SOUTH AUSTRALIAN GRAIN INDUSTRY TRUST

Submission to Productivity Commission Inquiry Into Rural Research and Development Corporations

SUMMARY

The South Australian Grain Industry Trust is funded by a voluntary grower levy on all grains and applies those funds to research, development and extension to benefit of SA growers.
The fund is small relative to national RDCs and projects rely largely on the "core capacity" being provided by State or Commonwealth agencies. It also jointly funds some projects with GRDC or private sources.
SAGIT calls for the retention of the RDC model, with a return to the core functions of RD&E and suggests a number of improvements.
SAGIT deplores the reductions in Commonwealth and State government investments in agricultural RD&E, in the belief that they represent good value for money in both the public and private good.
As well as contributing to applied research, greater public commitment to blue sky research and development and extension is necessary.
SAGIT believes that greater contribution from those involved in delivery chain and value adding services is warranted since they benefit substantially from improvements in production.
Greater emphasis needs to be placed on development (D) whereby results of research are adapted so that they can be adopted by farmers. In extension (E), a farm systems approach, including farm business considerations is required so that the information is presented in a manner in which the farmer can more readily make decisions.
To give effect to these changes in emphasis, SAGIT recommends a panel approach involving all relevant players to determine the core issues, the main research questions, how they are best tackled, by whom, and how the work is to be funded.
The strength of the Australian RDC model is the balance of private and public investment it provides to achieve both public and private good benefits. SAGIT believes this still to be the case.

1. Introduction.

The South Australian Grains Industry Trust (SAGIT) is pleased to have the opportunity to respond to the Productivity Commission Inquiry into Rural Research and Development Corporations in Australia.
Our submission largely relates to the Grains Research and Development Corporation although the comments may well apply to others. Having studied the Issues Paper, it is not our intention to respond to all (168) questions but rather describe our role, and what might be done to improve the current arrangements in terms of achieving best value for money, regardless of who contributes. Our clear preference is to spend

less effort questioning the merit of current arrangements and more on improving the efficiency by ensuring that we are doing the right things better.

Whilst we will attempt to relate our comments to the issues raised, we strongly believe that any fair and sensible review of the Corporations needs to be made in the total context of what is happening in R, D & E in Australia.

2. What is SAGIT?

The SA Grain Industry Trust (SAGIT) was established in 1991 under the SA Wheat Marketing Act to administer the voluntary research levy that had been collected from South Australian grain growers for many years. It emerged at the same time that the national Research and Development Corporations (RDCs) were formed. The voluntary levy was retained within the State on the basis that SA had specific requirements. Other States had the same opportunity to establish a continuing State fund but did not pursue it, with the exception of Queensland with the Grain Research Foundation Ltd, which is structured and funded differently and does not have the same direct RD&E support functions as SAGIT.

Today the Trust applies the funds collected via the levy for research and development into the growing, harvesting, storage, processing and marketing of grain in SA, and for the dissemination of technical information to the State's grains industry. Most of SAGIT's support has gone to projects on production and related farm business economics.

It is funded both by the investment returns from the residual of the State based levy funds in 1991 plus the levy on all grains. This levy started at 10 cents/t and is now 25cents /t. The levy is voluntary (since States don't have the power to impose a compulsory levy) and growers who don't wish to contribute must advise the Minister accordingly. Very few have done so.

The levy is collected by Primary Industries SA from 38 different grain purchasing entities. Collections are believed to run at about 95% but this may lessen with the shift to a more free market for grains with the greater number of trading entities and interstate sales making traceability more difficult..

There is no direct government cash contribution to SAGIT, as is the case with the RDCs.

Being based on volume, levy collections vary widely with the seasons. Unlike GRDC for example which is based on farm gate value it does not have a volume/price buffer. In the case of SAGIT, while we base our budgets on 6 M t of grain (or $1.25M) per year, collections were less than $300,000 in some years during the recent drought. This makes maintenance of committed programs challenging (given that we normally commit for three years) and has required substantial draw down on reserves and some adjustment of projects in recent times. The risk management policy of SAGIT requires the maintenance of a reserve equal to 2 times annual spend.

