of opinion - and I think one of the risks is that sometimes, by the time we get to a submission, it's dumbed down. We've got a really good board because there are robust discussions because people come from different angles. I might touch on that later when we get to governance.

I think there are 12 topics we'll talk about and then we might just range through them. We'd like to talk about public good. We'd like to talk about what we call "holding your own". We'd like to talk about containing discovery. We'd like to talk about where we sit in the funder/purchaser/provider space; a bit about industry development plans; a bit about researchable questions; a bit about the whole value chain; some stuff about governance; some stuff about the size of the cake, the size of the slice; a little bit about the national R and D framework; a bit about the non-industry R and D concept; and a bit about pathways to market for our research. If we cover all of them, we've done well. I went and had a look at some of the conversations we're having, and I wanted to put them in boxes. Now, different directors would only be in little bits of that space. Dr Lee would be across more of it.

So, public good. When we've had this engagement, people haven't said, "This is my definition," so we've been talking about it for some time before we've found we're not on the same page. So what is public good? We are looking at it in terms

of: so the new kid on the block, so there's the old boy on the block, so Dennis is the one that's obviously - I took over from Dennis when he stepped up to take the chair's role. So, enterprise, industry, community, society - we would look differently at public good. Then we could take an approach that said the funding mix changes or, if you tip it all in together, what you lose on the hurdy-gurdies you gain on the swings. But certainly at the enterprise level, within our space you'd argue there's very little public good. Keep in mind some public good comes into that space from some of the tax advantages, et cetera, that come to some at the research and enterprise level anyway. So there is an issue there but that's not, I don't think, what we're looking at here.

At an industry level there is a mixed stance to change, and you could use different examples; some of the biosecurity examples, for instance, so fruit fly. There would be an argument there about fruit fly is very much an industry issue because it protects markets and access and all the rest of it, but equally if you have a fruit fly outbreak and you have to quarantine a whole amount of Adelaide, I could say, "Here we go." I'd say, "Well, there's a public good/private good around a bit of biosecurity research."

By the time we get to community, we're now starting to say the balance is more public money and less private money, if you wanted to look at that spectrum. The example I used when the chairs met in Sydney the other week, which was not a research example but it was an example where at a state level we thought there was a lot of public good - so, drought money, to keep the factory open. So when in drought circumstances horticulturalists didn't have the money or the water, we said, "The government should buy that. There's a public good in keeping those perennial plantings there because of the impact on the community." And, of course, we then get to society generally. We were just talking over lunch. Terry was talking about that issue of society, where wine research has gone into new areas and suddenly we've got a whole new enterprise.

DR LEE (GWRDC): Yes. Public good: as Rory said, I find it hard to understand in a way, but I have a very simple way of looking at it. I just look at the health and wellbeing of a number of rural communities around Australia, and my experience goes back a long way - maybe 50 years - and there are a lot of rural communities in Australia that were almost non-existent in the 60s. I'm talking about Margaret River. I'm talking about Mornington Peninsula. Yarra Valley was a bunch of cows. And Mudgee, Orange. Many of these areas were run-down and almost non-existent, and with the development of the Australian wine industry at that time - as you remember, it was largely a fortified industry, and it saw the opportunity, with Australia moving from a colonial society to a cappuccino society.

The wine was very much part of that new society, with the influx of migrants,

et cetera, and when we looked around our resources, we had none of the really good wine-making varieties in this country that many of the overseas countries had. What we had was plenty of gordo and sultana, which are table grape varieties and awful for making wine, yet the industry was able to put together a system and technology to make very acceptable wines. I don't know whether any of you remember Ben Ean moselle, but it was the first million-case seller in this country.

DR SAMSON: Too well, I'm afraid.

DR LEE (GWRDC): Yes, well, that's right. When we got better varieties, then of course the quality of our wines increased enormously, and it led to investment in these rural communities. For instance, when I first went into the Hunter Valley in the 60s, there were no restaurants, there was no accommodation, and there were about three or four small cellar doors. I think there's been an investment of something like a billion dollars into that area in more recent times, and you could multiply that around about 50 regions throughout Australia. In my simple way of looking at it, I think the industry has had a tremendous influence, through its technical and marketing development, on the social and economic wellbeing of quite a large number of communities around Australia.

The other thing that I'd like to just point out - and maybe as an economist you'll shoot me down in flames - is that I spent seven years - - -

MR WEICKHARDT: Let me stress you're not talking to economists at this table.

DR LEE (GWRDC): I just wanted to make sure.

DR SAMSON: I'm an archaeologist, if it helps.

DR LEE (GWRDC): That's good. You'll appreciate this. For seven years, from 1997 to 2003, I was the vice-president of R and D for E. and J. Gallo Winery, which is a \$2 billion a year operation, the largest winery in the world, in California. I'll come back to that in some of the other parts of the presentation. One of the things that the industry did in California was, using a very widely accepted methodology it showed that the economic activity generated by the Californian wine industry was \$50 billion a year and certainly not all of that went through the wine industry's books. From a national point of view, when that same methodology was used it was about \$150 billion a year, and that put grapes and wine up into the top five or six crops in the US on economic value. That's a couple of bits of information from the development of the industry here in Australia and some numbers from the US.

MR WEICKHARDT: So why is this relevant to our report and our conclusions and recommendations?

MR McEWEN (GWRDC): In this definition of "public good", we've taken the example which might have started as research at an enterprise or an industry level, but it's now created a whole new community because that's been located somewhere else, so a new sustainable industry has developed - some of the examples around Margaret River and whatever - and in some way created competition. Our board members would say there was some public good in that work that might initially have been seen very much at an enterprise and an industry level.

MR WEICKHARDT: That might be the case. But as I was trying to say during the discussion that we had with the council of chairs, we can see that lots of activity generates spillovers for the public. The mining industry in the Hunter Valley would probably argue that they've done a hell of a lot to develop roads and infrastructure and employment and things like that. The issue that we're more concerned about is where should government get involved here, and government is, we think, rightly involved where there's some sort of market failure that means that other people will not invest.

The wine industry has invested in lots of those areas through its own enlightened self-interest. It might say, with the benefit of hindsight, it over-invested in some of those areas, but nonetheless it's invested in those areas because it was driven by a desire to make better-quality wine or more wine or whatever. So I don't think that really changes our view of whether or not governments should be involved in this. Every industry - whether they're developing new restaurants, new hotels, new bakeries; you know, surf shops - generates some public benefits. That's good, but they do it because primarily they're driven by their own private interest.

MR McEWEN (GWRDC): Agree entirely - and the discussion we were having around the shared space in the middle. So if you're looking back from society or you're looking forward from an individual enterprise as paying levies, you'll actually find a place where there's some shared ground. There's a place where it is enterprise only and there's a place where there's society only. We'll come to an example later where we would argue that some of the public money we would never spend because it's actually doing research that could be damaging to our industry, but it is legitimate research in that wine space. Without having that conversation, our directors found it difficult to talk about the mix of public and private, so the point there was just to try and chunk it up into bits and then have another discussion about the legitimate rights of the different funders in our space.

The second discussion we're having is about - and you touch on it - containing research so that you can get some value out of it, so the stakeholders continue to maintain ownership. You make the point that's very difficult. We actually see in some examples where our competitors are better placed to use that discovery.

Sometimes retrofitting that discovery into our wineries is far more expensive than adopting it in a greenfield site, so we would actually see Chile taking our discovery, turning it to competitive advantage and we meet it in a market in China or somewhere.

But if you take a really long view, the Australian wine industry started by discovery elsewhere, so again where are you in that space where you can turn it into a competitive advantage? We would see many of our academics, and many of the people we're purchasing the research from, having a view that it is generic. Part of what they are doing is writing papers and the rest of it. So even if we want to contain it, we have difficulty in our contracts in getting them to contain it or seeing that we are the owner, whoever we are, in that space.

Moving on, we're having a discussion about - and this is where the corporations are a bit different from the companies - funder/purchaser/provider. We're clearly not a funder - we've got one public and two private funders. We'll talk about their industry development plans in a minute, but as part of their needs in the industry development plan are some research needs, so we need to engage them. It gives us some broad direction. Our skill base is to translate that into researchable questions and then go and purchase them. So we've got a very clear understanding that we should have a mechanism where we get clear directions from our funders and, to some extent, we're not getting that.

Terry and I have had this discussion because one of the hats he wears is part of the industry bodies that actually have to do that work, and it's set out in our framework, and we admit that we need to do more work, even if it means some leader coach work in that space, but they must take ownership of that. I think too often we have to double-guess that because we're not getting that information in a form that's useful to our R and D subcommittee and our board in terms of translating that into an investment strategy. So we would say that our public and private funders have to be much stronger in that space. That's where we get clear directions, and sometimes they will be competing needs. It's our directors' job then to strike that balance.

Then we would say - and the process then as part of the accountability loop - the process then is our annual operating plans and the way that we've translated that into our investment strategy, and they should be able to comment on that. It's not strong enough and we need to bolster that up, and we see as a one-off if that means investing a bit of money in capacity building to do that job. Young leaders programs - other examples like that - that's a legitimate one-off use of the money to make sure we're getting that information. But in the absence of that, we see ourselves trying to double-guess some of that and it's not appropriate.

We don't see ourselves as a provider. You make the very good point that we create competition in that space. I'll give you a couple of examples in a minute where we don't, because some of the time we're an investor. We have to be an investor if the capacity and capability doesn't exist for us to be a purchaser, and that's a bit of a trap for us, and we're having some difficult examples and some challenging times at the moment around what I think the board used to call "block funding", and Dennis will know very much about the National Wine and Grape Industry Centre, one of our issues there.

So the board is having discussion about where a subset of industry development plans - and, again, the research bit should fall out of the industry development plan. What part of that requires research? Much of that of course is not researchable. We are seeing many of the pressures in the wine industry way beyond the bit that we will operate. There's some expectation that we might have to be able to help in that area. We can't. I mean, we can't do anything about exchange rates; we can't do anything about labour shortages; we can't do anything about a whole range of - what are some of the business challenges? We're just not in that space.

DR LEE (GWRDC): I think you were just enumerating. The exchange rate is very major and oversupply - and I think you alluded to that earlier on - is a major problem. I think we're getting a lot more competition from countries like Chile and Argentina who, in many ways, have adopted a lot of the systems that we have developed in this country. So, yes, there are a number of challenges. But you can look at it in another way: they're opportunities to overcome and move on, move forward.

MR McEWEN (GWRDC): But certainly some of those pinch points and rate limiters and barriers, et cetera, which the industry is very well aware of, we say to them, "Look, that's not appropriate for us." I think to some degree the corporations would see that a bit differently from the companies. Companies sometimes find themselves in the lobbying space, if there is some political grunt that's needed to resolve some of those barriers - trade barriers, for example. Our view is that doesn't - our directors, I think, are of like mind on that. I'm not saying we're of like mind on all these topics at the moment, and I think that's a good thing.

