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26 May 2010 ASWGA-10-100

ASWGA Productivity Commission Submission

RDC Enquiry
Productivity Commission
LB2 Collins Street East
Melbourne Vic 8003

ATTENTION: Yvette Goss (Administration Coordinator)

Dear Ms Goss,

The Australian Superfine Wool Growers' Association Inc. has pleasure in submitting this submission to the Productivity Commission Enquiry into the Rural Research and Development Corporations.

ASWGA requests the opportunity to discuss the issues raised in its submission with the Commission, in person, at a suitably agreed time. We see this enquiry as being very important to the future growth and prosperity not only of the Australian wool industry but for the whole rural economy.

The issue of the selection of the Board of Directors of Australian Wool Innovation is a sensitive one. ASWGA has a range of possible models for achieving a better result than that existing at present. It would be appreciated if these models could be discussed directly with the Commissioners.

Yours sincerely,

Kevin Dunn
President

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26 May 2010 ASWGA-10-106

ASWGA PRODUCTIVITY COMMISSION SUBMISSION MAY 2010

The Australian Superfine Wool Growers' Association Inc. (ASWGA)

A: INTRODUCTION

ASWGA was founded 40 years ago to represent the interests of Australia's leading superfine wool growers together with the world's leading processors and users of Australian superfine wool.

ASWGA has over this period kept a close watch and had a keen interest in Research, Development and Innovation working closely and cooperatively with the main industry research institutions for wool. These have included IWS, AWC (pre and post the Vines review), AWRAP, AWI as the levy collection and policy setting organisations for R&D as well as the research and education institutions including CSIRO, Universities, CRC's, AWTA, AWEX, State DPI's and TAFE Colleges.

1. Research Activities

Since its inception ASWGA has had a significant input into research aiming to obtain improved performance of superfine wool both on and off farm, to increase productivity and create greater demand for Australian superfine wool as a preferred luxury apparel fibre.

ASWGA has through its overseas processor and user membership acted as a conduit between producers and their key customers throughout the wool processing chain from farm to retail. This has involved ASWGA lobbying research institutions to undertake R&D to the benefit of both growers and users.

Some examples of the R&D undertakings:

(i) Raw Wool Measurement

With the introduction of micron measurement ASWGA worked with AWC, AWTA and CSIRO to improve the accuracy and reliability of measurement of superfine wool.

This was followed in 2006, due to the increase in finer micron wool and the urgent requirement to develop a finer micron reference top that better met the requirements for accurately measuring ultrafine wool down to 10-11 microns. Through our influence the Inter Wool Round Trial Laboratories were persuaded to undertake the R&D to develop a 15 micron reference top. ASWGA arranged for the wool to be used for the new reference top from its membership.

The CSIRO in its move to develop finer, softer, lighter fabrics to meet the demand of customers developed the Towards 13 micron programme at Armidale in NSW. Our ASWGA members provided from their flocks the foundation genetic pool for the project.

Staple strength in recent times has become the major discount factor in the price of superfine wool. Despite considerable research on-farm on ways to improve fibre strength, it has been found difficult particularly in drought conditions. ASWGA membership determined that this was a major impediment in achieving profitability and felt that the discounts imposed in the market place were excessive and unjustified. ASWGA persuaded CSIRO to undertake a trial to investigate the performance of low, mid and high tensile strength superfine wool through processing to cloth and fabric. The results of this trial are most favourable and are about to be published.

(ii) Quality Control

The issue of contamination both 'in bale' and packing material (wool packs) was a major issue in the 1990's. ASWGA initiated research into non contaminant packs and working with AWC, IWTO, AWEX and DPI (Federal) piloted the introduction of the present nylon pack overcoming this problem. In doing so their members introduced the trial packs at their own expense. The initiative resulted in an acceptance by customers of the nylon pack and has overcome this problem.

(iii) Environmental

ASWGA members are taking part in many Landcare research projects, stewardship trials for NRM biodiversity management, and research into control of feral pests and wildlife.

ASWGA Members provide considerable resources towards both on-farm in Australia and our overseas membership through partner programmes, providing resources and facilities into post farm processing and technical development R&D.

2. Value of the Wool Industry

The Australian wool industry continues to be an important export industry making a significant contribution to the Australian economy. It is a renewable resource and even in drought years still provides an income and is an important factor in the well being of the fabric of Rural and Regional Australia.

Value in $'000

2000 $265,483
2005 $207,599
2007 $268,818
2009 $131,010

The fall between 2007 and 2009 shows the effect of the drought and declining prices and highlights the importance of investing in R&D that can improve both productivity and sustainability coupled with R&D into more effective marketing to capture more of the value of wool back to the producer.

With approximately 20% of the total clip in the superfine range under 18.5 microns and with the price structure of the clip the value of this sector in exports would equate to $50 million.

ASWGA in its survey of members in 2007 and 2009 asked whether they were in their opinion meeting Cost of Production for superfine wool.

Question: *Over the past 2 seasons/financial years have prices received covered your Cost of Production?*

Year	%Yes	%No
2009	53	47
2007	25	75

In relation to production intentions do you intend:

(i) Increase production (kg) or numbers of superfine sheep.
If Yes indicate in %age terms what the increase will be.

YES 34.6% : Average increase in production 38.3%

(ii) Decrease in production (kg) or numbers of superfine sheep.
If yes indicate in %age terms what the decrease will be.

YES 35% : Average decrease in production 28.7%

Social Demographics

Question: *What Age Bracket are the Active Members of your Superfine Operation?*

Age in Years	%age of Farmers 2009	%age of Farmers 2007
20-30	13%	11%
31-40	12%	18%
41-50	15%	20%
51-60	31%	28%
Over 60	29%	23%

The average age continues to increase with 32% of younger family members committed to continuing superfine production, with 36% not continuing and 32% unsure.

When asked whether in the light of present (2009) wool prices how viable their properties were and how viable continuing superfine production was in the eyes of the next generation only 10% were confident and 36% felt that the property as a superfine operation was not viable.

It is against this background that future investment in R&D and the direction of that investment that will determine the viability and sustainability of this leading sector of the wool industry.

ASWGA is uniquely positioned with its Australian grower membership linked with its global partners through to final retail customer to understand the absolute necessity of continuation of both industry and public funding of R&D not only for the wool industry but including the wider environmental and animal welfare issues to improve the overall productivity of rural and regional Australia.

B: EXECUTIVE SUMMARY

In addressing the Terms of Reference, ASWGA has addressed the considerations put forward in the Issues paper from both the point of view of the wool industry and the wider cross section of rural enterprises.

Wool forms a component of most mixed farming enterprises in Australia, covers a very wide range of environments from high rainfall to pastoral areas. The end uses are many and varied from high fashion apparel in the leading fashion centres of the world, to interior textiles and for medical uses. On mixed farms, wool provides an income stream that makes an important contribution to the long term viability of the property.

Embedded in the submission is the response to the R&D Council Investment Plan Stakeholder Consultation as this covers many of the issues that ASWGA wishes to put forward for consideration.

- **The future prosperity, sustainability and global competitiveness of Rural and Regional Australia depends on continued advances in technology underpinned by the best R&D possible.**

- **The structure of rural industries with a large number of relatively small operations makes it impossible for single entities to undertake R&D projects.**

- **Previous enquiries have all concluded that public investment is required to supplement industry investment and that this must be underpinned by compulsory levies. Voluntary levies would lead to underfunding and a loss of productivity and competitiveness of that industry. The situation has not changed and the urgency of better R&D funding has increased.**

- **Rural industries are largely export focussed and must operate in the global trading arena. Other competing countries provide public funding for R&D to support their industries.**

- **Drought and flat commodity prices for many rural products has resulted in loss of funding for some industries. The wool industry, still an important export industry has been particularly hard hit. Loss of funding from State DPI sources and the closing down of wool textile research by CSIRO are serious losses.**

- **The CRC's are a useful mechanism of working cooperatively across research institutions.**

- **The CRC's are limited in their ability to achieve longer term R&D results due to the time limits for their operations. Much impetus and direction is lost when prior to completion and when they should be concentrating on their results of having to put resources into application for the next round with uncertainty as to success of their applications.**

- **Industry RDCs should cooperate wherever possible to work together jointly particularly on environmental, animal welfare, weeds, climate change, water and social and economic issues.**

- **The RDCs should also look at combining their administrative and legal operations in order to reduce overhead costs.**

- **Government representation on either Statutory RDC Boards or IOC Boards would improve communication and understanding between industry and government.**

- **In the case of the wool industry the mechanism of setting the levy needs review. The 3 year frequency is too short and is disruptive. The consequences of a zero levy can overshadow the position.**

- **In the case of AWI there is confusion between the levy payer vote and Board elections**

- **In order to secure a well established future for the Australian Wool Industry a more effective system of appointing the Board must be achieved A range of options should be considered. Any option chosen must have the support of the grower members of AWI who are the shareholders**

- **Consideration should be given for the setting up of an industry review committee to undertake wide industry consultation looking at a range of options before any decision to change the Board Selection process is made. The Industry Review Committee would make any agreed recommendations to the Minister seeking amendments to the Wool Industry Act if required.**

- **AWI must build a highly skilled leadership team under the CEO that can effectively deliver the strategies and policies of AWI.**

- **There are solid rounds for investigating an amalgamation of core administration, legal and IP functions with other RDC's to reduce overhead costs and to provide more funding directly to projects.**

C: CONSIDERATION OF ISSUES

1. Rationales for Government Funding Support

(i) Why should government provide funding support for rural R&D? Does the basic case for such support rest mainly on wider (spill over) benefits for the community, or are there other important rationales that the Commission should take into account.

Without the past government support the success of much Rural R&D would never have been achieved. A number of assessments on the effectiveness of R&D in the wool industry have all concluded that strong ongoing support from both the private and public sector has provided the Australian wool industry with the ability to increase productivity and sustainability.

The structure of the wool industry with upwards of 30,000 individual enterprises most of which are small to medium business enterprises has made it essential to have an industry wide compulsory levy for industry funding of R&D and marketing based largely on driving the uptake of new innovations.

Without government support both through direct funding as well as the provision of infrastructure to carry out R&D, the future competitiveness of the wool industry will be seriously curtailed. The selling off of much of the CSIRO assets that were used for both on-farm and post farm has seen the level of research in the wool industry seriously decline from a position of world pre-eminence to almost insignificance. There is no evidence or possibility that removal or decrease in government support could be replaced could be replaced by private sector funding. In fact there is considerable evidence that the decline of the importance of the wool industry has been exacerbated by the reduction in support for R&D.

(Frontier Economics) The policy rationale for providing public support for rural research is that:

- *the sector is characterised by many industries with a large number of producers unable to capture sufficient benefits from R&D they would fund as individuals, which potentially leads to* ***under investment.***
- *the collection of compulsory levies avoids* ***free riding*** *by some on R&D provided by others; and*
- *there are* ***spill over benefits*** *to the wider community that are not captured by the immediate industry.*

Past reviews

There have been a number of reviews into the effectiveness and importance of government funding of RDC's and rural research.

1. Industry Commission Report 1995
   Considered that results were positive but questioned whether the 1:1 matching funding was relatively generous.