In terms of farmer contribution, a farmer producing say 2000 t of grain per year will pay $500 in levy to SAGIT, and assuming an average value of $200/t and a farm gate levy rate of 1% will pay $4000 to GRDC. Of course they will also be subject to livestock levies if they produce those commodities.

The fund is administered by a Trust comprising three members appointed by farmers and one appointed by the Minister. The farmer appointments are made on the basis of a public call for expressions of interest with the selection being made by the SA Farmers Federation Grains Committee as provided for under the Trust Deed. The farmer members are selected on their knowledge and skills not only of farming and research but of governance. They are not formal representatives of any industry body. SAGIT does not try to influence agri-politics nor does SAFF Grains Committee try to influence the work of SAGIT. One of the farmer members is Chair. The Ministerial appointee is involved in farming and in farm business training and brings additional skills to the Board. The Minister requires reports but does not seek to influence SAGIT. If anything

SAGIT would appreciate greater opportunity for input to the Minister, especially on issues relating to matters of State contribution to RD&E as we are joint investors.

Most Trustees are graduates of the Australian Institute of Company Directors.

Allocations to new projects are about $400K per year, which means an annual investment of about $1.2M per year, since most projects are for three years. We have about 30 projects running at any one time. This is small compared to our national counterpart (GRDC) which invests about $110 million per year on 800 projects,

In terms of management costs, SAGIT runs at approximately 10% of the average annual spend which appears to be consistent with other like bodies such as GRDC. This has been reviewed on a number of occasions and it is hard to see how it can be reduced and still retain robust and effective management. These costs include management of project call, selection, review and reporting, IP management, communications with government, industry and farmers, financial management, governance and administration.

3. Farmer attitudes to SAGIT

SA farmers have always been very supportive of SAGIT and investment in R, D & E generally. This is most likely a reflection of our transparent project selection processes, the effective communication of our activities and achievements, and that we are seen as providing good value for money. The advantage of being small is that we can be closer to our levy paying clients and our research service providers.

The fact that the voluntary levy system works for SAGIT does not mean that it would be successful for national RDCs. They obviously operate are larger and more diverse program in a more complex needs environment with all the issues of communication across States, and many sectors, especially in the case of grain. We do not have the same issues of State claims of “fair share” or the internal bickering which occurs with national bodies.

As indicted above, the SAGIT levy is far smaller than for a similar national RDC and therefore farmers are more likely to pay, other things being equal.

To use a voluntary system at national level will inevitably invite more “free loaders”, a situation the RDC with its compulsory levy was set up to avoid. In our view, the need for a compulsory levy at National level is as sound now as it was then. What has changed?

<u>That having been said, we hear few complaints about our national counterpart (GRDC), except from a vocal minority.</u>

4. Project Processes

SAGIT has developed a simple, effective and transparent process of project call, selection, management and reporting. SAGIT recognizes that applying for funds costs time for research staff and efficiency can be increased by making it simple yet robust.

The guidelines for project applications and the selection criteria are reviewed annually and posted on the SAGIT website in what is a very transparent process..

SAGIT at this stage is not prescriptive in the areas of work it will fund, but rather sets criteria for project selection, the most important of which are the potential benefit to SA farmers, a clear path to market, and the necessary scientific rigor. Judgment is made on the extent of the benefit to farmers, the probability of it being achieved and the time span. Whilst these criteria also include social and environmental benefits (which are clearly in the public good) but these benefits are often difficult to define.

Selection is made by the SAGIT Management Committee which includes the Trustees plus two other farmer/experts. The process is supported by an independent scientific adviser and the Executive Manager, who himself provides independent scientific and industry input.

Whilst the decision making is transparent, the Executive Manager does have close contact with service providers and advises on project approaches. This results in higher quality applications which better meet SAGIT criteria.

5. Leveraging

Given that SAGIT is a small funding entity, an important component of its operation is to leverage funding not just from other funding bodies such as GRDC but from State and Commonwealth providers, and from the private sector.

While SAGIT funds projects which largely benefit its primary stakeholders, SA farmers, many of these projects have impacts on farmers in other States, in which case we seek to partner with another body such as GRDC or ARC. We have developed effective joint contracting processes with such organisations in a way which maintains our independence but maximises the benefits to stakeholders.