A couple of our directors have had this discussion but it was also had amongst the chairs in the meeting that Dennis called recently in Sydney about how you've got to be able to translate your stuff into a researchable question because that's what we do. With no hypothesis, we go and postulate something and sometimes it's difficult to take a generic notion of a public good and translate it into something that we can actually purchase.

There's a gap there so we find that, as much as we understand what people are

talking about, how we actually action that can be challenging and difficult, so a number of them will come back and say - and it's a fair question - "What is the researchable question here? What are you actually talking about that we can do something about?" I'm not saying we've got an answer. I'm saying I think it's a fair and reasonable question to put because at the end of the day, if we are one of the best of the purchasers in that space for some of the stuff you're talking about, then you've got to understand what we're looking for, what we're purchasing.

You say a little bit about the whole of value chain - marketing, knowledge development, consumer intelligence - fundamental to the wine industry and something that's unique to us is a disconnect in that whole of value chain in grape and wine because there are two organisations. There are two public corporations operating in that space: the Wine and Brandy Corporation, taking levies out of industry, selling compliance and services to industry; and Grape and Wine, taking levies from growers and wineries.

If you put all that money on the table, public and private, about 8 per cent of it is grower money because most of the activity is down the value chain. Some of the best discovery has been down the value chain. Discovery around closures has been a really good example, around new technologies. But there is a disconnect because there are two bodies and over time we need to have a conversation about that being one body. And then we will debate whether that sits within the PIERD framework, with the powers to collect levies et cetera, or whether Grape and Wine actually steps out of that framework.

I think our directors' view would obviously be we stay in the framework and we draw more of that in. From the Wine and Brandy Corp's point of view, although it may be their main bit of business, they do some other things which we wouldn't want to do. Or they're responsible for other bits of business which somebody else does at arm's length. The GIs is a little job that's done. It sits under their umbrella. Dennis chairs that committee. Are you still doing that?

MR MUTTON (CRRDC): I hope there are no more.

MR McEWEN (GWRDC): You hope there are no more? As long as you've got Mount Gambier over the line, then we'll be happy there are no more. Self-interest here. But the view would be that you just can't bolt the two together. You then bring a number of tensions in there. The levy payers would say, "Hold on, you can't be a regulatory and compliance organisation one minute and a partner in industry development the next." And I don't think it's an unreasonable thing for them to say, as much as we can say, "You can deal with those conflicts of interest," and whatever.

DR LEE (GWRDC): If I could just interrupt there: I think one of the reasons

we're seeing this bit of a conflict now - there wasn't any in the past when the industry and, I suspect, most of Australian agriculture was really production led - "This is what we made. You buy it. You eat it or drink it" - is that in recent years, to be competitive in the international market place - and our industry has gone in 25 years from exporting 3 per cent of 400,000 tonnes to 60 per cent of one and a half million tonnes - we've got to be very cognisant of what the customer and the consumer want.

I think the confusion that Rory is alluding to is arising because there is now a lot of pre-competitive information that can be gained about our customers and our consumers. We as an organisation have moved into that space and that is causing some conflicts. It is the sort of pre-competitive information that again I think only the very largest of companies would be able to acquire. I saw that in my time in Gallo. We were able to do that work because of the size of the company and the funds available. I don't think there's anyone in the Australian industry, even though we've got some large companies, that is doing it to the level we were doing it in California. So therefore we've tried to take some of these questions on a pre-competitive basis and generate information about some of our existing markets but also about some of our new markets like China and India and Japan and so forth.

MR McEWEN (GWRDC): I guess that's unique to us in terms of saying you've got two organisations in the one space. And you might say from your point of view it's a second-order issue as well, but as you allude to the notion that we ought to have a whole-of-value-chain focus, then at least we will put that on the record.

DR LEE (GWRDC): If I could interrupt again: it comes back to, if you're operating in the private sector, you set your goals and strategies. Often they're round where you want to sell your wine and where you want to market your wine and your brands and so forth, and then you work backwards on what you have to do to get there. The thing I see with this review is that all we're really concerned about is the 20 per cent that we're spending on research and we're forgetting about the 80 per cent that industry has to spend to take that information from wherever it comes from to get it into a usable product or reduce costs. So I just think that we're putting a lot of focus on a fairly small part of the whole innovation game.

MR McEWEN (GWRDC): So there are costs in doing the research and there are costs in adopting and adapting that, which we'll come to in a minute as well. Obviously, you initiated some discussion around the way stakeholders might have a say in the organisation that is the purchaser. Our directors' view seems to be that those boards are competency based. They're not representative based, but are very respectful that the funders have got an absolute right - and the preferred way to deal with that, as I alluded to earlier, is that they are responsible for the broad strategic direction, and we sign on that with them. And then we sign off in some way in terms of the annual operating plans, KPIs or whatever, how we report back.

But the minute we bring them into the governance, the day-to-day business, we create another set of tensions, so we'd actually prefer - we respect that it's a legitimate point to make but our preferred way to deal with it would be to maintain competency around the table in terms of those purchasing decisions. They are complex, research based decisions and we do need a broad understanding of the science behind it. That's the space we best work in, giving value to money for our funders in terms of buying the best research, the most needed research.

I indicated that part of that challenge is that there are times when we have to be an investor as well as a purchaser. More and more organisations are looking to us in terms of being in the investor space. We're saying we shouldn't be in it at all. In fact, we're getting industry push-back that says, "You should be less and less in that space. You should be out there, buying the very best you can." I think you used the term the money-go-round. This is very much part of the money-go-round. Who's responsible for the underpinnings that give us the opportunity to buy the research we want?

Is there market failure? We've got two large organisations, one in Adelaide and one in Wagga, where GWRDC over a number of years has actually put significant money - "block funding" is the term - into that, so that they can then purchase. The argument was, if we didn't put the money in, the capacity and capability wouldn't exist. Now, as soon as you do that, everyone else wants to be in that space, so the state department, the CSIRO, the universities all now start saying, "Hold on. You shouldn't just be a purchaser with marginal cost recovery. You should be in there taking responsibility for some of those underpinnings."

Our view is, we don't need to. We're a small player in the scheme of things. Yes, we might sponsor some PhD students and we might have an eye to leadership and we might have an eye to some other stuff. But we actually get captured and then we get to the point where we can't buy the best because what we've actually underpinned is not the best. They haven't performed, and we ain't got a way out necessarily, and we're looking at ways where we can - well, I guess what I'm saying on behalf of the directors is that we wouldn't wish to repeat that.

We're certainly not suggesting that we would not honour contracts, but we would say that we have to give people early warning about it not being our preferred position, and I think industry - we would be well over 50 per cent now, wouldn't we, in terms of AWRI? So 50 per cent of our money, although we're still purchasing research, we're limited to where we can buy it from. Industry says that shouldn't be any more than 30, and I'm getting the feeling that they're even going to want to push back further. It's a difficult issue in that research space that we think others should deal with.

There are two issues around the companies and corporations being as good as anybody and better than most in this purchasing space, so saying that the size of the slice - so the companies and corporations could always be arguing that they should be a large part of that slice. They do it well. They can make improvements and they do it well. I think the size of the cake is a different argument. Sometimes we say, "If we're the best, you shouldn't cut us." Well, I think they're actually two different discussions. "We're the best. We always want the biggest per cent of the cake. Let's now have a discussion about the size of the cake," and I think the discussion there is going to be a different one, and it's probably going to be more a political discussion because there are going to be some industries saying, "You've welched on the deal. When we had a discussion about the quantum, we had a discussion about the shared percentages in that, so if you're going to now rub out part of this, we want to have a discussion about the rest of it," rather than simply say, "If we pull back some money from public money, there will be some substitution and private money."

I can see a push back on one front which is going to say, "Hold on. That wasn't the deal that was put to everybody as part of the original debate." So I think the debate about the quantum is going to be a different debate about how much of that should be managed within the companies and corporations. Terry, you're telling the directors about your international experience; that industry hasn't filled that void. Can you just elaborate on that?

DR LEE (GWRDC): Yes. I guess it comes back to your concerns about market failure. I think it would be fair to say - I've come from a point of view where before the RDCs were set up we were always on tenterhooks about funding, even for the next year, because it was largely coming from industry. I think what the RDCs have done is, in no small way, put some certainty into available funding and it's certainly removed the free-rider ability of some companies who don't want to put in. I've seen that in California where it is a voluntary basis. There's an organisation called the American Vineyard Foundation. It collects moneys for research on investment on behalf of the Californian industry. The Californian industry is twice as big as the Australian industry and it spends generally about one to one and a half billion dollars a year on research. There are some companies in the industry, and some quite large companies, who do not contribute at all.

So from my point of view there's some very good experience of an industry which is very similar to ours, it has a very similar track record and history. If you put it on a voluntary basis, some companies will go with the noblesse oblige and will put money in and will assist the funding of research that individual companies, no matter how large they are, would not be able to do. A lot of, for instance, the long-term blue-sky research we do here in Australia, none of the companies would do it on their own account, and the reason for that is that unless they see the ability to

patent it and lock it up for their own use, they will not fund it. The reason why you can't get too much of an advantage in the wine industry is that it's a very, very tightly regulated industry. The definition of "wine" is so tight around the world that you're not going to see huge breakthroughs in the technology of making wine. It's always been a continuous improvement of all the unit operations of making wine.

On the grapegrowing side in this country alone we have something like 6000 grapegrowers, and there's no way that you would be able to get any of those - even the largest ones - to invest in the sort of work that we're able to invest in, for instance, at the CSIRO, which is into the molecular biology area. No companies will go near the molecular biology area because of the activists out there that would immediately taint the company as working with GM, even though they're not. So to be able to do that at arm's length with an organisation like CSIRO through a whole-of-industry funding is a huge benefit.

The other reason that I see for doing that is - and I think you put it right up-front in your report - Australian agriculture has been the beneficiary of a lot of information and systems and products from overseas, and I believe we've been able to access a lot of that information over the years - not only in the wine industry but in other forms of agriculture - because of the quality of research that we undertake in Australia and fund in Australia. It allows us a seat at the table, so it allows us direct access into the research information almost before it's printed. It also allows our industry, through recommendations of the research community, to be able to go and talk to the best researchers around the world, and that's been the way we've been able to operate for at least 50 years but very intensively over the last 30 years.

A lot of that is personal contact but I think, unless we were carrying out some research in this country - for instance, the journal that we publish here in Australia is now rated as the number one grape and wine research journal in the world. So the quality of the work that we fund is very high and it opens lots of doors for us. To my mind, the amount of money that government and the industry spends on R and D through the RDC system is almost loose change in getting access to that world of information, because it's generally acknowledged that we publish about 2 per cent of the world's research information, so there's another 98 per cent out there that's worth chasing, or much of it is worth chasing.

MR McEWEN (GWRDC): We can't assume just because we fund a discovery we can use it as a competitive advantage. I gave the example earlier where adopting some of our discovery in greenfield sites is easier than retrofitting. We've got another unique one in this space in the transgenics area, so we fund, along with British Columbia, the mapping of the yeast genome. Once you've got that, it opens the door to GM technologies. GM technology is a very powerful tool in terms of modifying wines. You could actually go to flavour-enhanced low alcohol, et cetera.