2. Productivity Commission Report 2007

   The governance design of the rural R&D Corporation model is inherently sound. Levies that are decided by, and apply to, all beneficiaries of the R&D overcome free riding and the resultant under provision of rural research. There are strong grounds for significant public co-funding of RDCs that provide spill over benefits beyond industry members where that research would not proceed in the absence of support.

3. Report by the Agriculture and Food Policy Reference Group 2006

   - The successful partnership funding structures involving farmers (through industry levies), government and RDCs must be maintained.
   - The research effort, while broadening to reflect new areas of importance, must continue to generate the all important incremental increases in on-farm productivity that offset the long term decline in farmer's terms of trade.

4. The Review of the National Innovation system 2008 by an Expert Panel, Chaired by Dr T Cutler.

   The Australian government should develop a national rural innovation strategy to:
   - ensure optimal outcomes are gained from public investment in rural R&D including improved delivery of R&D directed at issues of national public concern.
   - determine where public investment is needed to achieve greater effectiveness and efficiency in agriculture and food supply chains.

Key reviews over the past 20 years have a common theme in continuing to question the RDCs matching formula. The difficulty is the impossibility of having an overall formula that quantifies the public benefit from matching funding form government. The R&D reviews by government tend to support R&D programmes that are directed to current issues of national concern. Despite the continuing evidence that rural R&D has led to higher on-farm productivity and innovation and provide good returns on investment some policy makers and governments prefer to invest in lower return more social R&D in the public arena.

5. 1974 Green Paper

This paper strongly supported agricultural R&D as a major contributor in rural production which needs to be comprehensive and continually updated.

Other comments were:

- It is difficult to estimate the optimum level of research but the social return to agricultural research is likely to be high.
- The objective of research policy should be to direct research investments into areas where the economic pay-off is highest.
- Encourage research relevant to all farm resources, whole farm systems so that economic and social problems are made easier to accommodate from industry fund financing.
- Industry funds should be encouraged to maintain appropriate levels of reserves and to consider other means of increasing stability of research funding.
- It is difficult to determine a satisfactory basis on which to assess the appropriate level of research funding by industry as distinct from government partly because benefits from the application of research results are not received only by the producer.

6. The Balderstone Report 1982

Also supported an increase in funding by the Commonwealth Government for rural R&D.

Over the past 20 years all reviews by the Commonwealth Government have supported rural R&D with the need for both government and industry funding as an essential component for improving productivity, profitability and efficiency in Australia's rural industries. Failure to continue public funding will inevitably lead to a loss of industry funding and significant under investment in rural R&D with negative impact on the fabric of rural and regional Australia.

(ii) Is the case for government funding support for Rural R&D stronger than in other parts of the economy and if so why? Do the various rationales apply with equal force to the RDC component of rural research as to the activities, of say, CSIRO and the Universities? What specific evidence is there to indicate that projects funded by the RDCs have produced wider benefits for the community that are significant relative to those enjoyed by the industries concerned.

From 1950 to 1990 CSIRO led the world in wool research both on and post farm attracting the brighter students to careers in the wool industry. Australia led the world in the introduction of objective measurement of wool and in improving processing performance and the predictability of performance.

The challenges of the 1990,s following the collapse of the Reserve Price Scheme have seen the closure of the University of NSW Wool Technology courses leaving this area with almost no training for students wishing to have careers in the technical and in particular processing areas. This inevitability has had a negative impact on the competitive position of wool versus other fibres.

In the overall context of the Australian economy the flow on effects of a healthy, innovative and prosperous rural economy in rural and regional towns in Australia is vital to a more balanced approach to population expansion with better regional development overcoming the problems of increased urbanisation of already over choked capital cities.

(iii)What factors might mute the strength and/or timing of any increase in private funding in response to a withdrawal of public funding for the industry-focused R&D? How important in this context are:

(a) divergences between the point in the supply chain where research is funded and conducted and the point where most of the benefits of that research are realised.

Due to the complex supply chain from production on-farm through the processing stages to cloth or fabric and then to design and apparel manufacture disruption and uncertainty of funding becomes a serious issue. Over many years lack of coordination, changes in strategy of the Wool Industry bodies – IWS, AWC, AWRDC, AWRAP, AWI etc. and the separating of marketing and promotion from research and recombining (Vines 1993: Garnaut 1996: McLaclan 2001; AWS/AWI 2008) has created an enormous waste of resources and expertise.

A further disruption of withdrawal of public funding and possible replacement with private funding would seriously impact the future of the wool industry and cause a further decline in its ability to compete with other fibres in the market.

Replacement funding from the private sector is most unlikely, principally for Two reasons:-

(1) the decline in the importance of the wool industry in the eyes of many in the community compared to other rural industries (overlooking that it is still a major export industry) making it less attractive for private investment.
(2) the lack of vertical integration in the wool processing industry now means that each processing stage only looks at their sector or to the adjacent sector.

(b) the long lags before many of the benefits are realised?

Australian wool as an international fashion fibre with its major markets in the Northern Hemisphere is subject to the operating cycles and conditions of markets in USA, EU, UK and Japan, China and Korea. Decisions at retail and design are made 18 months ahead of delivery to retail shelves. Autumn/Winter (Northern Hemisphere) decisions for 2011/2012 are being made during June/July 2010.

The horizontal rather than vertical structure of the industry inhibits quick response advantages that competing fibres, particularly man-made fibres, are able to achieve. While research into tightening the supply chain has been undertaken progress has been very difficult to achieve. Greater emphasis in the processing sector has been on economic restructure moving plants to cheaper countries rather than shortening the supply chain time response.

Time lags in the registration of new chemicals and the complexity of IP in commercialising new products result in both long lead times for innovations and slow the uptake of new technology.

In this complex situation any fundamental change in funding would cause further loss in wools competitive position.

(c) Are there differences in the benefits that individual producers receive from RDC – funded R&D likely to constrain their collective willingness to offset any reduction in government funding through increased levy payments? Are there other features of the levy system, or any regulatory issues that discourage private investment in rural R&D?

The wool industry was the first to receive government/public funding for research as it was recognised that the large number of small enterprises and the diversity of the product required a coordinated effort if it was to be able to maximise returns on investment in R&D and the need to develop and focus on the most effective strategies.

Individual wool growers and processors will vary in the benefits they receive from R&D. Those who take up new innovations quickly will inevitably be more competitive than those who follow or fail to take up the opportunities provided. Superfine woolgrowers particularly will benefit from processing and more market driven R&D as they are at the top of the fashion and market pyramid. High fashion at the top end is inevitably followed at the middle and even mass market.

Superfine wool under 18.5 microns now accounts for approximately 22% of the total Australian wool clip and at the higher price level contributes a significantly greater proportion of the levy (approx. 35-40%).

This shift in the structure of the wool clip has been the direct consequence of R&D meeting market demands for softer lighter fabrics.

The superfine sector is largely made up of small to medium size operations and they are not in a position to replace any loss of public funding. Rather an increase in this area would boost returns and rebuild confidence and sustainability in the industry.

The following table from the 2007 and 2009 Surveys of ASWGA Members gives an example of the range of sizes of superfine wool production operations.

Annual production range superfine wool clips kilograms Greasy (18.5 microns and finer).

Production Range kgs. greasy	%of total respondents 2009	% of total respondents 2007
<1001	7.4	6.6
1,001 – 2,500	7.4	9.2
2,501 – 5,000	18.5	11.0
5,001 – 7,500	9.3	9.2
7,501 – 10,000	14.8	9.2
Total under 10,000	57.4	45.2
10,001 – 15,000	16.7	18.4
15,001 – 20,000	7.4	10.5
Total 10,001 – 30,000	27.8	38.1
20,001 – 30,000	3.7	9.2
31,001 – 40,000	9.3	6.6
41,001 – 50,000	3.7	5.3
> 50,000	1.9	3.9
Total > 30,000	14.9	15.8

- **Small enterprises** - In 2009 a larger proportion of members clips are under 10,000 kgs than in 2007 and fewer in the middle bracket between 10,000 and 30,000 kgs.
- **Large enterprises** - The proportion of large superfine clips over 30,000 kgs. is similar to 2007.
- The drought in most superfine regions will have had a more serious effect on the medium size operations.
- Overall the structural size of operations has remained stable with half small operations and a further 35% medium size operations.

- ***That is 85% of superfine businesses are small to medium size in operation and would have no ability to replace the loss of public funding and would inevitably struggle to survive. They would have to move to other enterprises or sell out. This would have a flow on effect to the regional communities that they support. The case for a greater commitment to R&D to support the industry has far greater overall benefits to the regional communities associated with these operations.***

(d) How important is it that government contributes to the cost of maintaining core rural research skills and infrastructure? Without that support, how specifically would the capacity to adapt overseas technologies to meet the particular requirements of Australia's rural sector be compromised? What role do RDCs play in maintaining core rural R&D capacities?

Australia is the major producer of apparel wool in the world and as such it's R&D in both on farm production and post farm must be at the leading edge. It would not be prudent to believe that R&D undertaken in the other producing countries, South Africa, Argentina, Uruguay and New Zealand would other than at the margins have any benefit to Australian wool growers. In the non apparel sector collaboration with NZ that already occurs is an advantage.

There has not been much useful technology from overseas, especially at on-farm level; however New Zealand seems to have the ability to have innovative products registered and commercialised more efficiently and faster than Australia. This more rapid adoption rate gives them a competitive advantage.

Both AWI and MLA have essential roles in maintaining core R&D capacities and direction and it is important that these organisations together with other CRC's work together collaboratively to build further R&D capacity. Failure to increase R&D capacity will lead to a decline in Australia's ability to compete on global markets and lead to a decline in rural communities throughout Australia.

(e) What importance should be placed on outcomes - based rationales for government funding support for rural R&D such as enabling Australia's rural industries to meet increased global competition; facilitating adjustment to climate change; furthering food and bio-security objectives; and fostering regional development? Is there a risk that seeking to use government funding to drive specific outcomes such as these could distort the pattern of R&D investment and thereby reduce the overall returns to the community?

The wool industry and particularly the superfine sector operates in a global climate with well over 90 % of Australian superfine wool production being consumed outside Australia.

Export data July 2009 – Jan 2010

Top 12 Countries (Greasy Equivalent kgs.)

Country	July – Jan 09/10	%	July – Jan 08-09	%	% change
China	141,902,311	74.6%	130,817,445	11,084,865	+8.5%
India	16,233,892	8.5%	11,836,372	4,397,160	+37.1%
Italy	6,42,821	3.4%	17,240,090	-10,812,269	-62.7%
Korea	5,508,175	2.9%	4,692,409	1,097,463	+24.9%
Czech Rep.	4,610,656	2.4%	4,692,409	-81,753	-1.7%
Taiwan	4,090,725	2.1%	236,673	+3,854,052	+1628%
Thailand	2,444,065	1.3%	1,476,964	+ 967,101	+65.5%
Japan	1,711,808	0.9%	2,199,300	-487,491	-22.2%
Malaysia	1,259661	0.7%	163,756	+1,095,905	+669.2%
USA	1,160,680	0.6%	558,166	+602,514	+107.9%
UK	1,082,304	0.6%	234,335	+832,968	+334.1%
Turkey	744,743	0.4%	373,745	+370,998	+99.3%

China and other Asian countries account for over 90% of exports of Australian raw wool greasy

Top 4 Countries 19 Microns and Finer

Country	Gsy. Eq. kgs.	%
China	60,132,884	81.2%
Italy	4,804,014	6.5%
India	3,573,744	4.8%
Czech Rep.	1,628,410	2.2%

Australian processing capacity

Australian exports of semi processed wool for the 12 months in 2008/09 were:

- 20.9 mkg. of scoured wool (4.7% less than the previous season).
- 12.6 mkg. carbonised wool (+20.3%).
- 4.4 mkg. of tops (-43.8%).