There is no evidence that the availability of SAGIT funds replaces GRDC investment. In fact it is quite the opposite in that SAGIT usually takes the initiative to co-fund with GRDC projects of national significance. Such an approach is applauded by our farmers and research service providers..

6. Importance of State and Commonwealth Investment.

Whilst neither State nor Federal governments makes a direct cash contribution to SAGIT, their continued investment in “core capacity” is nevertheless essential. SAGIT funds at the margin and relies on the State (especially) and Commonwealth to fund the core capacity of such things as research stations, laboratories and expert staff. For example, in the most recent round of SAGIT project allocations, in the case of the SA Research and Development Institute, the sharing of costs (including in kind) was about 1:1

It is of considerable concern that State governments are cutting their budget allocations to agricultural activities, especially R, D & E. In fact at national and State level one could be excused for thinking that Governments regard agriculture as a sunset industry which is no longer worthy of investment.

In SA for example, SARDI has been cut for several years and is now expected to take a 60% hit which will in effect decimate its State R&D capacity in SA.

This has meant that rather than have a true partnership as was the case in the past, industry funds such as SAGIT are being required to contribute an increasing proportion of State costs. This is a clear case of cost shifting, which is already reducing the number of projects which can be funded. To a degree the funds are being held to ransom because there is often no other research provider that can do the work.

In part what appears to have happened is that the States are using the Primary Industries Standing Committee (PISC) national planning initiative as an excuse to cut their own expenditure in those areas where they are not regarded as the core *research* agency. This ignores the other components of the PISC agenda which are that *development* will be done regionally and *extension* locally. Both of the latter are critical to the adoption of research, regardless of its source and until recently were largely the province of State agriculture departments.

A further spin off from a greater dependence on industry funds is the instability of those funds. Revenues fluctuate widely (in SAGIT’s case from <$300K to >$1.2M per annum). This hardly provides a stable long term platform for research. It would simply make the much criticized 3 year project syndrome even worse.

In fact SAGIT regards the reduction in core State funded capacity as a major issue facing the effectiveness of its operations and the impact of the R, D & E effort overall.

7. SAGIT Recommends:

7.1 Retention of the current RDC system which we believe is basically sound, but with a return to the core functions of RD&E.

7.2 Retention of the Commonwealth contribution which is seen by SAGIT as an investment in the future of agriculture to the benefit of the total economy and all Australians (including “working families”). It is a sensible use of taxpayers $$, and it is more likely to reward those with a future in the industry and encourage adjustment rather than stifle it, as is the case with more welfare related programs.

We are concerned that the wisdom of Commonwealth investment is continually questioned by those who seem to take a somewhat purist economic stance. Surely there is ample evidence from previous studies to demonstrate the positive benefit/cost ratios of such investment

We are concerned that the investment in agricultural R&D vs other industries is also repeatedly questioned. The differences in agriculture which warrant government investment have been well documented. In any case if it is a good investment for the nation then what is the argument, Perhaps it is time that governments placed greater emphasis on investing money to encourage the growth of our wealth rather than spending it?

7.3 Retention of State investment in agriculture not just in research but in those areas of development and extension where we believe they clearly still have an important role. The undertaking by Ministers and Departments that, whilst there were efficiency gains to be had in a national approach to setting the direction and oversight of *research*, their commitment providing the essential *development and extension* functions at regional and local level seems to have been forgotten. In fact some seemed to have used the Primary Industries Standing Committe agenda as a reason to withdraw such services.

As stated below, given the current resources, these roles cannot adequately be filled by farm groups or private providers.

7.4 Research and evaluate how best to encourage investment by private companies in RD&E in Australia.

Australia benefits from substantial research done overseas especially in the areas of chemical inputs and machinery. But Australian agriculture has unique differences which require local adaptation. On the other hand our market is relatively small and, because of our variable environment, is also high risk. Both characteristics discourage work in Australia. This can result in products not undergoing the necessary local testing required not just for farmers but for the product to be registered for use. This limits farmer options.

So the question becomes, are there sufficient incentives for companies to do this work and do the government processes for such things as product registration discourage such activity?