The Canadian wine industry adopts that technology, starts producing those yeasts. The Australian wine industry says, "We won't use GM yeasts." Another part of the complex marketing strategy says, "We may have done this research, we may have made a discovery. Our competitors may be able to use it against us, but we won't use it anyway. We will try and create a point of difference in that marketing space by saying we're clean and green." Just an example where we happened to crack that and then didn't think through to the pathway to market.

DR LEE (GWRDC): Just to build a little bit on that, there's an enormous difference between GM products and being able to use modern molecular techniques to understand how our three major organisms - which are grapes, yeast and lactic acid bacteria - work, and improve them consequently in the way they run our system. So the Australian industry is, as Rory has indicated, a very strong funder of the application of modern molecular techniques to understanding our three organisms that we work with, but it's indicated that it won't be utilising GM organisms in its production technology at the present moment. That will change, I have got no doubt about it, but that's the situation at the present moment. But we are funding a lot of work, using these modern technologies.

MR WEICKHARDT: Can I be a bit selfish here because we've only got limited time left? If you can try and draw these general remarks into some specific suggestions of what it is you either like or you don't like about our draft report, that would be extremely helpful.

MR McEWEN (GWRDC): We will do that in our response to you.

MR WEICKHARDT: Okay.

MR McEWEN (GWRDC): Just the fact that your draft report has caused us to have this debate - a good debate - on so many fronts, just pointing out to you that the ripple-out effect of this won't be captured in a response in a lot of ways, but it's been very good in terms of the directors debating a lot of this stuff.

MR WEICKHARDT: Okay.

MR McEWEN (GWRDC): To answer your question, though: will it change the way we conduct the early work in terms of our new strategic plan? Yes. We've already started doing that work, about making it far clearer to our public and private funders up-front. Certainly in the cross-sectoral space - which is a difficult one, of course, because some people saw that as scope-shifting and some people saw it as cost-shifting - certainly the public funder was saying, "I want a broader scope in terms of the researchable questions," and there was some push-back there, and

Dennis has dealt with some of that. Legitimately, some said, "Hold on, this is beyond that. This is actually taking some stuff you were funding in another public space and now saying you want to push it into this public space." So that was actually cost-shifting.

Are we comfortable with the cross-sectoral stuff? Yes. Do we simply say it's commodities down here, cross-sectoral there? No, we don't. We don't know necessarily that defining our research in terms of a commodity is the only way to do it. We actually see a lot of our research - the pathway to market depends as much about the enterprise structure as it does about the commodity, and we know that one of our real challenges is actually getting adoption and adaption of the discovery across the enterprises.

An example: many of our small enterprises, particularly at the grower end, just find it difficult. They agree with the research and everything else. Their enterprise model: how do they fund that? Mainly with debt. It's very unusual to use equity in terms of trying to do that. In the debt space, have they got any money at the moment to incorporate that? No. They are under so much pressure. The banks just wouldn't - no point in having a conversation. So here we are, we haven't been respectful of the fact that the pathway to market will be a different enterprise.

Then what we see is, across commodities, a whole lot of these enterprise-specific needs start to emerge and I see that as cross-sectoral in another way. So we just can't assume, because sometimes our small growers will say, "You're only looking after the big end of town." They're the ones that quickly - they had the other 80 per cent to take this stuff and translate it into a competitive advantage. A fair question. We need to have a look at that.

We have been talking with the companies and corporations about spending a lot more time together in terms of - I won't say "generic", that's too strong a word, but in terms of a purchasing framework, where we have much clearer rules about the pathway to market and ownership of the discovery. Can some of our research organisations take that through to the individual? No. They haven't got those skills. Do we bring that back in-house? We'd prefer not to. We're doing a lot of work collectively around "extension", whatever that word means, trying to map clearly up-front how we actually translate this into a productive outcome.

DR LEE (GWRDC): Could I answer Philip's question fairly pointedly, in a way.

MR McEWEN (GWRDC): You tend to answer all of the questions pointedly. That's probably a good thing.

DR LEE (GWRDC): One of the things I guess we're a little disappointed in is that

you'd recommend a lessening of the amount of money spent through the RDC system. On your figures, it shows - - -

MR WEICKHARDT: Can I just push back. We didn't recommend a lessening of the money spent through the RDC system; we recommended a lessening of the government contribution.

DR LEE (GWRDC): Okay. Right.

MR WEICKHARDT: Our desire and hope would be that some of that gap - and you may tell me we've been smoking illegal substances and we're crazy, but we were hoping that a large chunk of that space that the government might vacate would be taken up by industry contributing more.

MR McEWEN (GWRDC): Can I interrupt on that point?

DR LEE (GWRDC): Yes, sure.

MR McEWEN (GWRDC): I think one thing you missed there was that, particularly in South Australia - and it's different in different states - there is another level at which they contribute. So under the Primary Industry Funding Schemes Act the levies are voluntary but they're all collected up-front. They're voluntary to the extent that if you ask for them back later, you can get them back, but you never see them in the first place.

So we're collecting a lot more money, again from industry, and a lot of that tends to be extension based and regionality becomes an issue. So we haven't captured all of the revenue that the wine industry is putting into research. We've looked at one suite, which is where we sit together. We haven't looked at the taxation suite, which I touched on at the start, in terms of the research that's got a tax advantage at end-price level and we haven't looked at the other levies that are collected at a state level.

DR LEE (GWRDC): Phil, to come back to your point, where you feel that the amount of money being spent on R and D through the RDCs will remain the same, on the assumption that industry will jump in and fill the disappearing of the government funds, I think we've advanced a number of reasons why we suspect that that will not happen in the wine industry. I can't speak for other industries.

The other point I was going to make is that the RDC spending is only about 30 per cent of the total R and D funds spent on rural R and D in Australia. I guess we've been trying to make the point that the money spent through the RDCs, with the industry support - with their own money but also providing direction - is most

probably a better spend than the money that just goes through the government organisations, because they're very well aware of their own needs and also the needs of the communities, and we've talked about how these communities have blossomed with the growth of the industry.

Rather than a lessening of that pot of money going through the RDCs, I'd like to see it increased and maybe even reducing slightly the amount of money going through the other government spend - direct government spend - because there's very little industry input on that spending.

MR WEICKHARDT: Which is the other direct government spend?

DR LEE (GWRDC): I mean through CSIRO, through the universities, through state government departments. If we're only spending 400 million through the RDCs, there's another 1.1 billion going largely through government organisations, and industry doesn't have much of a say on the priorities for that spending.

This is a problem we run into every day of the week with just our own people that we fund. As Rory has indicated, we're having some difficulties in getting industry to be very serious about setting priorities. Some are, some are not. When they do, it's like a company: they set their strategies, their vision, and then they look at their various departments as to how they're going to achieve that. I think, rather than coming from the other way, which would be trying to work as much as possible with industry to set the priorities for our spending - - -

DR SAMSON: Talking about priority-setting, as we've gone through the inquiry we've heard a lot about the PISC national R D and E strategy.

DR LEE (GWRDC): Yes, the framework.

DR SAMSON: The framework, sorry, yes. A lot of people seem to see that it offers a potential focus on what the national priorities should be. Others are a bit worried that it sort of locks you into a distribution of resources that may or may not make sense today but in the future might be different. From where you guys sit, with your industry, do you see this as the sort of blueprint for the foreseeable future?

MR McEWEN (GWRDC): I think the short answer is yes, but there are a couple of risks in it. It depends who's on those peak bodies that are giving you that advice, and it sometimes tends to be the big end of town because they have the expertise and the capacity to go and do that. So I wouldn't say that the whole of industry is as well represented as it can be in that up-front stage, but that's the challenge we've given one of our directors, who sits on a number of those bodies as well.

If you get that part of the framework right, even if it means using some of our money to get it right, then standing back - but surely our purchasers ought to tell us what they want us to do with their money. I think it's a dangerous space to be in, for us to try and double-guess, but we will have people coming to us and saying, "We want to know a route to use through the back door." Some of the smaller regions - we had this down on the Mornington Peninsula, where they were drinking pinot the other week. And I'll apologise for drinking pinot, but there wasn't anything else available. They were saying, "How can we get it to you directly?" and the answer is, "You've got structures within your industry. You must respect that we are not a way to backdoor you pushing your barrow." So we have to be firm about that as well. We've got to make sure it's working and then we've got to be firm about it.

As you know, some of the plans do that well - sheep and pigs, I think. For different reasons some of the plans haven't got that sorted out particularly well yet and some of them are too complex to do that, in fairness. While it's commodity based you'd at least think they could do that bit of it well. Certainly the cross-sectoral stuff they will struggle with and of course, in fairness to the public funder, some of the research he or she - that public funder - is going to purchase we're not going to do anyway. We are not going to do research on the detrimental effects of alcohol. Public funder is. We'd get killed if we went into that space, just as an example. There are plenty of things, so we just say, "Fine, public good. Go and do it. It should be done elsewhere. It's a health issue," or whatever. So we don't want to argue for one second that we're the only funder in that space.

Some of the tension is around water. Who does that research? Our funders would actually see that they come from a totally different position than water. One says society and environment; the other says production. That's one we may need to be in but it would be a bit on the tricky side.

DR LEE (GWRDC): Cliff, to come back to your question: as an industry we've worked very hard in developing this framework and it's an ongoing thing. We've already made a number of adjustments to it, which we will communicate with the Primary Industries standing council. A couple of the drivers are, I think we're getting the research community and the extension community communicating with each other, talking with each other, and it provides them an opportunity to have their say in developing priorities for funding. Obviously we need to take notice of what they have to say. It just can't be totally industry saying. You need to have the views coming up from the research community and from the extension community. I think that's starting to work fairly well but it's early days yet.

I was saying to Rory earlier that there's obviously not a big bucket of money floating around, so some people will peel away because there's not a big bucket of money, but I think it provides, as you say, a framework for pretty good discussions

about setting priorities - I think that's going to be the important outcome of it - and where the resources are going to come from. We just can't, in this country, have resources spread like Vegemite over the country. I mean, California is twice as big as this country in population and economic activity, so we just can't afford to. We've got to focus our efforts where we can do the best.

MR McEWEN (GWRDC): The framework does a lot of other things, of course, beyond the bit we operate in. Of course, as you know, a lot of it was about this suboptimal position in research. A lot of decisions were made politically. You know the story very well. We got right to the end until New South Wales, Ian Macdonald. Someone reminded him of his marginal seat strategy and they weren't going to have any coherent whole-of-nation approach to research any more. Many of the decisions around the positioning of that part - local political decisions, you can't pull them back out of these communities. New South Wales was the worst.

Look, it worked to some degree. South Australia, for example, exited dairying and contracted it all to Victoria. Victoria exited aquaculture and contracted it to South Australia. So it started to make sense in a small way, but you've got to see that working. You've still got to see that you get good value for money and you've got to make sure that the checks and balances are in place without having to do it yourself.