- Year on year exports of scoured wool, carbonised wool and tops to end of February 2010 are down by 14.3%, 9.7% and 49.0% respectively.
- Most of these semi processed wools are exported to China for further processing.
- There were 13 closures of scouring, carbonising and top making plants between 2000 and 2010. There are now only three scouring/carbonising plants and one top making plant in Australia. Spinning and weaving is on a very small scale.

Given the dependence of maintaining wool as the desired choice of fibre and the industries almost total dependence on export markets combined with the value of the industry as a major export earner for Australia there is a very strong case of government investment in R&D to support wool as a continuing export earner. Wool is a renewable resource compared to mining export where the resource is not renewable.

Further with much R&D being focussed on more sustainable farming systems and essential research into the Carbon benefits of wool as a biodegradable fibre being promoted strongly in Europe with increased resources being allocated to the positive attributes of wool production compared to other textile fibres the whole community stands to benefit from a greater rather than diminished funding of R&D to the wool industry.

(f) Should the level of public funding have any regard to government support for rural industries on other countries?

It is noted that in both Argentina (Prolana) and in South Africa there is government funding of R&D aimed at making those countries more competitive with Australia. With the problems associated with phasing out mulesing in Australia and with Europe and the USA looking to source wool from countries and sources that don't mules, there is a strong case for increased government funding to address this issue by boosting funding for research into alternatives to prevent fly strike in sheep.

Merino New Zealand, the direct competitor to the Australian Superfine Wool Industry has become a more serious competitor in the global market for superfine wool apparel as a result of greater Government support than the Australian industry receives.

Is the RDC Model fundamentally Sound?

(1) How effective is the current rural R&S and extension framework, and is the role of the RDCs within that framework appropriate and clearly defined?

The timely and effective communication of research findings is a challenge for an industry as diverse as the wool industry. This is particularly important in relating on-farm to post farm with most of the latter in other countries. The current model continues, but due to ongoing decline of funding and with the closure of the IWS R&D facilities at Ilkley (UK) and Ichinomya (Japan) there is less ability to conduct R&D in processing and manufacturing. Similarly with the virtual closure of the CSIRO facility at Geelong following closures at Prospect and Armidale the capacity to undertake wool related R&D has declined alarmingly.

State Departments of Primary Industry have with the possible exception of WA largely ceased extension of R&D.

On the positive side the Sheep CRC has a good extension programme. AWI within its budget ability continues to run good extension programmes particularly in the on-farm area but is very limited at the post-farm area.

(2) Does the significant number of entities, research programs and funding pools cause problem? For example, are there areas of major R&D overlap or gaps? Does any focus on leveraging contributions across the various funding pools cause inefficiencies or perverse outcomes, or does it incentivise desirable behaviour?

With limited resources available and with an increasing emphasis on overall environmental considerations including Climate Change and Carbon Emissions it is essential that the Major Industry R&D corporations combine to pool resources in this area for the common good.

The ability to leverage funding is an effective way to achieve better outcomes and efficiencies and consideration should be given to greater cooperation and pooling of administration to allow for more funding to be allocated to on ground research work. The present industry silo approach is inefficient and adds cost with no perceivable advantage.

It is essential that there is useful collaboration between the RDCs and CRCs to ensure no overlaps occur and that this results in a more effective use of available funding. The RDCs role in funding Rural RDCs is not sufficiently recognised as an industry contribution.

The communication and extension of results by both the RDCs and CRCs needs to be coordinated for both delivery and funding.

(3) Is there sufficient oversight of, and coordination and collaboration between, the different components of the framework? Are there any particular difficulties created for the RDC's by the current arrangements?

While more coordination would be desirable the specific industry funding levy arrangements and the requirement, for example, in the wool industry to deliver to a specific strategic plan based on the levy vote is an impediment to greater collaboration. Added to this is the short 3 year cycle of the levy vote cutting across 5 – 10 year strategic plans and objectives. The uncertainty that this creates and the loss of momentum is a serious impediment to achieving long term benefits for the wool industry reducing its competitive position with other fibres. ASWGA has consistently supported extending the levy vote to 5 years without success. The structure of the Board of AWI should not be an impediment to this as growers have an Annual General meeting that can overcome any concerns during the five year period. It is ironic that the AWI Board has extended the term of appointment of Directors yet overlooked the more important issue of continuity and certainty of funding.

(4) Does the frame work facilitate strategic assessment of R&D needs across the whole of the rural sector ?

The need for an overarching framework has been demonstrated with the recent Rural R&D Council Investment Plan consultation. A successful outcome to this consultation will benefit all Primary Industries.

(5) Does it encourage consideration of whether available funding is going into the right areas from Australia's point of view?

In the case of the wool industry within the limits of available funding and with the strategic plan properly communicated to both the levy payers (Australian producers) and downstream customers globally funding is being allocated responsibly by AWI.

(6) Is there and appropriate mix between longer-term and broadly applicable R&D and short-term adaptive research, and where in this context should the RDC's be focussing their activities?

The diverse nature of the wool industry makes this a significant challenge and creates ongoing debate. Setting the balance in the overall strategic plan has caused and continues to cause considerable divergence of opinion among wool growers and downstream customers.

Funding has to be set aside for the industries response under the Exotic Animal Disease Response and the funding agreement with AAHC. Funding to meet a crisis such as being faced over the mulesing issue all have an impact on budgets.

For the wool industry there has been an almost complete cessation of "blue sky" research and a concentration on more immediate market related research. While this is necessary under the present situation the lack of more risky innovative research will in the longer term negatively impact on the ability of wool to even retain its position as a desirable fibre of choice. Competing fibres

particularly man made undertake more innovative research to improve performance and their competitive position. Their corporate structure allows them to do this more effectively.

(7) **Is the frame work sufficiently flexible to accommodate future changes in circumstance and requirements? What impacts have recent initiatives to improve the framework had on outcomes thus far? What are likely to be the particular implications of recent and prospective changes to the framework for the RDC's?**

The ability to be more flexible depends on the expertise of the Board and senior management of AWI to meet the challenges and to adapt them within the confines of available funding as well as to adapt the strategic plan and objectives in a timely manner.

One factor that is often overlooked in the assessment of performance and results of R&D projects is the time lag that must be faced, for example, if a new chemical has to be registered.

(8) **Are there significant gaps in the data base which are impeding the effectiveness of the framework? For example, should there be greater effort devoted to assembling data on the total amount of public funding for rural R&D available through the variety of funding programs?**

There is a strong case for an overarching body such as RIRDC to develop an overall funding data base that coordinates both public and private information and for the rationalisation of funding across industries where possible. The selection of projects and the allocation of funds should be made with a combination of RIRDC, specific RDC and CRC expertise. This is particularly important in the case of NRM issues involving water, biodiversity, climate change, green house gas emissions, control of feral pests and wildlife etc. Also in collaborating through AHA with EADR on quarantine and disease issues.

(9) **Is there sufficient emphasis on the evaluation of outcomes and sharing the lessons learned? Are there any particular lessons for the RDC model from developments in other components of the framework?**

Some specific strengths and weaknesses of the RDC model.

In response to sections 9 through to 13 the ASWGA submission to the Rural R&D Investment Plan Stakeholder Consultation covers this and is included below:

ASWGA Response to Rural R&D Council Investment Plan Stakeholder Consultation

Please note that this response deals with Wool Industry Research & Development

The Australian Superfine Wool Growers' Association Inc. (ASWGA)

ASWGA was founded almost 40 years ago to represent the interests of Australia's leading superfine wool growers together with the worlds leading processors and users of Australian superfine wool.

ASWGA has over this period kept a close watch and had a keen interest in Research, Development and Innovation working closely with the main industry research institutions for wool. These have included IWS, AWC, AWRAP, AWI as the levy collection and policy setting bodies for R&D as well as CSIRO, Universities, AWTA, AWEX, CRC's, TAFE colleges and State DPI's.

The following comments in this response relate more directly to the wool industry and in particular to the superfine sector as the leading edge for much of the RD&I that takes place both on-farm and post-farm covering the full wool pipeline from production to retail.

The Rural R&D System

What does the system do well?

- The AWI levy (currently 2%) is essential as the main source of funding for R&D for the wool industry and this with the Government contribution provides the lead role in determining with industry consultation the strategic direction of R&D for the wool industry. It covers both on-farm and post-farm and its present strategy aims to take a whole of industry integrated role from farm to retail.
- Notwithstanding many of the problems, the levy system, has allowed over many years, advances in R&D for the wool industry right throughout the pipeline. Without this essential funding few advances would have been made to make wool a more competitive and desirable fibre and many of the improvements in performance would not have been achieved.
- This is the main driver of R&D in the wool industry together with the Sheep CRC which is making a very valuable contribution.
- The CRC system must continue to be supported as this allows the bringing together of key Institutions to conduct research and developments that would not be possible individually

What does it not do well?

- Wool R&D suffers from a reduction in funding at a time when with low prices, drought, animal welfare threats, increased competition from competing fibres and more attractive returns from alternate enterprises threaten the future sustainability of the industry.
- Lack of funding reduces the opportunities of bright young graduates to undertake work in the wool area as the opportunities are limited particularly to those available 30 years ago.
- The constant changes in industry structure impede proper long term planning with the changes from AWC/IWS to AWRAP to AWI and the difficulty of obtaining a stable skills based AWI Board have all contributed to a loss of confidence in the industry. This in turn affects the ability to source R&D funding.
- The 3 year levy vote impedes long term strategic planning with continuing uncertainty of funding for R&D projects and means that some fail to reach their proper conclusions.
- There is a serious lack of ability to gain effective uptake of research with much of the research not communicated effectively to industry both on and post farm. This more a resource issue than unwillingness of wool growers or processors to access innovations.
- There has been an ongoing repetitiveness in reviews of wool R&D. In developing an investment policy the group should revisit such reviews as the CIE 1995 "On farm R&D strategic plan for IWS and associated papers and The Wool Taskforce 1999 –Diversity & Innovation for Australian Wool. Both these very comprehensive reviews have largely been ignored becoming the victims of Wool Politics. This lack of stability and setting and keeping to a direction have cost Australian wool growers millions of dollars in lost opportunities. And time wasted in duplication and repeating of earlier programmes.
- Failure to provide secure long term funding and lack of continuity mean that research staff largely contract based are spending valuable time searching for their next contract when they are supposed to be finalising their present project.
- Wool Education as the important communicator of the results of research is inadequately funded and as a result there is a poor uptake of R&D.
- State DPI's providing less or no resources to extension and little research in the wool areas except WA.

- It is noted that AWI is currently reviewing its R&D extension strategy taking into account the reduced State investment and the need to enhance the rate of adoption by growers. However this requires further funding and extension of R&D must be funded as part of any overall R&D investment as an essential component of R&D investment.