7.5 Increased Support for Blue Sky Research

It is understandable that those who pay the levy prefer to see outcomes which can be identified as of benefit to them. Short/medium term benefit to SA farmers is certainly high on SAGIT’s list of project selection criteria.

However it is of concern that support for basic research has dropped with the fall in government support and the greater requirement for “outside” funding.

The withdrawal of funds for research that is blue sky/ long term will limit the D & E benefits in the future and miss opportunities for major breakthroughs.

It is appropriate that the Commonwealth makes a substantial contribution to this research given the risk, the public good benefits of food security and long term growth in the International and Australian communities.

One avenue of Commonwealth support is through the Australian Research Council (ARC)

We encourage University people to seek ARC funding in which SAGIT is an industry partner. It has been said that ARC does not fund many projects in agriculture. Our experience is that it will fund projects based on good science regardless of the scientific area they are in. The fact that the ARC process is complex and cumbersome perhaps discourages people from applying.

The fact that ARC funding is only available to Universities also makes little sense. Why shouldn't the fund not be open to all research entities, provided they can prove their competence and the work is in the national interest?

7.6. Greater Public Investment in Development and Extension

The loss of development and extension capacity in Australia is one of the most serious issues facing agriculture.

Development is that process whereby the results of research are tested and adapted for use in the field. It requires an understanding of the research, the farm system, farm business and the farmer.

Extension is that process whereby these results are communicated to farmers in a way that they see the advantage and adopt them

There is still a mistaken belief in some quarters that R>D>E is a linear and simple process which can be done by those doing the research. It is rarely such a simple information transfer process.

In fact SAGIT insists on end to end communication and recognises the need for separate identification and funding and conduct of the RD&E components of some projects.

One of the most common complaints we get from farmers is that whilst the research might be sound, there is too little emphasis on fitting it into the farm system in a manner which not only demonstrates the technical advantages but deals with profitability and risk. There are few research people in our experience capable of doing this. This is D (development).

In the past these functions were conducted, at least in part, by State agency field staff but the wind back has now left a void in many areas.

The simplistic view is that farmer groups will fill this void but they frequently lack the $$$ and scientific expertise to meet the demand.

Similarly in extension(E), the expectation is that this void will be filled by farmer groups and by private consultants. Again in the case of farmer groups they often lack the resources, and consultants understandably limit their services to fee paying clients. Added to which there are insufficient groups or consultants to meet the demand in any case.

It is not a simple issue of supply and demand but more one of market failure. Unless it is addressed the results of research will continue to be poorly adopted by farmers.

7.7 Improved Integration with Commonwealth Programmes

In our experience Commonwealth programs often appear "out of the blue", are frequently driven by the policy issues of the day, show little appreciation of, or build on, what is already being done, and have little appreciation of what is required. For example, there were rapid shifts in Commonwealth programs from those based on agricultural production, to NRM, to climate change, where in reality, similar on farm measures were relevant to each. One is led to the conclusion that those advising on these programs in the Commonwealth agencies have little appreciation of what is happening in the real world.

The processes (eg for Caring for Country) are unduly complex, slow and frustrating. Commonwealth agencies need to be brought into the mainstream of planning so that policies and programs are better informed and farmers and the community in general get better value for money than they do at present.

If the Commonwealth insists that it derive greater public good benefits from its investments in RDC's, then its needs to be able and willing to clearly state those requirements so that they can be addressed and included in RDC programs. We question that this is happening.

7.8 Increase the Contribution of those Involved in Delivery Chain Services and Value Adding

The Issues Paper raises the issue of a lack of investment by post farm gate parties, who nevertheless enjoy substantial benefits from greater productivity.

There are two areas we wish to provide comment on:

- <u>General benefits to those in the delivery chain</u> (marketing, storage, handling etc – all of which farmers pay for)) because of increased volumes. In the past such scale efficiency benefits were shared by farmers who owned the system (AWB, ABB, CBH etc). Now these entities are privately owned, with non farmer shareholders and increasing international interest. One questions why such non farmer beneficiaries should enjoy (albeit indirectly) the benefits of farmer (and Government) R&D investment without making a contribution. Some of these companies do invest in R & D sponsorship of farmer groups but this is small compared to the benefits they derive..