DR LEE (GWRDC): And the information is shared.

MR McEWEN (GWRDC): But a lot of our research committees are pretty precious, and a lot of people around them, and there are some pretty powerful hitters on some of those boards. You take on some of the universities, you take on some big boys around Australia. We've just had enough.

MR WEICKHARDT: Okay. Well, perhaps I can ask a question about the comments you were making about block funding and not being overly committed to one institution; not being an investor. With respect, if you're going to try and purchase everything at a marginal cost, you're at considerable vulnerability, I would have thought, to somebody who says, "Well, I'm no longer going to contribute to the fixed costs." Then all your capacity has gone.

MR McEWEN (GWRDC): Yes, so?

MR WEICKHARDT: You're then up the proverbial creek, I suspect.

MR McEWEN (GWRDC): Agreed. So our industry says to us it's not unreasonable to have about 30 per cent. There are a whole lot of risks going beyond 30 per cent because we don't have long-term control over revenue streams anyway, particularly in grape and wine. The annual harvest is a big pretty big driver and can

take 20 per cent of our bottom line very quickly, so we are vulnerable in that space anyway.

The other thing is, over time your research needs change or the ability to get it done elsewhere changes, so you don't want to now lock yourself into a second-rate provider simply because you're part of their block funding. We've got a challenge. One of our block funding partners was independently reviewed and it was not a glowing review. So the industry now says to us, "Well, hold on. Why are you still buying that there?" I agree that there is a space. If other people are not underwriting that capacity and capability out of universities or CSIRO et cetera, yes, we should be a partner in there. But there are enormous risks when you get above about 30 per cent - and at the moment we would be close to 60 per cent - because if you've got a five-year contract with someone and your revenue stream is dropping, the amount of money that Terry has got left over shrinks very rapidly.

The other thing is it's easy to get into these things but it's politically difficult to get out of them. We've got a five-year contract that we've actually said delivered everything it needed to. Do you know there's an expectation that that's just going to keep going on? In fact there's an expectation it's going to increase. We have never ever given any hint that that would be the case, but there will be some political activity in this space for the next little while because we're at the end of a five-year contract.

DR SAMSON: I can remember when I was on the board of the GRDC we had some painful discussions with CSIRO on this same issue and I think now the sugar RDC is having similar discussions with the BSES, so it is something that - - -

DR LEE (GWRDC): It's difficult - and I think this is what you're alluding to. It's difficult when you have an organisation which develops expertise but they go through cycles. They rise to a peak of really good activity and then people start to retire. It really does go in cycles, so how you manage that is not easy.

DR SAMSON: What's the health of the research capability in your industry? We hear a lot that, in rural R and D in general, things are very stressed and people worry about where the next generation of research scientists are going to come from. Obviously that varies from industry to industry. How would you characterise the health of your industry's R and D human capacity base?

DR LEE (GWRDC): You could apply all those sort of terms that you just used but, look, I think in many respects we have most probably the greatest concentration of research and extension and education activity in the grape wine industry in the world on the Waite campus here. So we have a lot of talented people and they're doing a lot of nice work and, as I was saying earlier, that's the sort of activity that

buys us access to information from around the world.

So we've also taken a position where we provide scholarships for PhD students. Not all those kids will come back and work in your research area but that doesn't matter. I can point to quite a large number of them who went through PhDs when I was running the Wine Research Institute that are now in the industry itself. That's good.

Look, it could be better, but when I compare our position right now to what's going on around the rest of the world, I think we're in a reasonable position. There's some concern in the CSIRO that you've got a group of staff there now that are reaching the ends of their careers and they've made a significant contribution to the industry over quite a large time. I think there are concerns about replacing those people and losing expertise but it's something that we've just got to work away at.

MR McEWEN (GWRDC): But certainly the wine industry costs us, so not only AWRI but for the CSIRO and the plant accelerator, the plant functional genomics - that is seen as a world leader. The cluster out there is just very, very strong.

DR LEE (GWRDC): At the Waite campus. Having that there does attract a lot of people from overseas to come and work there for the short or longer periods of time, and most of the collaboration linkages with overseas are through personal contacts like that and it's very strong.

MR McEWEN (GWRDC): We'll get some push-back from the industry that says, "Now you're statecentric, why aren't our levies being spent in our state?"

DR SAMSON: Yes.

MR McEWEN (GWRDC): We've got to say, "This is not about centres of excellence; it's a national industry. That is the powerful centre; that is the driver."

DR LEE (GWRDC): You just ignore that. That's been around for 30 years.

DR SAMSON: Talk to the grains industry about it.

MR McEWEN (GWRDC): Yes.

MR WEICKHARDT: All right. Thank you very much indeed. I'm sorry we're out of time, but thank you. I appreciate you coming along, and we'll look forward to seeing your submission.

MR McEWEN (GWRDC): Not everything we discussed today will be in it, but

you understand the process.

MR WEICKHARDT: That's fine. Okay, thank you.

MR WEICKHARDT: Okay, our next participant is the University of Adelaide.

DR HOGENDOORN: I'd like to clarify one thing: I'm not representing the University of Adelaide.

MR WEICKHARDT: Okay. Perhaps you'd introduce yourself and the capacity in which you're appearing.

DR HOGENDOORN: Absolutely. I'm here on personal title. I have been a researcher of beneficial insects for 22 years. I've worked overseas. I've been in Australia for 14 years. I've always been liaised to research institutions, and my research has always been based on grants or paid from funding bodies. So I am well seasoned in that game, and a researcher.

MR WEICKHARDT: Okay, thank you. You tell us your story.

DR HOGENDOORN: Okay. What I would like to urge Rural Research Australia to do is to include biodiversity in the remit - that is, the sustainable use of biodiversity - and that's in addition to the land, water and energy use that's already mentioned in recommendation 6.1. I'd like to explain a little bit why that is important. It is, I think, important because the inclusion of biodiversity will initiate possibilities for funding for important cross-industry research that often involves many small, unorganised stakeholders. That kind of research is currently very much underfunded, and I'd like to illustrate that with three very brief examples.

One example concerns groundwater. As you know, groundwater originates from surface water. Surface water often has a high nutrient content; moves into the ground; gets purified by bacteria, and these bacteria grow on bacterial films underneath the ground. We recently have more evidence that small invertebrates in the groundwater eat these bacteria and bacterial films and that that is the reason why our groundwater systems do not clog up. At the moment we are not sure about that and we do not know how our agricultural systems influence our groundwater practices. What I'd like to stress here is that in the current structure we need to know these kinds of things because we need to know how we manage the groundwater, but we don't know how this kind of research is supported in this structure; which industry will use their levy towards it.

The second example is very similar; it comes from soils. Overseas, mainly earthworms regulate soil quality. In Australia, it's mainly termites and ants that regulate soil quality, by aerating the soil and by moving organic material into the soil. Everybody agrees that maintenance of good soil health is very important for agriculture and for production, but the funding for this very important cross-industry issue is limited and the funding structures do not promote funding for this kind of

work very much.

My third example is crop pollination, which of course is my own turf, because this is what I work on. The arrival of the varroa mite will wipe out the feral honey bees in the near future, which means that we have no free pollination from honey bees and there will be a shortage of managed honey beehives, which means the farmers will have to pay for crop pollination which is now free, and that will be reflected in the price at the check-out.

The mite will not affect our 1600 native bee species, and they currently provide 10 to 15 per cent of crop pollination, which reflects about 50 million per annum. So by logic we need to learn about the use of biodiversity to enhance free pollination. Native bees, by the way, can help to pollinate apples, pears, cherries, sunflower, lucerne, canola, pumpkins, strawberries, capsicum, tomatoes, avocado, and you can go on, so all small staples. Again the funding structure precludes the funding for such research, because of the many stakeholders, and that is reflected in the new pollination program of RIRDC, where the two largest, well-organised stakeholders - honey bees and almonds - completely dominate the priorities. It's also reflected in the very limited, very small funding for this important program.

All these three examples - groundwater, soil and pollinator biodiversity - are non-industry-specific rural R and D issues that are highly relevant to promoting productive and sustainable research use. That's in the information request at 7.1. The research needs regarding these ecosystem services are currently unmet, largely, and they are both socially and environmentally valuable. Collective cross-industry funding will be crucial to achieve an adequate funding base for research in this area. The explicit identification of the sustainable use of biodiversity and a cross-industry approach are important first steps to remedy this deficiency in the current funding schemes, I think.

So it's my hope that inclusion of a sustainable use of biodiversity in the remit will lead to an inclusive approach to high-priority national rural issues, in particular those that involve many small stakeholders across numerous industries. That's what I wanted to say.

MR WEICKHARDT: Thank you.

DR SAMSON: Thank you very much. From memory, was it Charles Darwin who did the original research on earthworms moving soil around?

DR HOGENDOORN: Yes.

DR SAMSON: Thank you, I'll take that one.

MR WEICKHARDT: Very good.

DR SAMSON: As an ex-archaeologist, we used to hate those earthworms. The three examples you give are good examples of this broader issue that we've been grappling with; how any small group gets their issues sufficient time in the sun under any R and D funding model. I think it's always difficult, however we structure it. In theory - - -

DR HOGENDOORN: In theory - - -

DR SAMSON: - - - as you've alluded to, RIRDC is the current vehicle. Potentially, an RRA organisation that may or may not come into existence would be the vehicle, but even with that I'd suggest it's always going to be difficult, if you are just a very, very small industry - - -

DR HOGENDOORN: I'm not talking about individual small industries; I'm talking about a more general benefit for many small industries, and because of the current structure they are competing amongst themselves for money. They won't combine to fund some overarching research because they're all trying to solve their own small problems. I'm not talking about small industries; I'm talking about big money here but for many stakeholders, if you want research for general good.

DR SAMSON: Even if you changed to an RRA model, it would, from your perspective, I'm sure, be a step forward if one of the areas of its remit was biodiversity. Do you despair totally, under the current system, of all those players getting together?

DR HOGENDOORN: Yes, I do. What I think needs to happen is someone - and this would automatically be a government organisation - would have to take the stance to say, "Look, part of your industries will need to collaborate for this kind of research that we'll profit from," and the industries themselves won't do that under this structure, so I think that the government needs to put those measures in place. That's what I think.

MR WEICKHARDT: I detect a sense of frustration. It sounds like you've knocked on lots of doors and attempted to get people to see this picture.

DR HOGENDOORN: Yes.

MR WEICKHARDT: Without giving us the blow-by-blow description, can you just give us a summation of the sorts of reactions you've had from different institutions? Do they all they, "You're absolutely right, but somebody else should do

it"?

DR HOGENDOORN: No, they all say, "You're absolutely right, but we have no money at the moment." This is all the horticultural levy paying industries, right?

MR WEICKHARDT: What about CSIRO? Do they say the same thing?