What does it need to do better?

- Improved longer term strategic planning.
- Become committed to see that research projects are completed to time.
- Avoid duplication of research.
- Improve the communication of research.
- Provide and encourage better wool education both for the on-farm and post- farm areas. Technical education in the wool area has seriously declined with the closure of the University of NSW courses in Wool Technology, The Ilkley Technical Centre, Ichinomya in Japan pus many other institutions including less training for wool classers at Vocational level.
- AWI has moved to recognise and address some of the areas of concern raised throughout the submission aiming to further strengthen their R&D model. AWI has held two industry representative consultative meetings and a range of regional meetings explaining their strategies but without adequate continuing investment in those strategies the desired outcomes will not be achieved.

Is the system adapting to current challenges at a rate that is likely to address them

- No! The inertia in the system and difficulty of agreeing on a plan of action means that response to me is too slow compared to competing industries.
- An example is the challenge of the mulesing situation. The 2010 deadline cannot be met as research has been too slow and underfunded to meet the crisis. The industry however took its eye off the ball when this issue first arose in the 1980's at the Senate Select Committee in Animal Welfare and must now suffer the consequences.
- Competing fibres with much better research facilities and resources often take wool research and develop alternate products and market them faster than wool does. In the case of Sportswool the moisture properties of this excellent product were fast tracked by artificial fibres.
- The failure to choose development partners that are capable of effectively developing new technologies and resourcing that development is a problem. A case in point is the commercial development of the OPTIM technology

If not, what policy adjustments could accelerate change without increasing risk?

- The development of greater security of funding with strategies funded 5 to 10 years ahead with constant reviews and KPI's and on a rolling fund basis so that projects are completed to time and commercial development enhanced.
- Ensuring that projects are completed on time with key point reviews during the life of the project.
- The CRC system has been of considerable benefit bringing together the key research facilities and coordinators pooling scarce resources. However the uncertainty as to whether a further sheep CRC will be possible remains unclear due to the manner in which CRC's are set up.

As investors, what principles do you use to balance short term claims with long term requirements?

- ASWGA seeks long term outcomes that will underpin the sustainability of their industry as the highest priority.
- It is also recognised that short term crises will occur and resources need to be available to meet those as they arise. For example at present there is no early stage capacity to produce scoured, or top in Australia and if there was a Foot & Mouth outbreak export of raw wool particularly to the main early stage destination could be blocked. AWI must therefore have resources and strategies in place to handle this. It would require a research component.
- It is recognised that research programmes cannot guarantee increased wool prices but the direction of research should be at improving efficiency and productivity at all stages from farm to retail.
- The integration of research throughout the whole pipeline is important and while there have been many studies on this over the past 30 years very little progress has been made in bringing the retail market closer to the production cycle. The pipeline process is long and inefficient.

Do these differ from the principles that balance commercial interests with public good?

- This is an increasingly complex area with considerable debate on where commercial interest ceases and public good starts.
- With environmental issues particularly land clearance, native pasture and vegetation operations, water, green house gas emissions, global warming and Carbon Trading all affecting farming operations the issue of individual responsibility and the expectations of the public are potentially matters of conflict.
- ***Where these issues have a public good outcome then research and development and innovation should be funded from the Public Purse.***
- Wool has the potential to be seen in a positive light regarding overall emissions and more positive in the Carbon cycle than previously thought. This is an area where public good investment in partnership with industry investment can produce positive outcomes. AWI is starting to work to this end. This is a further reason to support key funding for this area.
- Animal welfare issues should be a partnership between Government and Industry with industry being responsible for seeing that best practice is ensured to protect key markets and Government funding to support the public good aspect of enhancing Australia's national & international reputation in this field.
- ***Where actions have a public good outcome producers are entitled to expect that Government and the public will contribute towards achieving the desired goals***

Where do 'big break throughs' come in your area of interest?

- Big break throughs are rare in the wool industry. Over the past 50 years they have come from the precision measurement of wool especially superfine wool enabling greater predictability of performance in processing.
- Spinning and weaving technologies are now highly advanced with developments such as 'easy care' – shrink proofing, machine washability; softness and light weight all being achieved.
- Further major advances are less likely in the processing and measurement area.
- On farm shearing technology still needs ongoing research. Cost of shearing is a major factor in wool production and as yet no major breakthrough in shearing technology has been achieved.

- It is however important that continuous improvement take place and this requires ongoing investment in research.
- Lack of funding has reduced the commitment to blue sky research and failure to invest adequately in this area will have long term negative consequences.

What potential do you see for 'step ups' in system performance and what are the necessary pre-conditions?

- Step ups have significant potential as it is constant small improvements that are most likely to succeed in allowing superfine wool to become more competitive with other fibres achieving improved performance, increasing customer satisfaction leading to increased longer term demand and provide long term more sustainable returns to producers.
- On-farm continual step ups in flystrike, worm, lice and footrot control are essential in improving productivity and sustainability. Research in these areas must be continued as a priority.

What are the implications of these papers for your industry or area of rural R&D?

- Adequate resourcing of research, development and innovation are vital to the future of superfine wool production in Australia. Superfine wool is the fastest growing luxury natural fibre. While overall wool production has declined the production of superfine wool under 18.5 microns now represents 23% and of the Australian wool clip and close to 40% of the gross income from wool upon which the 2% levy is based.
- It is therefore important that security of long term funding of R&D is established and that funding to properly communicate findings and enhance uptake is achieved.
- There is a serious decline in graduates and tertiary students undertaking wool courses as part of their studies. Many would like to take up careers in wool research but realise that with the contraction of the industry that the opportunities are limited.
- The demise of the Wool Textile and production divisions of CSIRO have been a very serious loss to the wool industry. Fewer universities are offering courses for woo, production and technology.
- AWI funding and commitment to R&D is critical to our future as individual growers cannot voluntarily fund research and it is the collective funding by 30,000 wool growers that provides the wool industries commitment to R&D investment.

Are there any models in your industry that have been particularly effective and are suited to broader application?

- In the wool industry the outstanding model over many years has been the Australian Wool Testing Authority (AWTA). They have funded from their own revenue the R&D essential to the introduction of the world leading technology for wool measurement while at the same time keeping charges under control and from reserves initially funding the Australian Wool Education Trust that now funds many of the wool scholarships at tertiary, graduate and vocational level in Australia.
- While this model may not be seen as possible for AWI it does show that good governance can achieve better results.
- AWTA is a non profit industry owned company that has avoided the destructive agro political problems that have bedevilled AWC, AWRAP and AWI.

What opportunities and threats do you see for Australia as a result of international drivers?

- The future security and advancement of the superfine wool industry is based on key international markets at the leading edge of fashion and design with the worlds leading fashion and lifestyle companies.
- The ability to maintain and service key mature markets (Italy, EU, UK.USA, Japan and Korea is essential.
- The opportunity is to be at the forefront in the developing economies such as China, India, Russia and Brazil. These are great opportunities in the near future but we must be there.
- Threats are from competing fibres both artificial and natural. Research and innovation is essential if we are to compete.

How can the flow of foreign knowledge be encouraged and enhanced for the benefit of Australian Industry and community?

- The superfine wool industry depends virtually 100% on international customers and all processing is undertaken off shore so it must have an international focus.
- ASWGA has as its key mission an essential role in working with leading processors and users through to final retail.
- It is this integrated role that has been the basis of the organisations success and enables us to provide research bodies with information on requirements of customers throughout the wool pipeline.

Evaluation

On what basis do you assess adequacy of Investment?

- Whether the outcome of the R&D undertaken will improve efficiency and productivity.
- That the R&D will lead to improved long term profitability for superfine wool growers.
- That the R&D will enhance the long term sustainability of the industry.
- That the R&D undertaken cannot be fully or partly funded from the private area.
- That the R&D is required to meet industry threats or market failure. An example is the urgent need to find alternatives to surgical mulesing.

How do you think a 'national investment plan' should be measured and monitored?

- Through the development with key industry stakeholders 5 year strategic plans ranking the possible R&D projects on importance, urgency (to meet industry threats and market failure) and likelihood of sustainable long term benefits to both growers and downstream customers.
- Developing operating and business plans with clearly understood KPI's and with specific milestones to be achieved.
- Costs to be carefully monitored
- The plans to be reviewed at preset times. A good example is the sheep CRC operation.
- Post completion of a project ongoing assessment of the effectiveness of uptake of the R&D.
- The selection of competent and enthusiastic commercial partners is very important as in the past in the wool industry poor commercial partners to implement the innovation has been unsatisfactory.(e.g. The choice of partner to develop the OPTIM technology).

How do we ensure that major cross-sectorial and cross-portfolio issues are addressed?

- This is an important issue to prevent duplication of R&D and to ensure that cross sectorial and cross portfolio programmes are coordinated effectively. With the sheep industry many issues of animal health, animal welfare, environment, nutrition and pasture production are common to both wool and meat aspects.
- This should be a key role for the National Rural R&D Council.

Education

To what extent is there a shortage of skilled researchers and other professionals to support the Agriculture, Fisheries and Forestry sector?

- There is an increasing shortage of researchers in the wool industry and in many sectors of Rural Industry with more students and researchers moving to the environment, natural resource management and climate change areas rather than in traditional production based areas.
- The reduction in resources for rural research and extension by State Governments has reduced career path opportunities considerably. This coupled with the reduction of wool and wool processing and textile research by CSIRO has had a serious impact on the wool industry.
- Following the cessation of wool processing courses at the University of NSW there is now virtually no capacity to train new participants in this area. This has been exacerbated by the almost total decline in wool processing in Australia.

How is this impacting on the sector's productivity?

- With declining ability to resource adequately good research projects it is inevitable that improvements in productivity that are essential to maintain the global competitive position required by Australia if its rural industries are to remain competitive and sustainable will not be achieved.
- The emphasis on short term project based funding for researchers means that they constantly have to spend valuable time on finding their next project. This becomes more serious when at the time they should be finalising their present project they have to scope and apply for the next project.
- The inability to adequately fund research and investment in new technology that is emerging at present will have a major effect on productivity over the coming decade. Many of Australia's competitors place greater importance on research funding.
- In the case of the wool industry the major synthetic companies individually spend more on research than the whole Australian research budget for the industry. This places wool at an increasingly serious disadvantage.

What should be done to address this?

- A more coordinated approach to rural research with a cross sector approach needs to be undertaken
- There are too many short term contracts with resulting lack of job certainty and proper career paths available for those working in rural research.
- Universities and the CRC's don't provide long term career paths operating increasingly on single projects as funding becomes available.
- The security of longer term funding is essential as much rural research requires considerable time to become effective.

- More investment is required in the longer term funding for researchers in order to encourage the best talent into rural research and in particular to the wool industry. They need to have greater continuity of employment as they would have working for a commercial company.

What best practice models for extension and knowledge transfer exist?

- In the Wool Industry there are several models for extension that are worthwhile including AWI publications such as 'Beyond the Bale' and in conjunction with the States programmes such as 'Sheep Connect'. The sheep CRC publications are very good. The Sheep Genetic programmes such as LAMBPLAN and MERINOSELECT have been good examples of transferring research knowledge directly into the flock allowing more rapid and effective productivity gains
- It is essential that security of funding for these projects is continued and enhanced.