DR HOGENDOORN: CSIRO says, "Yes, we study ecosystem services," but I've got to admit I've gone very much via universities through the funding systems. The problem there is that the individual industries don't have the funds or they have other priorities. The newly-started pollination group only has funds for honey bee research, not for native bee research at all, and I cannot see why - apart from the fact that stakeholders and also people who benefit from that research are immediately represented in that steering group, which is of course a bad thing. So everybody says, "Yes, you are right. Yes, you have a point. Yes, you have very good ideas." But when it comes to funding, there is a very limited amount. So that's a frustration.

MR WEICKHARDT: Is this just an Australian problem? Forgive my ignorance, but is this mite going to wipe out honey bees around the world?

DR HOGENDOORN: No, this mite has already wiped out feral honey bees around the world, and everywhere else in the world, yes, there is money for research on native bees. There is much more research, with biodiversity in the back of the mind and the role of biodiversity for agriculture, in Brazil than there is in Australia; in Europe than there is in Australia; and even in China this is coming up. So, yes, Australia is definitely not on the front line there. It's very limited.

MR WEICKHARDT: Is your sense that it's inevitable that this mite is going to wipe out honey bees in Australia?

DR HOGENDOORN: Yes. That is not something that I have thought up. That's something that actually comes from Denis Anderson from CSIRO, and there has been a government inquiry into this and people are looking into this problem. Now, that's not something I made. Actually, a study from RIRDC is detailing that.

MR WEICKHARDT: But that hasn't led to any extra funds yet?

DR HOGENDOORN: It has led to very limited funds, because the honey bee industry is a small industry and the almond industry - it has led to very limited funds, with industries, say, looking at each other: "Well, why don't you put in more?" It's like that, see? And I think government needs to take charge, or government organisations need to take charge in these respects. Not only pollination: it's the general use of biodiversity in agriculture.

MR WEICKHARDT: I can understand your other examples, which are definitely very much in the frame of some of the things that have been suggested to us around the need for some sort of central or cross-cutting research. I'm amazed, if other people do see the same picture you do - that this is a potential threat - that people like Plant Health Australia or other people aren't saying, "Gosh, this should be a huge research priority for the country."

DR HOGENDOORN: Yes, I do believe people are saying that, but they haven't followed that up with funds as yet, as far as I know. There is talk about a pollination CRC in South Australia. Gerald Martin is trying to get that off the ground but has had limited success, I believe, as yet.

MR WEICKHARDT: Have you any other comments and reactions to your exposure to the RDCs in any other areas, where you can comment on either good or bad experience, and any reaction?

DR HOGENDOORN: I work with grants at the moment from Horticulture Australia and this is not a levy-funded grant.

MR WEICKHARDT: It's not?

DR HOGENDOORN: It's not, no, so it's half-half from the industry.

MR WEICKHARDT: So it's a voluntary contribution, is it?

DR HOGENDOORN: Yes, a voluntary contribution. It is. That is good, but it's because of this real need of this small industry, that it's a seed industry, and of course they need some pollination. But to get that to a more general level, that is where it's becoming difficult to arrange. For instance, I could work with the strawberry industry, with the blueberry industry, but they are so small and to get them together is very, very hard.

MR WEICKHARDT: So you find HAL is very sort of siloed, is it, into these particular areas?

DR HOGENDOORN: Yes. HAL is siloed, and the RIRDC programs are too - to a lesser extent, I must say; they work more together. But because my research and that other biodiversity research that I mentioned is spread out across different RDCs, grapes and wine would profit from that, the grains would profit from that. The grains also profit in part from pollination by pasture pollination. Because it is spread out over all these different areas, it is virtually impossible as a researcher to get that together. And I'm not the only one. I know other researchers who come across this.

I know researchers in groundwater. I know researchers in soil. They come across this and notice that this is a problem. That's why I think that for these kind of issues, which are important, which are productively important - I'm not talking about fake, organic, biodynamic, you know; I'm talking about dollars. For those kinds of projects I think we need a better jell-together of those things, and that needs, I think, to come from above.

DR SAMSON: I think that's a pretty clear message. There is unfortunately a bit of a track record in this country of modest expenditure on prevention and then massive expenditure on disaster management.

DR HOGENDOORN: Yes, as there probably is in the rest of the world, where they have found that mite coming into the country and are now spending to fix a problem. But forewarned is forearmed I think.

MR WEICKHARDT: Thank you very much indeed for your points. It's much appreciated.

DR HOGENDOORN: Thank you very much for allowing me the opportunity.

MR WEICKHARDT: Can we ask our next participant Peter McInnes to come forward, please. If you could for the transcript please give your name and the capacity in which you're appearing today.

DR McINNES: Thank you, commissioners. Peter McInnes, managing director of a family company, Agricultural Research and Development Education and Planning; originally established in 1988 and it's operated for 20 years from Willunga in South Australia. Our company provides contract services nationally and internationally in the disciplines given in the name. If I could give a little bit of a brief introduction?

MR WEICKHARDT: Please do.

DR McINNES: I've outlined my major experiences in submission 108. Pertaining to the hearing today, I will record these that I believe are relevant. I was appointed in 1985 as initial chairperson for the first Australian government RDC. That was the Australian Meat and Livestock RD Corporation. That was renamed the Meat Research Corporation, which had many of its functions absorbed into Meat and Livestock Australia in 1998. In that role I had frequent liaison with organisations such as the Cattle Council of Australia, Australian Livestock Export Corporation, state and federal farmers associations and government departments responsible for rural R and D.

I was presiding member of the selection committee for many government research councils, for example wheat, pig, chicken meat, and then some RDCs; for example, the Horticultural R and D Corporation and RIRDC. Through my company I have been contracted to undertake research activities for some of the RDCs - examples are meat and dairy - and from 1993 until I retired with RIRDC to 2010. I have managed a family partnership since 1976 and that has owned commercial farms, commercial prime lamb, lucerne and hay in New South Wales, beef cattle in New South Wales, and at present beef cattle in Willunga.

I have paid or am paying statutory levies to AWI and MLA. I am a member of the New South Wales Farmers Association, South Australian Farmers Federation and a director of the Australian Beef Association. Because of the above interests and experiences, I have made two submissions to the inquiry before today - 108 and 180. I thought I should prepare the latter and submit it before today. The content of these I've given as a research manager and also as potential implementer of R and D outputs from RDCs. I do not expect that you should take the time to discuss many of my concerns here today. I hope that those that I have forwarded will be some help in improving the draft report.

Here today I would like to address six matters which I've already forwarded to the Productivity Commission: first, the process used by the Productivity

Commission in developing the draft report; secondly, production R and D in the supply chain; then the current model versus the Productivity Commission's proposed model versus a single new RDC; then proposed government funding of RDCs and RRA; nextly, the adoption of outputs and extension; and then RDCs and R and D capability and capacity. Could I address each of these separately?

MR WEICKHARDT: Yes.

DR McINNES: Thank you. First, the process used by the Productivity Commission in developing the draft report: I give these, with respect. Firstly, at the commencement of the draft report I suggest that the Productivity Commission could have given a better schematic overview of how Australian rural R and D fits into the whole of rural Australia. In the absence of an up-to-date government, industry, rural policy, this might be difficult. Nevertheless, table 2.1 in the draft report gives data of where RDCs sit in the whole R and D funding, a level at no more than 13 per cent. But that's the pity, with all respect, that all the input to this inquiry is just for a small fraction of the R and D, let alone its proportion of all rural Australian GVP. Nevertheless, value should have been gained by some rural stakeholders if considered in-depth the role of government and their contribution to R and D.

The second point is the inability of the Productivity Commission to collect and collate robust data. I believe the data that might have been required would be available in an aggregate and, to a large extent, a disaggregate within DAFF, RDCs, federal and state government agencies and tertiary institutions. It would be difficult in obtaining accurate private investment data, et cetera, from commercial enterprise and the value benefits of the systemic experimentation undertaken by various other stakeholders. The data collected might still have imperfections but worth the effort. However, even with perfect data, I understand that the Productivity Commission would rely on a judgment call.

Thirdly, the report refers to consulting extensively with participants on a more informal basis and a list is given of about 78 participants in Australia. Sometimes references are given in the report to the discussions, without reference to the source. For example, two chapters I will give: chapter 5, page 116 twice, and page 124; chapter 6, pages 135 and 137. Although the report gives well-selected reference to support discussions and deliberations and also in documentation, data and from informal information from various sources, the use of reference to all informed discussions and questions are an aspect, I think, that needs to be addressed.

Fourthly, the decision of the Productivity Commission to accept submissions after due date, stated in the issues paper for example no later than 25 June 2010, might be a common practice, but this arrangement when submissions are made public upon receipt could affect the content of later contributions. I have a concern

that the submission submitted by DAFF, number 156 of 163 received, was 40 days after due date. There could have been sound reasons for this, but it does not appear to be reported and the key points provided by DAFF, such as support for additional investment in rural R and D systems and retaining matching dollars, come after similar recommendations from many industry associations.

The support for more efficient use of administrative resources by some RDCs is only a repeat of other submissions and progress was referred to in the submission by CRRDC. That's my main first point. I'm happy to take any comments on it, one by one, if you would consider that.

MR WEICKHARDT: Why don't you go through your points and we can then decide how we can best spend the - but recognise that we've got half an hour in total.

DR McINNES: I understand. The second main point, production R and D in the supply chain: most RDCs collect levies from producers, who are one of the main beneficiaries. What benefits are gained for stakeholders from processing, transport, storage and marketing? Do the consumers benefit? An example from the MLA submission - which is 106, page 17 - relates to a 1 per cent cost reduction in lamb production which gives 6.1 per cent economic benefits to consumers, indicating a strong return could occur from R and D to reduce costs.

If benefits occur along the chain, should there be an appropriate levy collected from the processors, as those collected for Forest and Wood Products Australia? Should there be a different levy collection scheme? The red meat industry had most of their levies once collected by processors, then the system was changed for transaction levy. Did the previous arrangement reflect more equitable investment/benefits? The commercial meat kangaroo industry, for example, a relatively new industry in Australia, has a levy collected by processors on numbers harvested. Collection at this point might allow the cost of the levy to pass along the supply chain. The Productivity Commission did not appear to analyse sufficiently the sources of collection of levies. Discussions with various rural associations might assist in their attitude of where they should be collected.

My next point is the major point and will probably take a little bit more time than the last three. It is the current model versus the PC's proposal versus a single super RDC. 30 to 50 per cent of the submissions addressed the rationale for government investment in rural R and D and, of these, 90 per cent gave support. Unfortunately, statements of support were given, rather than logically derived reasons. There were 90 per cent submissions that support a continuation of the model. Many base this judgment on productivity gain, which partly relies on R and D as measured by benefit/cost evaluation of projects or sets of projects.

The calculations of that latter ration, benefit/cost, are, I suggest, dubious because costs should be inclusive, adoption rates are guesses, substitutional effects are not sufficiently considered, and benefits are not embracing to include, for example, environmental, social and other effects. There was between 50 and 70 per cent support in the submissions against commodity-only R and D but most of these opinions recognise the inclusion, or at least recognise the fact that social and environmental factors were in operational plans of many of the RDCs. Overall, the strength of the present model was recognised. The need for change was rarely considered but there were weaknesses raised, for example, in the type of R and D implementation.

However, can this important model be strengthened? The Productivity Commission's proposal for change is a value judgment that can affect part of Australian rural R and D for many years. I will put aside public and private-good investments and benefits. These considerations are more effectively considered by the Productivity Commission and others. I have too many difficulties in differentiation. I do not believe that the RRA proposal is a solution to strengthen the model. The government's funding of RRA appears to be at the expense of the total budget of the RDC.

If the government reduces by 25 per cent for the RDCs - and I appreciate it's not necessarily sound to use them as an aggregate but, nevertheless, these RDCs still invest 25 per cent for their own interests in their funds - then my calculations would say that the actual amount that would be available for industry-specific activities could fall by 18 per cent. In other words, if they still continue to invest what I am going to assume, 25 per cent of their money, in nonspecific investments then that's what the effect will be upon industry-specific. On the other hand, if the industry also reduces the levy by 25 per cent in response to this 25 per cent reduction in government, then the calculation is more depressing from an industry-specific research.

On the other hand, will the RDCs respond to a reduction of 25 per cent from government by increasing their levies? Evidence could be gathered to suggest that some industries will increase. A spot check of table 1 in the Productivity Commission issues paper for 2008-2009 and a more comprehensive insight - the trends in table 7.2 of the draft report are interesting. Except for Fisheries RDC and RIRDC, which both have different government levy arrangements, there is no strong support that the government contributed more than the industry levy. With respect to increasing industry levies, my experience as far as industry attitudes basically is, "We'll take the government dollar for our own dollar." Will the reverse occur?

The attitude of industry organisations will strongly influence the shareholders' levy vote. I suggest that the Productivity Commission pursue urgently, with all

representative rural associations, their attitude if government contribution to the present RDCs is reduced before proposing what I believe is a risk that could reduce the effectiveness of rural RDCs.

Creation of a new single RDC, as I recommended in submission 108 and attempted to further substantiate in submission 180, has been dismissed by the Productivity Commission. I have written sufficient in support, recognising in other submissions a glimpse of encouragement but there has been plenty of argument against. I stand by the simplicity and the transparency of my proposal. With an enthusiastic board and staff, I'm confident of its success. What a saving but what a threat. I do not imagine any change to the Productivity Commission's determination on the so-called, as was described, RDC on steroids.

My next point is proposed government funding of RDCs and RRA. I've already referred to aspects of possible ramifications in changing the funding of RDCs and also the need for an examination of sectoral industry funding along the supply chain. I doubt whether stakeholders, not the executive of the industry associations, have any idea really of the government's role. I suggest there should be a much improved engagement and possibly the Productivity Commission could recommend that DAFF consider an appropriate information plan for stakeholders on what the government is contributing.

My fifth point is adoption and outputs and extension. Adoption of R and D outputs relies on so many factors. On the farm, for instance, there can be subtle adoption that can be substitutional. What I have surveyed in the past for them, MRC, is change in practices is the best measurement of following outcomes from R and D. Similarly, my experience has shown a vast array of extension advisory techniques and the outputs will often determine the most appropriate way of dissemination.

More recently, in research management, I have organised R and D implementation with industry project groups who could be part of the research team. Worthwhile outputs can be rapidly adopted and passed swiftly to other stakeholders. There is no wait for a final report, no need for a final report peer review, but encouragement and opportunity is given for the researchers to rapidly publish in peer journals, conferences and industry meetings.

My final point, commissioners, is the rural R and D capacity and capability. There have been in recent years concerns of increasing reduced capability available for rural R and D. Such opinions on the subject are given in some submissions, such as 53 and 136. It is of interest that in submission 53 there is an estimate of 15 to 20 per cent postgraduate students in key faculties that are supported by RDC funding. I found that when postgraduates are included in RDC projects they are not used as technicians if appropriately supervised, and these postgraduates often

subsequently progress to postdoctoral research nationally and internationally. However, the alarm raised by some universities and the industry concern, the reduction of postgraduates for rural and rural-related R and D, should be suitably documented and trends should be analysed. Only then can genuine consideration be addressed. Thank you.

DR SAMSON: Thank you very much, Peter, for those comments and for both the submissions that you've made to the inquiry. Obviously there's a lot in your latest submission, so we will go through that with interest. Just to start the discussion: you've talked about the data and that robust data should be available. One of the aspects of the inquiry that we found somewhat frustrating when we started out on the inquiry was that we actually did approach all the bodies that you've referenced there, with the expectation that clearly you have that all that information would be readily available. Much to our surprise and frustration, it apparently isn't. So it's not that we haven't tried to get this information. It's not that we don't think it's important to get it. Quite the contrary.

It is just one of the overarching frustrations of this whole issue that, much to most people's surprise, it isn't there; hence the recommendations in the draft report to try and put something in place, at least now, to ensure that that data is captured, is robust and is made available for future research. If you think we've missed something, if you think there is some way of obtaining this data that we have sought and failed to get in the form that we hoped to get it, we'd be delighted for any suggestions you've got, or perhaps you might share our view that it's just an area where it should exist but in fact it doesn't.

DR McINNES: I don't doubt that you tried, and I noticed there's an example where you worked with the sugar industry and developed - and obviously ran into frustrations, et cetera. I still stand by my statement that the data is there. It's a matter of basically having people get it. They mightn't contribute. Now, if we put 20 people, four weeks, they went around to 30, 40 organisations and looked as best they could at data - a forerunner would be a letter from the minister asking for cooperation, and obviously a decent amount of time could elapse to allow them to put it into place.

I remember late in the 1980s the deputy director, I think, of the New South Wales Department of Agriculture at the time developed a system called "sprac". I can't remember exactly what it all meant, but you can imagine. It was a system counting research accounting. That basically was exceptionally - it really put all the current, recurrent, capital costs down for every disaggregated part in the New South Wales department at that time in research, and it wouldn't be any bigger now in terms of research in that department. It was basically a structure that was looked at by other departments and partly adopted. But, like lots of things, when he left it wasn't

sustained. The structure is there. I'm sure, with the right heads in your department, you would be able to work out exactly what data you want and to do it along the ways that I suggest.

MR WEICKHARDT: Thank you for your confidence. But, as Cliff said, it's not for want of trying. The problem is that the data that exists, quite frankly, has not been categorised with respect to the funding source or tagged appropriately in terms of its expenditure, and many examples we've found of data that does exist double counts and triple counts the money because it is leveraged so many times. You might be interested in reading an input by Mick Keogh, who came along to the Canberra hearings. He's done some more surveying of the private sector, but even then there are some huge gaps and he's had to extrapolate from surveys that he's carried out. So I'm pretty satisfied that we could shake a lot of trees and we could spend a lot of money at the moment, but until a system is put in place to categorise what data is required and to ensure that the people who record the data understand exactly what they're supposed to be recording, I don't think we're going to get very far.

DR McINNES: I acknowledge that and I am aware of what has been done by Mick. I stand by my statement.

MR WEICKHARDT: All right. Thank you. You made a comment that we didn't discuss where levies are collected or the composition of the levies. I think that we would stand guilty as charged there, in that, having looked at the complexities of the current system, I'm pretty certain that if we started again we wouldn't recommend the way the thing is set up at the moment, but I think we formed a judgment after talking to many of the stakeholders, levy payers, those that collect the levies and those who are administering their disbursement, that at the moment the political capital that would be spent to try to change this system would have a high degree of risk and perhaps a low return for the effort expended.

There are historic reasons why we've ended up with X cents per goat or X per cent of the GVP of a grain, but the people involved now understand that, and because the levy payers have to be consulted with any change, the chances of getting even the status quo in terms of the moneys collected maintained I think is very, very low if you start to try to change this all to a different collection point or a different collection system. So our judgment was, there are only a certain number of changes you can make to a system at one time and, whilst you wouldn't have designed this from scratch like it is at the moment, the benefits from trying to start again would not be very great in our view.

DR McINNES: I acknowledge that. I can understand that. I basically recommended that it be raised and industry look at it. I came from when basically

the red meat levies were collected at the producer level. They transferred it to a transaction levy. Just to look at how successful that would be, even within MLA, would be interesting. Recently the government approved, as I said, a kangaroo levy based on basically harvesting and processing. So I appreciate it's complex. My plea was that it be raised and looked at with industry, because I'm sure that certain industries would like to change.

MR WEICKHARDT: One other comment that you made - and you're in good company here - questioning whether or not industry would step in to fill any void left by a reduced government co-contribution and you said that you felt that before we went any further we should consult all the levy payers or the RDCs as to their likely reaction. I have to say that I don't have any confidence that you'd get a sensible answer out of doing that. As Mandy Rice-Davies once said, "They would say that, wouldn't they?" If you ask any individual, "What would you do if the government gave you less money?" you can back London to a brick they will all say, "We'll be ruined. We'll go out of business. The world will end," or words to that effect, because they would say that, wouldn't they?

I think the only thing you can do sensibly is to form a judgment as to, over time, what rational people are likely to do in these circumstances. You have to acknowledge that there are risks associated with the adjustment process, and that's one of the reasons why we recommended a very gradual adjustment in this area, but I don't think consulting those involved is likely to produce a sensible answer.

DR McINNES: I acknowledge the gradation that you have proposed, and that is very, very correct. I'd suggest that if you did go to industry associations, most would say yes, that they would possibly increase, only on the basis that they would not necessarily be representing all their stakeholders, and subsequently I'd suggest there could be some type of revolt within that industry. So, simply, I think the associations would - most that I know of - but I don't think you'd get that feeling off the stakeholders.

MR WEICKHARDT: You might be right.

DR SAMSON: Peter, your third point and the one you spent the most time on - the choices between the current model, the RRA model that we propose and the single entity that you put forward in your original submission - I suspect at the end of the day we're going to have to agree to disagree, but I was a little concerned in your later submission that we'd given you the impression that we had likely dismissed the model that you put forward, and I just wanted to assure you that's not the case. We've considered it and discussed it and other things quite a bit. Whether that's reflected in the draft report is perhaps another issue.

I guess at the end of the day, from my perspective, where the single model failed my test was that we are strongly of the view that the strongest element of the current model is the commodity based focus of 14 of the 15 RDCs. In this process, like any process, it's very easy for us to suggest change that will make things worse rather than better, and we have been very conscious of trying not to do that.

So really, having come to a view that if there was a single core strength of the existing model it was that commodity focus and the engagement of levy payers and producers and a somewhat bottom-up approach to identify the priorities of the industry and therefore, to some extent, the research agenda, we came to a view, different to yours, that the single mega-RDC, if you like - there were considerable risks involved, in that, however you structure it, that commodity focus would be lost. I guess if there was a single reason why, on reflection and after consideration, we decided not to go that way, that was it.