How are they evaluated?

- The development of industry agreed standards for measurement of uptake and success of any research project needs to be agreed before the project is started. Measurement should be objective and quantifiable where possible.
- The setting of KPI's and Milestones and constant monitoring of progress must be implemented and costed as part of the overall research project.
- Follow up measurement of adoption is important and where possible the longer term productivity gain should be assessed.

What are the implications for the structure and composition of Australia's 'receptive' capacity?

- Through AWI and its international links Australia has the opportunity for good receptive capacity.
- A wider communication across the whole Australian community to gain a greater understanding of the real needs and aspirations of the rural community as a result of effective resourcing of Rural R&D is required.

In developed countries there is a trend towards greater private investment in rural R&D. To what extent is this likely to be a trend in Australia?

- ***The wool industry is made up of approximately 30,000 small to medium size businesses and they do not have the ability to individually fund R&D. The AWI levy is there funding mechanism for investment in wool R&D and must be recognised as a private investment. This form of investment must be preserved at all costs and enhanced by the Government contribution.***
- The trend for Governments to walk away from research funding is serious with the consequence that R&D will suffer and the countries industries become less competitive on the world markets.
- ***The overall decline in most areas of Rural R&D has further serious consequences for wool growers in the general management of their properties. Australian Agriculture will become less competitive in the global market place unless there is increased investment in R&D.***

Is diversity, including community (indigenous and cultural) and industry diversity adequately provided for in the current model?

- The ability to bring together the requirements of a large number of woolgrowers over a wide diversity of environmental conditions and with the requirement to cover both apparel and non apparel R&D is a major challenge.
- Competition for resources between superfine specialist at the top of the marketing pyramid with the commodity mid section and the non apparel market has always been difficult.
- To cover any greater diversity would require considerable further funding.

(10) Are there any reasons to argue that the RDC model is no longer fundamentally sound? Or can deficiencies in the model be addressed through more minor modifications to the current requirements?

(11) If more fundamental changes might be warranted, what form could these take? How difficult would it be to replicate the strengths of the RDC model within such approaches? Is there scope for 'halfway" house approaches that would harness the respective strengths of the RDC model and alternatives to it? Are there any overseas approaches that are particularly instructive?

Are there other major changes required to the role of the RDCs? For example:

(12) Do the current levy payment and governance arrangements for the RDCs lead to an excessive focus on R & D effort within the "farm Gate" and, if so, how might this be addresses? If there are prospective, high payoff, research opportunities further down the value chain, why are these not being taken up by processors and other downstream stakeholders?

(13) Is overlap with the work of the CRC's largely complimentary, or are changes warranted to either or both programs to reduce that overlap? Will new guidelines for CRCs make it more difficult to get new rural CRCs approved and if so what are the implications for the future role and activities of the RDCs?

The CRC work is largely complimentary. Guidelines requiring the CRC to inform other CRCs with a project abstract via a CRC Association 'on-line' register would give a simple, cost effective and auditable system to reduce overlap.

(14) If State Governments continue to wind back their role in R & D and extension, should the RDCs be seeking to fill the gap, or are there private players that could effectively fill this role?

It is inevitable that State Governments will further reduce their R&D capacities as well as their extension roles and in some States their role in this area is now minimal. In the case of the wool industry it is hard to envisage where private funding could be obtained. For NRM and environmental outcomes there may be more opportunities.

Do RDCs manage Intellectual Property issues effectively? In particular, do their current approaches give rise to any difficulties for bringing new technologies to market? Can any shortcomings in this area be readily addressed within the current model?

The wool industry R&D bodies have had a poor record in IP management over the various structures. An example would be the Sports Wool development being hampered with poor choice

of commercial development partner with loss of momentum and allowing the lead in this area to be overtaken by competing fibres. Similarly the development of OPTIM was another case of inertia leading to slow uptake. Returns on new technology developments to AWI, AWRAP, Woolmark and AWC over many years have been less than optimal.

Funding Level Issues

(1) What principles and benchmarks should the Commission bring to bear in assessing appropriate funding for the totality of Rural R&D, and the right balance between public & private funding? Is there any new empirical work which specifically focuses on how changes to current overall finding would affect community well-being? Is it possible to determine the right balance between public & private funding across the totality of rural R&D using broad indicators and principles? Or must such assessment have regard to the characteristics of individual programs that provide public funding for rural R&D and in particular, to the type of R&D that is sponsored through each of these programs?

In establishing benchmarks for the assessment of funding across the spectrum of the 15 RDC's the Commission should consult with the RDC's through RIDC to reach agreed principles. The right balance between public and private funding will vary from industry to industry and the ability of an industry to attract private funding and the incentives that would encourage private funding in a particular industry.

In the case of the wool industry private funding may be easier to access through partnership programmes with particular processors, designers, and brand houses through leveraged arrangements. AWI with its B to B to C targeted programmes has been able to get strong private investment. In this case the private funding takes place outside Australia as there is very little downstream processing in Australia.

Peter Reading Managing Director of GRDC in Ground Cover May 2010 states – "*A great strength of industry specific RDC's is their linkage to levy paying producers. However, many of the challenges faced by rural industries do not stop at the farm gate and are not industry specific. These issues need a whole-of-value-chain approach to find and deliver appropriate solutions.*

Water allocation, Biosecurity and climate change are examples of challenges faced across industry sectors.

Mixed farming systems remain a key element of the Australian agricultural landscape and benefit from a more holistic whole of farm approach to research. Grain and graze has been an important collaboration between GRDC, Meat & Livestock Australia, Australian Wool Innovation and the former Land & Water Australia.

Health and safety capacity building and securing a rural workforce are issues that relate to all industry sectors represented by the rural R&D's.

Working under the same terms and funding structures makes collaboration between RDC's on common issues feasible and logical. To help ensure collaborative opportunities and to maximise the good derived from RDC investment the chairs of the rural RDC's meet under the title of the Council of Rural research and Development Chairs. This forum helps ensure that the RDC model continues to contribute to a sustainable and profitable Australian agricultural sector".

Frontier Economics Report on Drivers of Rural R&D 2009.

The report was commissioned by DAFF on behalf of the Rural R&D Council to review international drivers of rural R&D.

The paper attempts to draw out principles that can help to inform the discussion surrounding the design of current policy towards R&D.

The following points taken from the Executive Summary are important and should be considered very carefully by the Productivity Commission as part of this review.

- *Australian agriculture has been built on innovation. One of the drivers of this innovation has been a strong commitment by Commonwealth and State governments to fund and provide research services and by industry to provide research funding.*
- *Of the $1.6 billion now spent annually on rural related R&D the RDC's fund about $500 million This has grown from $200 million annually over the past 20 years and is now the largest single source of rural related research funds.*
- *The pressures on these joint Commonwealth/Industry RDC funds are increasing as research providers attempt to recover a higher level of their costs and the growth in RDC revenues slows because of drought and the matching funding 0.5% GVP cap.* ***The pressures on RDC funds to do more with less will continue to grow.***
- *A key response to these funding pressures is an increasing focus on priorities. While the RDC's have held onto productivity enhancement, we have seen a slowdown in revenue growth and a diversion of overall funding away from farm productivity improvement. Agricultural R&D is at a crossroads.*
- *Reducing duplication through institutional consolidation to provide critical mass and efficiency is underway – The directions of more collaboration, more specialisation, larger critical mass and less fragmentation seem inevitable. The changes on the research supply (doing) side are progressing at a faster pace than the research demand (funding) side.*
- *The rural research framework is arguably more vulnerable than it looks. Costs are being shifted from the States to the Commonwealth and industry. The CRC's and CSIRO Flagships are fulfilling valuable niches* (For CSIRO not in the case of the wool industry which has been abandoned) *particularly in the cross sectorial sectoral agenda.*
- *For the Investment Plan for Rural Research & Development one option could be to revisit the industry based funding framework to ensure that sector wide priorities are addressed more strongly. One of the great strengths of the industry specific RDC's is their linkage to their constituents and these linkages need to be built into cross sectoral funding arrangements.*
- *Australia cannot afford to continue funding applied research with a cross sectoral focus that does not have defined adoption pathways built into its design and the active engagement of the beneficiaries during and after the research phase.*

Some particular considerations

(2) Is there evidence to suggest that available funding prevents RDCs from investing in R&D which could provide a significant payoff to the wider community; or, alternatively, that RDCs are investing in some projects expected to generate only very modest returns? What does the fact that some RDCs have built up significant surpluses indicate about the availability of worthwhile projects to invest in?

From a wool industry perspective there is probably little evidence that limited funding has prevented investment in R&D that would provide a significant payoff to the wider community. The reviews of the Strategic Plan by the Board of AWI and through industry stakeholder consultation provide a review of the potential and real returns on investment of R&D funds in specific projects.

A more critical issue is the lack of funding to engage in blue sky research that is of higher risk but which if successful may make it possible to make paradigm shifts forward. The present lack of funding has prevented the ability to engage in this type of research limiting the industries long term ability to become more competitive with competing fibres.

The issues of the level of reserves that should be held has been debated for many years through the different wool industry organisations. AWI has to keep statutory reserves to fund exotic disease outbreaks and industry threats. The keeping of reserves at a reasonable level allows for better continuity of research funding and allows the possibility of funding larger more worthwhile projects when they become available. AWTA is a good example of an industry organisation maintaining and managing sufficient reserves to be able to undertake its own R&D programmes.

(3) If focus of most of the RDCs is on industry-specific and adaptive R&D and related extension, does this suggest that the bulk of the benefits accrue to levy payers? If so, and given the recent evaluations suggesting that these benefits are large in overall terms, why is a significant public contribution justified?

Evidence from previous reviews clearly demonstrates that there is a move for the RDCs to collaborate where possible and that failure of government investment will lead to under investment and loss of productivity and competitiveness on the world stage.

Benefits to individual operators in an industry will vary depending on whether they are industry innovators of followers. It is not unreasonable for those who first adopt new technologies to gain the greater benefit as they also take the greater risk However when they are successful others follow.

In the case of the wool industry post farm R&D in processing may benefit overseas processors but at the same time Australian growers (levy payers) benefit through increased demand and the wider rural communities benefit from increased prosperity of growers who can then make capital investments and provide more prosperity for rural towns improving their viability.

(4) Are there particular features of the rural sector, or parts of it, which provide the basis for a significantly higher level of public funding support for R&D than most other areas of the economy (see PC 2007, p. 435)? Are the wider community benefits from rural R&D commensurate with governments meeting an estimated three-quarters of the total cost of this R&D and, as part of this, the Australian Government meeting nearly half of the cost of the R&D sponsored by the RDCs? What other benchmarks should the Commission consider in assessing that appropriate level of public funding support for the RDC program?

The areas of rural R&D that are high priority particularly Natural Resource Management, water resource use and efficiency and Climate change that require greater public investment as the results provide a greater public good effect. For example where biodiversity is to be maintained and native grasslands preserved the landowner should be entitled to expect the public to contribute through stewardship programmes. R&D to enhance better biodiversity, NRM and water use has a significant public benefit.