From memory, in your original submission I think you outlined a possible composition of the board of that, and again I think - correct me if I'm wrong - there were only two sort of industry representatives on that board, and we just worry and feel that there will be a disenfranchisement of industry and the board. I suspect we'll agree to disagree, but it's important for you to understand that, I think.

DR McINNES: I thank you for raising it and putting some focus on it at today's hearing. Why I think it could work is, when I look at HAL and when I look at RIRDC and when I look at grains and see within those the number of commodities they look at, then I look at MLA and I see the strength of beef cattle and sheep meat and having goat there as an appendage, yet it seems to work. So my thought was, can it be taken an extra step? I pushed that way because of the simplicity and because of cost and transparency. I'm not a person that likes too many compartments.

When you mentioned that, I did go that extra step in terms of who would be on such a board, and I was a little lost and I only raised NFF and business councils - I put an "s". I think you could have financial institutions in there, for example. You might say, "Financial service industry? Why?" Well, given maybe that they're 10.8 per cent of domestic product, given that they've already got interests, if you read 103, the submission from the Australian Land Management Group, and the support from Elders that they've already received, there could be, with all respect to Elders, financial service institutions also interested in these nonspecific industry matters. So I didn't extend it any further than that, but surely between us we could.

Obviously the Australian Conservation Foundation would have an opportunity of representation. But I think you could have a board that was not necessarily commodity focused but a board that could make very sound decisions, and in that, if

I could extend, I was the one that said that I think the board should elect their chairman.

MR WEICKHARDT: Okay. Peter, thank you very much indeed for your interest and the time you've taken to put your submissions. They, like all other submissions, will be carefully read and considered, but ultimately our output is our output and we have to try and make judgment calls as to which things we agree with and which we recommend and which we don't.

DR McINNES: I understand.

MR WEICKHARDT: Thank you very much indeed.

MR WEICKHARDT: Our finally participant is Dr Michael Keller. If you can give your name and the capacity in which you're appearing today, please.

DR KELLER: Yes, my name is Michael Keller. I think it's very important for me to emphasise today that I'm representing myself and have no representation for my employer or for anybody else. I'm an agricultural scientist who has spent nearly 20 years in Australia. I'm currently an Australian by choice and an American by birth.

I have received substantial funding from the Grains Research and Development Corporation, Horticulture Australia and the former HRDC and also have received funds from RIRDC and GWRDC in the course of my career in Australia. I'm also an academic at university and so I've had a very substantial involvement with students and colleagues and am a very passionate supporter of the RDC system in Australia.

MR WEICKHARDT: Which university are you at?

DR KELLER: I'm at the University of Adelaide, Waite campus.

MR WEICKHARDT: Thank you.

DR KELLER: Although I'm not representing their views, I was formerly head of the School of Agriculture, Food and Wine in an acting capacity for three years. So I have a very broad overview of agricultural research. What I'd like to do today is to discuss and elaborate on the points that I've made in my submission. I have not been able to read the totality of your draft submission but I have read substantial parts of it, so I trust that I'll bring an informed view as to what you've proposed.

I guess my appearance here today is in part largely prompted by a degree of frustration, disappointment and anger with the current situation within Horticulture Australia, and I put that against my tremendous experience in dealing with GRDC, the Grains Research and Development Corporation, which I believe works very well and very largely satisfies its remit.

If you'll allow me a small indulgence, I've gone through the industry calls for HAL. This will only take one minute. This is the industry call for the citrus industry for 2011 and 2012. The citrus industry does not invite proposals to be submitted through the HAL industry call; the custard apple industry does not invite proposals; the dry grape industry does not invite proposals; the vegetable industry, which is one I've been associated with, does not invite proposals; the fresh potato industry does not invite proposals; the processed potato industry does not invite proposals; the mushroom industry; the nashi industry; the nursery industry; the onion industry; the macadamia industry; the apple and pear industry; the almond industry; the dried fruit

industry; the lychee industry - - -

MR WEICKHARDT: Is this just this current year or this is atypical?

DR KELLER: We had a visit to the Waite campus by representatives of HAL earlier this year. Sadly, I had a teaching commitment and was not able to personally attend, but I have had second-hand representation. We were told that this will be continuing for yet another year. In my area this work will represent three years of no new funding based on levy based income in plant protection.

MR WEICKHARDT: And this is right across HAL, is it?

DR KELLER: In my experience it's particularly in vegetables and citrus and, quite frankly, it's a disaster. Several years ago we had the threat of equine influenza, going to cancel the spring carnival, and there was an outcry in Australia. Well, the spring carnival has been cancelled for three years in a row for our researchers.

MR WEICKHARDT: Can you help us understand why this is happening?

DR KELLER: We simply don't know, but one of the things - I need to elaborate on a few more points, but one of the points I think is that in part there's no transparency, and a lack of transparency is a major issue. But a consequence of this is that of course it affects me personally, but it affects my students. My people are trained to feel passionate about it. I'm sorry I'm getting emotional, but I've seen people who have worked in the industry for 10 years walk away from research, and it's just not right.

MR WEICKHARDT: Yes.

DR KELLER: And I want to tell you something. This is very important. These are people who are dedicated to serving Australia's agriculture. Nobody puts in proposals and expects to get funding. It's competitive and we know that if we're not up to the mark, if we're not at the cutting edge, we don't get funding.

MR WEICKHARDT: So is this a national thing?

DR KELLER: For Horticulture Australia it's a national thing.

MR WEICKHARDT: It's not just the Waite campus that's being picked upon here?

DR KELLER: No, this is across the whole country. Effectively what Horticulture Australia has done is they have fired a very substantial number of levy-funded

researchers and they're not going to come back. We're going to lose a very, very substantial number of people. A very substantial amount of the expertise in this country is currently walking away from the horticultural industries and it's a disaster. This is at a time when the FAO world food price index is going up again. We're seeing world food security is a major issue. How are we going to meet that if we don't have a research capacity to do so?

MR WEICKHARDT: It sounds very curious. Is this because HAL are commissioning from specific researchers projects, rather than having a general pool?

DR KELLER: No. It's not like FRDC, where they're making commissions. They are simply not funding research. But the question is - now you pick up AUSVEG, the Vegetables Australia publication; we get weekly email newsletters. There's a fair bit of money flowing into publicity, there's a fair bit of money flowing into putting on appearances, and I want to suggest that in the current climate, if anything, that is where the funding cuts should come in order to re-orient their priorities. That is only one of the points I'd like to raise with you today.

MR WEICKHARDT: Okay.

DR KELLER: The issue of eroding capacity is critical and I think that whatever comes out of the Productivity Commission's report needs to reflect that there needs to be a firm partnership between the industries, the government and the research providers. At the moment one research provider, in particular, is treating researchers with disdain, with contempt.

MR WEICKHARDT: Well, the research funder.

DR KELLER: Yes, the research funder.

DR SAMSON: Michael, you're just going to have to help me get my head around this a little bit, if you would, please. Do you think that HAL is simply not investing in any research at the moment, or can you see that they've moved out of one space and moved the money somewhere else? I'm just trying to map what's happening.

DR KELLER: Part of my submission concerns levies and I did hear your response to the previous testimony about levies and the problems arising from that. One of the very large problems in horticulture industries is that they are quantity based levies based on boxes of citrus, for example. I haven't been able to get an exact date for the last time the citrus levy was increased but it was more than 10 years ago, and in that time inflation has substantially eroded into the capacity of that levy to service the industry. This is across many industries. I understand the complexity of this issue, in that to get a levy changed you have to go back to the producers. You have to have

a vote. It has to be across the industry, across the country. There's complexity.

MR WEICKHARDT: And it then has to go back to parliament.

DR KELLER: But can I implore you, when it comes to levies I know you can't be prescriptive but I think you can give some advice on this issue. In my view, the advice that's needed is that we need - if not entirely, then substantially - value based levies that are able to adjust to the economic circumstances of the day as the industries wax and wane with drought and other factors. We saw in Australia, more than a decade ago - we got the GST and the GST was brought in to simplify the situation. I think that recommendation that at least points in the direction - in 10 years' time or 15 years' time that we can move towards value based levies. It's something that I think is needed. It's the same thing with the mining supertax; taking away quantity based and transferring to a value base.

MR WEICKHARDT: It's a slightly different issue in the mining tax but we won't go there.

DR KELLER: Exactly.

MR WEICKHARDT: Intuitively I have to say I accept your point that a value based levy has some attractions but, even there, the grains people of course have such a percentage of GVP as their levy base. They point out that the real price of grain has continued to decline and yet the cost of research has continued to incline. So there's been a squeeze even there and, you know, this issue of trying to I guess maintain the buying power of the research from the levy has been a real squeeze in virtually all the sectors we're aware of. There's no perfect answer here for an industry that's being pushed in terms of the price declines over a long-term period.

DR KELLER: But, again, a value based levy would make some difference in that, I believe. I'm not an economist but intuitively it makes sense to me.

MR WEICKHARDT: It might do, and certainly if the real price of the commodity was maintained or even increased, that would be an ideal outcome. But if the real price of the commodity halves in 10 years' time, the real price of the levy has gone down by 50 per cent too. I understand the issue and the concern, and certainly we'll think about that again, but it's a complex matter and the issue that we had been most concerned by was that the levy payers themselves, having listened to the providers about how much research they were able to provide for the levy raised, could adjust the levy in a much more expeditious manner than they can at the moment.

We've heard stories which sound incredible, where the industry themselves are clamouring to increase the size of the levy and yet, because of the bureaucracy

involved and the time taken in parliamentary adjustments and things like that, they haven't been able to do so. As consenting adults, my view would be, if the industry overall wants to increase the size of the levy imposed on them, they ought to be able to do it.

DR KELLER: Absolutely. I agree wholeheartedly, and if you can in some way cut through that red tape and provide some advice, I think that would be tremendous.

MR WEICKHARDT: But go back to Cliff's point. I mean what are HAL doing with the money that they have actually raised? If they're not spending it on research, what are they doing with it?

DR KELLER: I don't know, but one of the questions I have is, for example, in the vegetable industry, what is the role that AUSVEG has and to what extent do they tap into the levy funds? Again, as far as I can tell, there's no transparency there. But one of the issues with HAL in particular - I think I need to move on to that because I know we have limited time - is the issue of industry representation. One of the challenges in a situation like this is that you can be - you run the risk of having biased representation of industry interests and not necessarily representing the interests of the government or the public more broadly. I'll just give you an example. This is a report, the Australian Vegetable Growing Farms: An Economic Survey, 2007-08, prepared by Sarah Crooks from ABARE research, so this is an authoritative document. Under the heading of Research and Development Priorities they said:

Pest and disease management was the research and development priority most commonly believed to be important for vegetable growers in 2007-08, with around 78 per cent indicating it was a high or a very high priority.

Now, if you go to VegVision 2020, which is prepared by the Australian Vegetable Industry Development Group and it's posted on the HAL web site as the strategic plan for the vegetable industry, there are 19 strategies listed there for funding; only one of them even applies to that. It's under the heading of Supporting Sustainable Vegetable Production. So here we have a disjunction between what the growers want and what the industry strategic plan is and when I talk to farmers, who I work with, when I talk to their representatives, there's a tremendous frustration that, even though there are industry advisory committees, they don't have access to them, they don't represent their views; they're not consulting with grassroots.

A breakdown of consultation between the IACs and the growers and the growers' local bodies is not good. Again, I reflect on the situation with GRDC. We have a southern panel, we have various farmer representatives that you can have access to. They talk to you. We can understand what their perceptions are and it's a

dialogue. That dialogue is broken now.

There's an issue I'd like to raise with you today. I've read your chapter 8, and I think I've read it closely enough, but you seem to be silent on the issue of statutory government RDCs as compared to incorporated bodies that represent industries as RDCs. I'm curious. Is there a reason for that? It seems to me that the ones where the problems have arisen, at least from what I can see, are the incorporated bodies, more so than the statutory bodies. Again, it comes down to the question then of, are these truly representing what are the broader interests of their RDC and its remit as compared to sections of the industries?

DR SAMSON: I'll have a go. It's something that we have looked at and thought about quite a lot, Michael. At a relatively superficial level - and this didn't determine where we've sort of ended up - there's a bit of a sense that, regardless almost of how you see the merits or otherwise of the different models, the genie is out of the bottle. It's hard to unscramble the egg and, pragmatically, that's not going to happen. But also, and probably more relevant to our position, is that we accept all industries have their own unique characteristics and some have chosen to go one way and some have chosen to go others. History would probably say you were correct that, up until now, the problems, however you define them, may sit perhaps in the corporation category rather than the statutory ones.

However, I think at the end of the day we have formed a view that a good board will make any model work reasonably well and a bad board can make a mess of any model. So we've tried to separate out some of the issues, some of the problems that have eventuated, as to: are these fundamentally a structural issue within the model, or is it that the model itself is okay and there are different manifestations of it and the real problem is how a particular set of individuals have chosen to operate the model? So we don't think it is a magic bullet, just to change the structure of some of these things. We've acknowledged that the strength of the model is the close relationship between the RDCs with their industry and we don't resile from that. We'd also, I think, have a view, as a general statement, that the different manifestations of the model can legitimately reflect differences in the various industries. That's not to say that there aren't problems, but we're not convinced that they are inherently structural.

DR KELLER: Thank you. I guess in that regard one of the recommendations that you've made that I would very strongly endorse is that the boards have a broad representation and have some technical expertise and in some cases I think that's not necessarily happening at the moment - having technical expertise on the boards. The other thing is that I found it interesting that you recommended that RDCs might invite the government to send a representative but not require them to do so. I would have thought that they should invite the government to have a representative and it

would be on the government's side whether or not they elected to nominate. I would have thought that that would be a more appropriate way forward, particularly given the structure of some of these incorporated bodies.

MR WEICKHARDT: If I could just briefly comment on that, with the industry-owned corporations, at the moment the government has no ability to simply impose a government director. It can't say, "You will have a government director," unless it uses the power of cutting its funding off and says, "Until you've done this, we will not give you any more money." The consequence of cutting the money off is a pretty severe one. There are lots of innocent parties who would get damaged along the way in that situation. The levy payees, who have had levies extracted and then suddenly they're not having any research done, would be damaged, the researchers would be damaged and, quite frankly, our instincts were that the government imposing a director on a board that didn't want that director there was unlikely to produce the sort of outcome we were looking for.

So we would sincerely hope - and we're encouraged by the sort of conversations and reactions that we've had - that a large number of the RDCs would say, "Yes, we would like a government director." Most people we've spoken to, who experienced government directors on their boards, said they added a hell of a lot of value. So I guess our judgment was that we would get to the outcome we were looking for, but in a more effective way, by making this mutually consensual rather than a forced marriage.

DR KELLER: Without wielding a big stick.

MR WEICKHARDT: Yes.

DR KELLER: That seems like a sensible approach to me. I think I would endorse that.

MR WEICKHARDT: Okay.

DR KELLER: I suppose the other option is in terms of the reporting requirements; if the reporting requirements for spending the money are made clear. One of the things that I think is really good about your draft document is that you've stated that they need to clarify some of the roles of the RDCs and make them more explicit. I think that's something which is very important. I went, before I came today, to look at the documents - the constitution and the deed of agreement with HAL and the federal government - and it wasn't clear in those documents exactly what their broad remit was; it's research, but the extent to which, for example, they deal with issues of market failure or broader issues that are concerning the public rather than purely economical. I think it would be worthwhile if those were made more explicit.

MR WEICKHARDT: Okay. Just going back to the issue that Cliff was commenting on, the difference between the statutory RDCs and the industry-owned corporations, it's rather ironic that our perception, if anything, from our initial consultations was that the industry-owned corporations, because the boards are directly elected by the levy payers, whereas in the case of the statutory bodies the boards are appointed by a process where the minister has a final sign-off - our concern was that the industry-owned corporations would be very sensitive to the individual attitudes of levy payers and very responsive to their immediate needs and therefore, in some cases, at risk of taking a pretty short-term view about the needs of those levy payers. So when you say in HAL the dialogue is broken between HAL and the levy payers and, in your case, the research providers, it's quite surprising.

DR KELLER: I'm not at liberty to disclose some confidential emails I have, but in trying to get some information for this appearance today I've contacted a number of people and they've universally expressed frustration and disappointment at the level of communication and ability to engage with HAL.

MR WEICKHARDT: Are these other research providers or are these levy payers?

DR KELLER: I'm talking about one person who is an executive officer for one of the industry bodies here in South Australia, I'm talking about other researchers and I'm talking about several farmers that I work with. It's not a large sample, I acknowledge that, but it's consistent.

MR WEICKHARDT: Well, thank you for alerting us to that. We will certainly keep our ears open and I suspect that the senior management in HAL would be concerned by what you say.

DR KELLER: The other issue I think with organisations like HAL is that they tend to cater to the big end of town, if I may use that term, and yet the horticulture industries are largely dominated by small producers, small producers who struggle to meet the quality assurance requirements of Woolworths and other big buyers and who are really - I'll tell you what: I wouldn't want to live on the risks that they take with their income, and they really do look to us to provide a research outcome that's going to help them to produce effectively and consistently.

I appreciate that there's a need for structural rearrangement. There are efficiencies to be had with large companies, but the simple fact of the matter is that the RDC should service the full spectrum of the industry: the big producers, the small producers and those in between. I'm not convinced that that's happening in the case of Horticulture Australia. I don't have anything further to say to you today, but if you have any questions for me?

MR WEICKHARDT: Okay. You mentioned you'd had positive experience with GRDC.

DR KELLER: Yes.

MR WEICKHARDT: On that side of your experience, are there any areas where you'd like to either especially commend things that they do which we should be mindful of, or point to things that they could do better too?

DR KELLER: Things that they do that are really good: the GRDC updates. They travel around the country updating people on - researchers are invited to engage. These are opportunities for dialogue at every level across the whole country.

MR WEICKHARDT: And these are with the researchers or - - -

DR KELLER: With the researchers, with the farmers, with the farm advisers. I think that's fantastic. There are regional panels. Again, I think we have to recognise that GRDC in some respects is exceptional because of the size of the grains industry, and there are economies of scale and things that they can do simply because they're so big, but formerly, when I was working with Horticulture Australia in the area of brassica vegetable research, we had annual meetings where we got together with farmers, farm representatives from around the country for a research dialogue, for them to tell us what their problems were, for us to tell them what our ideas were, and we came to a meeting of the minds as to what the real priorities were, and that's where we did our research. HAL will not fund that any more, and I think it's tragic. It has broken down an opportunity.

In my view, that sort of levy funding is very appropriate because if you don't have that - and again, on a day-to-day basis I talk to the farmers in South Australia. That's just because I live here. But I want to know what the concerns of the people in New South Wales and Tasmania and Western Australia are, and if we do that on a project-by-project basis it's not very efficient and we don't get a viewpoint which is more global for an industry. Having more global industry meetings where people come together - not conferences. We have conferences as well, but I'm talking about workshops and opportunities where people really engage on the research focus, on what's happening and what needs to happen in the future. Conferences have a different feel. They have a different purpose than a workshop or a think tank, if you will.

MR WEICKHARDT: The point you make in your written commentary that cross-industry research may be made more complicated by the fact that different industry-specific RDCs have different funding mechanisms and therefore I guess

there could be a sense of uneven contributions from those parties, that's an interesting one and not one that I had previously got my mind around, but thank you for pointing that out.

DR KELLER: In fact that has come from consideration of one of the testimonies you had just before me. Dr Hogendoorn was pointing out issues like pollination and soil organisms and so on where, in order to get cross-industry funding, you have to go to every industry and convince them, and they say, "Well, that industry is so much bigger than us." You end up spending a very large amount of time, a lot of energy and effort, for what is often a fruitless endeavour. It does get down to that issue of people having different levels of contribution and the feeling that, "That industry is so much better-funded. They have more money than we do."

MR WEICKHARDT: Thank you very much indeed for coming along. I'm sorry it's not been a happy experience for you of late with HAL. You mention that there are people who are no longer being funded. What's happening to those people? Are they moving to different sectors of the RDC-funded research or are they completely moving out of agricultural research altogether?

DR KELLER: Completely moving out of research altogether. Two of the people I know are going into education, looking at teaching at TAFE, but not in agriculture. One of them has moved into a communications role with the energy industry and one of them is looking for a job, and those are the people that work very closely with me. I think it's disastrous. It doesn't only affect those people, it affects the attractiveness of research as a career. In the university we have students, we have postgrads. They're all together. They can see what's happening to the people above them, and it's disillusioning.

MR WEICKHARDT: Sure. I think that's a real issue. To a degree, I pointed out to somebody who was making a similar sort of point but for different reasons - they were saying how tough agriculture is and what a tough industry it is and I said, "Well, I understand. I'm sympathetic that it's a tough industry, but you can hardly expect young people to race with alacrity into an industry when you've just described it as being such a hard, tough industry." It doesn't actually motivate people when they think they're going into something that's going to be hell.

DR KELLER: It's actually an exciting industry to work in, I think.

MR WEICKHARDT: Well, it should be.

DR KELLER: It is, and there's a lot that agriculture has to offer to young people. As I say, this sort of thing, this incident, is very regrettable because of the effect it has, not just on agricultural research but agriculture more broadly.

MR WEICKHARDT: Yes. I'm glad you care and I hope the right thing happens. Thank you very much for coming along.

DR KELLER: Thank you.

DR SAMSON: Thanks, Michael.

MR WEICKHARDT: That concludes today's scheduled proceedings. For the record, is there anyone else who wants to appear before the commission? No. In that case, I adjourn these proceedings and the commission will resume tomorrow in Perth. Thank you very much for coming.

AT 3.30 PM THE INQUIRY WAS ADJOURNED UNTIL
THURSDAY, 25 NOVEMBER 2010