An example of the lack of cooperation and coordination is in the AWI Strategic Plan an important On Farm R&D Programme is research into control of dogs. This is an important issue for the whole sheep industry, *but it is only part of as much wider problem area of Feral pests and wild life predation that is having a major effect on the viability of many properties.*

The2007 & 2009 ASWGA Survey of Members has gathered considerable data on the problem of Feral Pests and Wild Life predation. A précis of some of the results is as follows.

FERAL PEST & WILDLIFE DAMAGE/LOSS of INCOME & CONTROL

Question 30: Are Feral Pests Foxes/Wild Dogs/Pigs/Rabbits a problem?

Respondents	% 2009	% 2007
YES	83%	81%
NO	17%	19%

FERAL PESTS

(1) FOXES

	2009	2007	Change 2009 - 2007
Damage Estimate – Average	$5,932	$3,770	+$2,162
Loss of Income – Average	$7,254	$5,093	+$2,161
Cost of Control Measures-Average	$50 - 6,000	$22 - 4,000	

(2) WILD DOGS

	2009	2007	Change 2009 - 2007
Damage Estimate- Av.	$3,800	$5,200	- $1,400
Loss of Income- Av.	$11,300	$5,333	+ $5,697
Cost of Control Measures –Av.	$5,740	$3,150	+ $2,590

(3) PIGS

	2009	2007	Change2009 – 2007
Damage Estimate – Av	$1,650	$1,175	+$475
Loss of Income – Av.	$2,375	$1,167	+ $1,208
Cost of Control Measures – Av.	$664	$1,225	- $561

(4) RABBITS

	2009	2007	Change 2009 - 2007
Damage Estimate – Av	$2,750	$2,254	+$496
Loss of Income	$1,090	$2,920	-$1830
Cost of Control Measures	$1,250	$854	+$396

(5) DEER (Other Feral Pests)

	2009	2007	Change 2009 - 2007
Damage Estimate - Av	$3,500	$28,750	-$25,250
Loss of Income – Av	$26,000	$24,650	+$1,350
Cost of Control Measures	$20,000	$25,000	-$5,000

WILDLIFE PREDATION

(1) KANGAROOS

	2009	2007	Change 2009 - 2007
Damage Estimate – Av.	$5,895	Not measured	
Loss of Income – Av.	$6,147		
Cost of Control Measures – Av.	$1,350		

(2) WALLABIES

	2009	2007	Change 2009 - 2007
Damage Estimate – Av	$2,275	$3,511	-$1,236
Loss of Income – Av	$,5392	$6,290	-$898
Cost of Control Measures - Av	$5,163	$740	+4,423

(3) Brush Tail Possums

	2009	2007	Change 2009 - 2007
Damage Estimate -Av	$681	$9,914	-$9,233
Loss of Income – Av	$15,000	$21,750	-$6,750
Cost of Control Measures - Av	$10,000	$10,250	-$250

(4) OTHER (Eagles, Ducks, Cockatoos, Galahs, Parrots, Wombats

	2009	2007	Change 2009 - 2007
Damage Estimate –Av	$7,160	$1,700	+$5,460
Loss of Income – Av.	$9,750	$12,500	-$2,750
Cost of Control Measures - Av	$3,000	$200	+$2,800

- Damage, loss of income and cost of control measures vary considerably between properties depending on size of operations, enterprise mix on each property, variations between seasons (drought), frequency of control measures and types of control measures (baiting, trapping, shooting, fencing)

- A recent study in the Midlands of Tasmania has provided figures showing the damage to pastures adjacent to forests where wild life is uncontrolled.

The Critical issue is that this is a major determinant of the productivity, viability, sustainability and profitability of the overall enterprise.

At present AWI covers Dogs, Meat & Livestock covers Pigs and it is this lack of cooperation that is inefficient. Added to this is the CRC for vertebrate pests wisely covers the range of major pests but the silo attitude of the Commodity CRC's is a serious impediment.

These are the areas that RIRDC or an integrated RDC should cover. They are highly deserving of matching Government funding and in some cases special purpose funding as there are Public Good outcomes particularly on Crown Lands including National Parks, reserves and other public areas such as those under Local Government jurisdiction.

The allocation of public funding across RDCs.

(5) Is there any need to rebalance the Government's funding contribution across the individual RDCs? For example, do the general appropriations for the RIRDC and the Fisheries RDC give too much or too little weight to the somewhat different nature of the R&D projects that they fund?

It would be difficult to develop an acceptable formula to cover variations between R&D organisations. It may be feasible to have a special fund set aside where application for urgent R&D funding is allocated to meet emergencies that threaten the short term viability of an industry.

(6) Does the RDC model – and in particular the RIRDC industry umbrella arrangement - appropriately cater to the research needs of emerging primary industries? If not, what should be changed? In allocating government funding to the industry RDCs, should any account be taken of differences in the longer term competitive prospects for those industries, or their potential for productivity improvements? Alternatively, does basing the government contribution on the value of the industry output provide an appropriate means to calibrate contributions given the inherent risks in trying to pick winners or losers?

The RIRDC as a rural industry overarching body has an important role in assisting greater collaboration across the industry RDCs.

The quantum of funding from levies and matching government funding has a weakness that if an industry suffers a market downturn it's funding is also reduced at a time when more R&D is needed to rebuild its competitive position.

Often governments are keener to provide incentives to sunrise industries at the expense of well established core industries that are facing market difficulties.

The wool industry is an example where funding for R&D continues to decline and where it is as a result more difficult to get students at Tertiary level to undertake courses that relate to the wool industry not because they don't want to work in the industry but because there are a lack of career opportunities in wool research, particularly with the closing down of CSIRO facilities in this area.

Improving the RDC model

Ways to enhance governance arrangements.

(1) Where do the main opportunities for enhancing the current governance regime lie? Does the fact that some RDCs seem to have more satisfied stakeholders than others provide any insights on how to improve governance arrangements, or are such differences mainly due to the nature of the industries concerned? What changes might be possible to reward (or punish) good or (bad) governance without risking perverse outcomes?

The nature of having compulsory industry levies for R&D inherently creates differences of opinion from levy payers on where their funding should be targeted for R&D. This is a major challenge for the Directors and senior managers of the RDCs.

The diverse range of structures has largely developed in an ad hoc manner over the last 20 years as a result of political pressure by individual industries lobbying the government of the day.

Most farmers are multi enterprise operators and find themselves paying levies to more than one RDC. The diverse structure for electing or appointing their RDC industry boards is both confusing and frustrating. It probably leads to low voter turnout in both the levy vote and board election vote for Industry Owned Corporations.

The wool industry has since the Vines review, following the Reserve Price collapse in 1992, undergone a series of restructures moving from a Statutory model under the PIERD Act to the present structure an Industry Owned Corporation under Corporations Law.

The present structure continues to be controversial with the industry divided on the election process for the board of AWI. Since its inception following the recommendations of the *Australian Wool Industry Future Directions Task Force* in 1999/2000 under the chairmanship of the Hon. Ian McLachlan AWI has had a chequered existence. Originally designed as an R&D Corporation only with no marketing brief it has taken over The Woolmark Company designed in the restructure as the promotion and marketing arm.

Clearly the McLachlan Task Force restructure and the creation of Australian Wool Services was a monumental failure. In the case of The Woolmark Company its structure and funding arrangements, notwithstanding the UK Pension Fund issue, were never going to succeed.

AWI since its inception has had four CEO's, four Chairs considerable board changes and a very large staff turnover. Apart from a short relatively stable period under the Chairmanship of Ian McLachlan and CEO Dr.Len Stevens the whole period of the operation of AWI has been one of controversy and division.

The present grower member election process has brought to the surface long standing divisions within various sectors of the wool growing community. The two part process where the levy payers decide the rate of the levy and the growers who register as members vote for the board creates confusion and extra administration cost.

Above all the process, while seemingly, democratic leads to a political style board rather than a more balanced skills based board. In the case of the present board its internal divisions have become a public issue and have created further division among growers at a time of critical importance in rebuilding demand for wool facing the challenges of the Global Economic Crisis and the threat from Animal Welfare groups over the mulesing issue.

A more effective model, that would allow wool growers to have an influence on the board appointment would be to allow growers to elect a Board Selection Committee that would receive nominations or seek particular prospective board members covering a range of agreed skills to be appointed to the board.

Some present AWI board members have moved from policy to interfering in the management of AWI and have been seen recently to take publicly different paths to those agreed in the strategic plan and have created confusion in our overseas customers as to what is the real direction of AWI in relation to marketing strategies. The recent resignation of the CEO, Company Secretary and Legal Counsel and other key staff can only be seen as alarming.

The Board of AWI must understand that under proper Corporate Governance it is a Policy Board and should not interfere in the day to day operations of the Company

There have been a number of models used over the past 25 years for the appointment of the Board governing the direction of R&D and Marketing/Promotion ranging from a government appointed selection committee with an Independent Chairman appointed by the Minister and with the Chairs of the R&D and Marketing organisations, together with Industry representation (Wool Council Australia) to the present Grower Election process.

The Ministerial appointment system fitted the model for the Statutory organisations (AWC, AWRAP etc.) until the vote of no confidence in the AWRAP Board and with the McLachlan review and the subsequent move to the Industry Owned Company leading to the present AWI the grower member election process similar to that of a shareholder in a company vote was adopted.

This has not been successful and has led to the present unsatisfactory situation.

In order to secure a well established future for the Australian Wool Industry a more effective system of appointing the Board must be achieved.

A range of options should be considered. Any option chosen must have the support of the grower members of AWI who are the shareholders.

Consideration should be given for the setting up of an industry review committee to undertake wide industry consultation looking at a range of options before any decision to change the Board Selection process is made. The Industry Review Committee would make any agreed recommendations to the Minister seeking amendments to the Wool Industry Act if required.

AWI Staff

While much emphasis is placed on the structure and performance of the Boards of the RDCs the more important issue is the performance of the key staff particularly the CEO and the ability to develop a leadership team to deliver the outcomes and policies of the RDC.

There has been an unusually high turnover of key global staff during the period. This is unacceptable when the organisation operates globally. This inevitably leads to loss of corporate knowledge and experience and to customer dissatisfaction.

AWI must build a highly skilled leadership team under the CEO that can effectively deliver the strategies and policies of AWI.

There are solid rounds for investigating an amalgamation of core administration, legal and IP functions with other RDC's to reduce overhead costs and to provide more funding directly to projects.

More specifically:

(2) What practical impacts (positive and negative) have the national & rural research priorities had on the activities of the RDCs?

- **Does the specification of the priorities strike an appropriate balance between signalling what the Government is seeking in return for its funding contribution, and providing the RDCs with flexibility to carry out their responsibilities efficiently and effectively? If not, what changes should be made?**

From the perspective of the wool industry there is no evidence that government has exerted any undue pressure on AWI on its setting of the strategies for the next 5 years. The government has accepted the 2% levy vote in 2009 that outlined the strategies and programmes that could be delivered under the funding agreement.

- **Is there in fact significant synergy between the research needs of the sector and the Government's stated research priorities?**

There does not appear to be any evidence that any of the RDCs have not sufficiently considered the Governments R& D priorities. In the case of IOCs they are governed by Corporations law and are responsible to their shareholder members.

- **Are there likely to be greater challenges in securing industry uptake of some of the outcomes of R&D directed at meeting the Government's priorities that for R&D which reflects the priorities of levy payers? If so, can this problem be cost-effectively addressed?**

If farmers cannot see worthwhile gains in productivity, profitability or improvements to the infrastructure of their properties from meeting government R&D priorities they are unlikely to take up government imposed R&D.

It is not a matter of cost effectively addressing the issues but for the government to effectively explain the need for the particular R&D and the benefits to both the landowner and the wider community.

(3) Does feedback from the Government on strategic and annual plans add significant value to the process and is that feedback communicated effectively? If not, what could be done to improve the arrangements?

Good dialogue between the government and the RDC on the outcome of the strategic and annual operating plans is essential and should be expected in return for the government funding contribution. Not only should individual RDCs meet with the government but a coordinated meeting should take place through RIRDC.

The Government and RDCs should ensure that the results of these consultations are effectively communicated to the whole rural community. With the cessation of extension services by State DPIs communication between government and the rural community is lacking.

(4) What is the scope to improve the effectiveness of RDC boards?

- **Is there an appropriate balance on boards between industry expertise and more general skills? If not, is this a result of deficiencies in the processes for electing/appointing boards, or does it reflect other factors?**

In the case of the Wool Industry the AWI Board, with its present elective structure is a politically based board, not a skills based and this has led to the present serious situation with board divisions being aired in the public arena. High staff turnover at the senior level is an indication of lack of confidence in the ability of the board to set and implement the strategic plan.

The election of the board must as a matter of urgency be addressed. While it is reasonable for the growers to elect the board selection committee giving them a degree of influence over the outcome, the most important issue is for the industry to agree on a set of skills that are required and that the selection committee must address the balance of skills and appoint the best available candidates.

The present populist election process is open to undue influence from vested interests funding candidates and many more talented candidates simply will not put their names forward on the uncertainty of the election.

- **How has the Ministerial approval process for appointments to the boards of the statutory corporations affected outcomes?**

The Ministerial process for appointment of boards of statutory corporations is well understood and provides a degree of confidence that candidates for appointment are suitably qualified and that due process by selection committees has taken place. It has led more balanced skills based boards for RDCs than the populist process for election.

- **How might any negative impacts of the removal of government nominees from the boards of the statutory corporations be ameliorated? For example, has the attendance of a departmental representative at the board meetings of some of these corporations been helpful?**

Consideration should be given as to whether a Departmental Representative should be a voting member of an RDC Board or a non-voting member. There is a good argument for departmental representatives attending RDC board meetings to allow for a better understanding between government and industry and to provide a means of giving the government confidence that public investment is being effectively used.

- **What lessons can be learned from differences in the procedures for appointments to individual IOC boards?**

In the case of the wool industry while board selection has always been a matter of debate and division and no doubt will continue to be so due to the lack of cohesiveness endemic in the industry the present appointment system has been a failure and urgently requires addressing.

- **Has board composition influenced whether individual RDCs have focussed on encouraging adoption of new technologies by more innovative top end producers or, alternatively, on pulling bottom end producers up? What other factors have played a role in different strategies in this area and what lessons can be learned from the results?**

For the wool industry this has been a long term debate and is not really related to the board composition but more to where it fits in the strategic plans.

The reality is that by focussing on the top quartile improves the chance of achieving better uptake by the followers. The bottom end will always be present for a variety of reasons often because wool production is a by product of other enterprises.

(5) Are there any significant conflicts of interest issues that need to be addressed in regard to the appointment and membership of boards, the relationships between RDCs and industry representative bodies etc?

In the case of the AWI board there are seen by many to be conflicts of interest in the case of some of the Directors. The move away from consultative funding to industry has been accepted. There is however an important role for the RDCs to have effective consultative protocols between themselves and the recognised industry representative bodies. It is fair to say that AWI has continued to consult with the industry representative bodies both at local level through WoolProducers Australia, ASMBA, ASWGA and through the Federation of Australian Wool Organisations (FAWO) and internationally through the International Wool Textile Organisation (IWTO).

(6) Are there aspects of the governance arrangements applying only to the statutory corporations, or only to the IOCs, that should apply across the board? For example, would it be possible and desirable to increase the input of the Minister into the strategic and annual plans of the IOCs? Would there be benefits in extending the periodic external review requirements for the IOCs to the statutory corporations?

Provided the Statutory corporations and IOCs undertake effective industry consultation and consider the needs of industry and where possible their priorities meeting those put forward by government there is no need or benefit from further input by the Minister.

(7) How useful are the Statutory Funding Agreements, including as a means to ensure the IOCs meet the core requirements in the PIERD Act? Would greater standardisation of these agreements across the IOCs be desirable?

The statutory funding agreements can be seen as a safety mechanism to ensure that industries are responsible for their actions, that the RDCs have consulted effectively and the outcomes have broad industry support. One size does not fit all and the particular needs of each industry must be considered as well as where they fit across the whole rural spectrum.

(8) To what extent would governance be simplified if the Government's contribution was separately managed, leaving the RDCs to manage contributions from levy payers? Do the benefits for RDCs and levy payers that come with the government contribution outweigh the costs of the more complex governance regime and, in particular, the constraints on the way in which funds can be spent?

This concept is both impractical and inefficient and simply would not work.

(9) How effective are current industry consultation protocols? Are all of the key stakeholders routinely consulted, or at least provided with adequate opportunity to make their views known? Should the legislative requirement for some RDCs to consult with particular peak industry groups be scrapped and replaced by more generic requirements simply requiring consultation with an appropriate range of stakeholders?

The wool industry consultation by AWI through its present strategies covers the grower industry bodies, WPA, ASMBA. ASWGA. SFO's is effective and also through consultation with the Industry Chairs. This should be extended to FAWO and IWTO representing to customer position. These networks provide the opportunity for effective communication between the Stakeholders/Shareholders and the RDCs.

There are inherent problems of cronyism with ad hoc selection of stakeholders. The Peak Industry groups are responsible for the collective positions of a significant sector of the industry and should handle the more political side of the industry leaving the RDCs more freedom of decision making. The role of the Peak Industry Bodies to review and advise the RDCs is very important.

(10) What are the benefits and costs of the combination within the IOCs of R&D responsibilities and other industry services? To what extent have synergies between the two been a factor which has motivated the transformation of some statutory corporations into IOCs? What have been the other drivers and what have been the downsides experienced during and after such moves? What are the particular benefits and costs of combining R&D and industry representation responsibilities within a single entity?

It would seem inappropriate for AWI to take on industry service roles such as wool testing, quality management such as wool classer registration, woolpack quality and market reporting. These are better managed by the industry.

Increasing administrative efficiency

(11) What scope is there to reduce the cost of administering the RDC model without diminishing the outcomes it delivers?

It may be possible to have an overarching of general administration, accounting, legal facilities with groups of RDCs and this should be considered.

(12) Are there too many RDCs and, if so, how might this number be reduced? How big are the potential downsides of amalgamations, such as loss of focus and the increased challenges of dealing with a more diverse, and possibly hostile, range of industry stakeholders? Would wider application of the RIRDC approach be a means to reduce total administrative overheads, while still allowing individual industries to retain their "research identity".

Serious consideration should be given to the RIRDC approach as suggested above. Amalgamations may be useful but care must be taken to see that the overall focus on the essential R&D strategies of an industry are not lost. Cooperation does take place between AWI and MLA, the Invasive Animals CRC and Sheep CRC on some issues. ASWGA would be concerned if AWI was subsumed into a super RDC as the risk of loss of specialist knowledge would be increased and the specific R&D requirements may not be able to be met.

Cooperation on administration, legal and IP matters may be better than full amalgamations. A single entity that covered the financial administration, IP administration including registration of Trade Marks, Patents, legal arrangements under RIRDC would reduce the overhead costs of the RDCs.

(13) Are there examples where ineffective collaboration and coordination across the RDCs had lead to a significant wastage of administrative resources? Are there unrealised opportunities for greater sharing of skills amongst the RDCs? Are there other features of the RDC operating environment or governance regimes which lead to unjustified escalation in executive salaries, board fees, infrastructure costs, overheads and the like?

An independent review must be undertaken to determine whether there are wastages and inefficiencies and how a more efficient and leaner administration model and be developed. The Minister should set up this review as a matter of urgency.

More robust ex post project evaluation.

(14) Do the program – wide benefit-cost ratios emerging from the two evaluations so far appear reasonable in the context of the previous quantitative work and other more qualitative indicators of what the RDC model had delivered for farmers and other stakeholders? How do the numbers compare to those emerging from evaluations by individual RDCs (both before and after the event) and for comparable projects by other research entities such as the CRCs and the CSIRO? If there are significant differences, what are some of the possible reasons for them?

The empirical figures Box 2 The benefits of rural R&D show that over a number of studies and assessments that significant returns are achievable on investment in rural R&D.

The ACIL Tasman evaluation for CRRDCC (2010) with an average cost benefit ratio of 11:1 assessed after 25 years of the investment and that all projects had a positive return within 10 years I a compelling case for ensuring that funding for R&D is secure.

The Productivity Commission (2007) report that public investment in agricultural R&D across 42 global studies averaged nearly 60% with a median return of more than 40% is compelling evidence of the importance of R&D investment if productivity is to be maintained or increased.

The results from the CRCs may vary when it must be considered that there is a level of risk that not all R&D will lead to positive results.

A negative result can also be of benefit in determining future directions.
However it is important that RDCs have strategies in place in their operating plans to assess in a timely manner when a project is unlikely to be successful.

The time lag for the benefits of new technologies needs to be taken into account, particularly the long lead time in registering new products such as drenches, mulesing intradermals, lice and fly strike preventative chemicals.

Rural research by CSIRO has been down sized in recent years and this is of considerable concern. The closing of the wool processing research division means that independent R&D in this area has virtually ceased. The lack of careers in wool processing research has also led to the closure of

University courses in wool processing with serious long term consequences for the future competitiveness of wool as a leading apparel fibre.

(15) Are there particular methodological issues that need to be addressed? For example

- **Has the project sampling process been sufficiently random? Have evaluations give sufficient weight to failed projects, especially those terminated at a relatively early stage?**

There have been sufficient evaluations and there has been a consistent positive result from investigations into the effectiveness of rural research programmes. The responsible setting of milestones by RDCs and monitoring these has allowed timely termination of many projects. The process is not infallible and some projects will inevitably be terminated too quickly.

- **Has there been adequate recognition of the contribution of the core R&D and/or background knowledge on which adaptive research work sponsored by the RDCs is based?**

Difficult to answer as it depends to whom the question is addressed.

- **Has proper account been taken of the implicit subsidies embedded in some of the research services provided to RDCs by State governments, universities and the CSIRO?**

Yes

- **Has there been sufficient rigor and consistency in the way in which "counterfactuals" for the individual projects have been constructed?**

Not possible to comment.

- **Has adequate account been taken of the potential for projects with long payback periods to be rendered less valuable or obsolescent by the next wave of research effort? Should there be more focus on returns in the medium term?**

There must always be a balance between long term, medium term and short term benefits and returns in investment the ACIL Tasman studies show that long term benefits are achieved.

- **Have the assessments assumed levels of adoption which can be supported by previous experience?**

There has been sufficient evidence collected over the previous productivity studies to note that the levels of adoption will depend on how well the results have been communicated to industry participants and getting the leading innovators on board. The level of adoption will be greater if industry understands the potential gains from the R&D.

- **Has there been sufficient sensitivity analysis in regard to all of the key influences on reported project returns?**

RDCs are very conscious of this requirement and take this into account as a key indicator of performance

(16) Should the next stage of the evaluation process provide for follow-up of initial project evaluations to see whether the expected outcomes have in fact been realised? Should there be more focus on the value added by RDC involvement in a project as distinct from the overall return to that project? What other evaluations initiatives might be helpful, including to facilitate more rigorous and consistent assessment of environmental and social benefits?

While it is reasonable to follow up in the medium term the achievements of a particular project the more important emphasis should be on follow up or new projects. The overall return on investment in a project is more important than trying to determine the value of the RDC to the project.

(17) Is sufficient data already collected to allow for these sorts of improvements and refinements to the evaluation process? If not, how might any gaps be addressed? For instance, when undertaking stakeholder surveys, should RDCs solicit more information on the farm-level impacts of specific R&D outputs to feed the evaluation process?

With more rural research now being conducted on farm in partnerships between the RDCs, CRCs and Universities it should be possible to obtain more data under practical farming conditions.

(18) Are any changes required to the governance regime for RDCs to encourage improvements in evaluation protocols and methodologies? Should there be greater efforts to encourage consistency in the approaches adopted by the individual consultants employed by RDCs to undertake evaluations? What would be most cost-effective way of providing for regular independent scrutiny of the evaluation process and its outcomes? Should evaluation outcomes be "reality tested" with stakeholders?

It is a matter for the RDCs themselves to determine the methodology of project evaluation and to instruct consultants and staff on the requirements for reporting and assessment.

More effective coordination and collaboration

(19) Are there significant opportunities for additional collaborative research effort across the RDCs which would have significant payoffs? If so, where specifically do these unrealised opportunities lie and why do they still exist? For example, are some of the RDCs unnecessarily siloed and reluctant to work with others on value adding areas of common interest? Or is it simply that these collaborative projects are expected to provide a lesser return than other project options within each silo?

It is most important that where possible the rural RDCs work together collaboratively taking a more whole farm approach. This is important on issues such as environment, climate change, water use, animal welfare, feral pest control, weeds etc.

The collaboration between the wool and sheep meat, cattle, goat industries and the Invasive Animal CRC in the present Sheep CRC is a very good example of the advantages of collaboration.

(20) Is there scope for RDCs to do more collaborative work with overseas entities? Are there any particular features of the current arrangements that discourage such collaboration?

For the wool industry most of the post farm work has to be conducted overseas as there is little opportunity and virtually no facilities any more to be able to undertake processing research. One of

the advantages of doing this work overseas is that Australian funds can be leveraged by the research funds and facilities in partner countries.

It is essential for future prosperity in the wool industry that the ability to work in partnership with customer countries is encouraged and supported.

(21) As a mechanism for encouraging coordination and collaboration, what are the strengths and weaknesses of the CRRDCC? What specific initiatives might improve its effectiveness? Are there other mechanisms that might be employed instead of, or in addition to, the CRRDCC?

The Council of Rural Research and Development Corporation Chairs (CRRDCC) has an important role in seeking where possible to encourage a more collaborative approach to R&D projects and to streamline administration where possible. While the Chairs are expected to play a leading role in working cooperatively the Council, without competent staff to undertake information and data gathering upon which decisions can be made, cannot be expected to cover the wide ranging scope of a large number of rural enterprises.

(22) To what extent will the National Primary Industries R&D and extension framework, once fully implemented, be likely to improve broader coordination and prioritisation of the research task and facilities its execution in an efficient and effective manner? Will it provide flexibility to cater for future changes in the composition of the rural sector, or could it tend to lock in the current levels of funding support and infrastructure relevant to individual industries? How might the activities of the Rural R&D Council best add value to the overall effectiveness of the rural R&D effort?

The National Primary Industries R&D and Extension Framework if properly established and resourced would have the ability to take on board the recommendations of the CRRDCC acting both as a collector of information and making sure that results of projects are communicated more effectively to the rural community

Improving the levy arrangements

- **What are the relative merits of compulsory and voluntary levies for addressing free-rider problems? What lessons can be drawn from the voluntary levy arrangements that apply in the fisheries and cotton area? In practical terms, what are the differences between a voluntary levy and a compulsory levy where the levy rate is left to the levy payers to decide and can be set at zero?**

All the available evidence from previous investigations has shown that voluntary levies lead to significant under funding of R&D particularly in industries such as wool, meat and grains where there are a large number of small to medium enterprises. Cotton has a small number by comparison of enterprises that are more in the medium to large scale range.

The danger of a zero levy rate as seen in the recent 2009 WoolPoll is that the consequences are, in effect, a signal that the RDC is not supported and must be wound up. This is not a fair or satisfactory way for an industry to decide whether it supports and R&D Corporation.

There is a vast difference in practice between a voluntary levy and a compulsory levy that can be set at zero.

The 2010 Budget announcement of reform to tax incentives for R&D for small to medium businesses is unlikely to be of any benefit to the majority of smaller to medium size rural businesses except where they are processing, packaging and marketing more directly to final customers.

- **Are the arrangements for collecting the levy and channelling these collections to the RDCs administratively efficient? Does the (variable) levy collection charge closely reflect the costs incurred by the Department of Agriculture, Fisheries and Forestry in collecting and distributing levy funds?**

It is not possible to answer this question as no data is available. However a suggestion of variable rates of funding is dangerous, if it equates to trying to pick winners. It has the potential to create divisions within an industry and may have an overriding effect on the delivery of the strategic plan.

- **Are the processes for amending levy rates unduly cumbersome? Are there options for streamlining these processes that would maintain appropriate protections against unduly frequent and potentially disruptive or costly attempts to change levy rates?**

The process for setting the wool industry levy is cumbersome, expensive, unduly time consuming and inefficient. Worse still it creates controversy and brings out industry divisions.

ASWGA has consistently supported extension of the WoolPoll from 3 to 5 years and was very disappointed that this was rejected at the 2009 WoolPoll.

The 2009 WoolPoll results show the low participation rate by levy payers.

	Voting papers/voters	Votes
Voting Papers mailed to eligible levy payers	**43,637**	**1,184,251**
Voting Papers returned	**14,246**	**635,893**
Percentage of Voting Papers returned	**32.65%**	**53.7%**
Votes 2003	**18,278**	
Votes 2006	**16,119**	
% decline 2003 - 2009	**22%**	

The number of growers has declined during the period but the participation rate has fallen faster.

The result for an extension from 3 to 5years was disappointing but was based more on fear of being locked in to a position that could not be changed and did not keep pressure on AWI to contain costs. The confusion between the WoolPoll and the subsequent AWI Board election one month later created a degree of confusion and misunderstanding between the levy vote and the Board vote.

The worst feature of the 3 year WoolPoll is the loss of momentum by AWI in delivery of strategies and programmes and the staff resources diverted to explaining to growers the requirements and funding needed to implement the strategic plan. Further our global customers lose confidence in the ability of AWI to deliver while awaiting the uncertainty of the outcome. The threat of a zero levy and its consequences overhung the 2009 poll creating uncertainty.

- **Could the basis for the matching government contribution me modified so as to give better effect to the underlying rationales for public funding support? For instance, would it be desirable to pay a higher contribution on classes of R&D with a demonstrable focus on wider community benefits, offset by a lower rate on R&D with an industry-specific focus? Is there any case for differentiating the rate of the matching contribution between start up or high growth rural industries and more mature industries?**

There has been a tendency by both Federal and State governments to prefer supporting sunrise industries to the detriment of established industries that has left reliable and solidly based industries underfunded.

This is particularly so for the wool industry.

Support for new emerging industries should be funded separately until they can come into the mainstream as established and long term viable industries. This should be seen by Governments as venture capital that is at a higher risk than investment in core RDCs.

- **Should there continue to be scope for the RDCs whose levy receipts are below the ceiling on the matching government contribution to accept funds from "donor companies" for specific research projects and use this funding to secure and additional taxpayer contribution?**

The ability to attract private funding for specific projects, providing they are compatible or enhance the strategic direction of the RDC would be greater if it were known that matching government contributions were possible.

- **Should processors generally pay a levy for R&D? If they were required to do so, what was the likelihood that they would simply pass the cost back down the line to the primary producer? Does this happen in those industries where processors currently pay a levy?**

As there is now practically no wool processing within Australia this is not an issue. There has been over the past twenty years debate on whether processors should make a contribution to wool promotion rather than R&D.

In the 1990's the French Gintel group took a lead in this and made a voluntary contribution to the Australian Wool Corporation towards innovation and marketing in the hope that this lead would bring in other processing countries particularly Japan, Germany and Italy. This did not occur and the initiative ceased.

More recently the IWTO / AWI and Woolmark collaborated on the Test Marketing Campaign but while a special levy was agreed through FAWO and with ACCC authorisation it was seen effectively a further impost passed back to producers. The inevitable result of any levy downstream is that it largely falls back on the producer at farm level.

- **Is there any evidence of a significant mismatch between the regional distribution of levy payments and the regional distribution of the benefits from the ensuing R&D, for particular RDCs or across the program as a whole? Would an explicit effort to more closely align the two materially reduce the overall return to the community from the RDC program?**

There will inevitably be variances between the amounts of levies collected from different regions or States for different commodities and it is impractical to allocate R&D funds and resources directly back to the specific Region or State from which the levies were collected.

ASWGA in its 2009 survey however did find significant support for a proportion of the wool levy paid by superfine growers to be available to R&D and Marketing projects that more directly benefited our sector. This was based on the 27% of the production now being under 18.5 microns and that this sector also was the higher price sector and contributed almost 40% at least of the overall levy payments. As well as being the flagship sector of the industry providing the leading innovations from which the more middle to mass sector of the market followed

D: RECOMMENDATIONS

1. **ASWGA strongly recommends the continuation of both Industry and Government funding of RDCs.**

2. **Continuation of compulsory Industry levies is essential to secure industry funding. Free Riding will lead to underfunding and uncertainty of R&D funding with a consequent loss of productivity and competitiveness.**

3. **The present matching funding model should be continued but with the ability of public funding to meet threats that could lead to market failure.**

4. **The RDCs should work more cooperatively together both administratively and on cross industry issue such as environment, animal welfare, feral pests and wildlife control, weed control, water, biodiversity, food security and climate change. They should also work more closely on R&D that relates to global trade and economic conditions as Rural Industries depend largely on exports.**

5. **The role of RIRDC as an overarching body should be expanded particularly in regard to administration and IP issues but not to the detriment of the requirements of individual industry RDCs.**

6. **The election structure of the AWI Board should be reviewed to ensure that it is a skills based not a populist Board. Consideration should be given to the best possible model to achieve this outcome. However wool grower members should have the right to elect the Board Selection Committee. An agreed set of skills criteria needs to be established. An Industry Review Committee should be set up to look at a range of options before any decision to change the Board Selection process is made. The Industry Review Committee would make any agreed recommendations to the Minister seeking amendments to the Wool Industry Act if required.**