Of course if a leviable contribution was required, one would need to ensure that the cost was not simply passed on to farmers.

- <u>Value adding.</u> Much has been said about the need for Australia to add value to its outputs, rather than sell on the bulk market.

This seems to be a somewhat idealistic argument in that if such opportunities are so obvious and lucrative, why haven't private players already pursued them. In reality most such opportunities are very small and relate to niche markets

Experience shows that the benefits in value adding accrue largely to those adding the value and those further down the chain in wholesale, retail and consumers. There is less evidence of benefits to farmers and one wonders why their levies should pay for the value adding. Certainly it would require better justification of the benefits than exists at present.

7.9 Simplify the project application and reporting procedures

One of the greatest costs (and frustrations) is the amount of time spent on applying for and reporting on projects. This is time which could be spent on more productive endeavor. We are not suggesting a lack of rigor but some of the current requirements and forms are unduly onerous the top" and it seems are designed to meet the governance demands of the Commonwealth, rather than ensuring responsible management and good science outcomes. It is suggested that in future the "client" be involved when developing such forms and procedures

SAGIT has adopted a simple, transparent process which provides necessary governance, saves time, and still ensures good outcomes.

Nevertheless SAGIT does become bound up in the complex requirements of other joint parties, especially where there is IP involved. Frequently there is a requirement to define the IP sharing arrangements before the work is done and it is known if there is any IP to share, its nature or its extent. Some agencies it seems insist on this almost as a matter of principle. Whether or not IP exists is one issue, whether or not it is worth pursuing is quite another.

SAGIT on the other hand has disclosure/ownership/resolution mechanisms built into its contracts which can be applied should IP be generated.

7.10 Greater Attention to Evaluation of Outcomes

One of the greatest issues facing SAGIT, RDCs and R&D generally is the measurement of outcomes in terms of their benefit to industry and to the community. This applies both when the assessment is being made regards the relative worth of projects as part of the selection process, and once the research has been done. This area was clearly identified in a recent AIAST R&D Conference and will be dealt with in greater detail in the submission from that body.

7.11 Adopt a Farm Systems Approach which includes Profitability and Risk Management

In any consideration of R, D & E we need to constantly remind ourselves that nothing is gained unless the outcome is adopted and is beneficial (except perhaps for some kudos to the scientist through such things as papers in scientific journals).

It is of course the farmer who makes the decisions with regards the adoption and in doing so faces a complex array of issues and options. The new piece of information from research is just one (and often a relatively small) component.

They make their decisions within the context of their farming system, and are driven largely by profitability, sustainability and risk management considerations. In fact it is the farmer skills (or those of their adviser), based on knowledge and experience which drive the adoption process.

This being the case, we need to give more attention to several aspects of the R, D & E continuum:

- Training of farmers and their advisers in farm systems thinking including the relationships between enterprises. This includes the development and use of simple, relevant decision support tools.
- Training of farmers and their advisers in farm business management, especially in understanding profitability measures and the management of risk.
- The development of tools to assess pre and post research, the possible impacts of particular research outcomes at the farm business level. Again decision support tools can assist here.
- A team approach to identifying the drivers and constraints to adoption and what is needed to address them. This is dealt with in detail in the next section.

7.12 Adopt a New Approach to Planning for Success

Under the current system a decision about what work is to be done comes from several sources:

- Research people and their agencies. These often have their own agendas as to which work they prefer to pursue.
- Governments often in response to policy decisions, which may or may not be well informed.

- RDCs themselves
- Farmer groups and individual influential farmers
- Consultants
- Private companies, who understandably are driven by their own agendas.

It is little wonder therefore that we frequently see inadequate definition and prioritizing of the issues, poor coordination, poor cross-sectoral cooperation, and programs which fail to address the most important questions and result in not achieving the best value for money.

What is suggested is a joint approach involving all relevant players within a particular agricultural ecological zone (or combination of similar zones). This would include farmers, consultants, agribusiness, scientists from all sources, NRM managers, RDCs and State and Commonwealth agencies. The planning and follow up processes would be led by a person who is knowledgeable and competent in the systems of the area and in R, D & E and would:

- Share a common understanding of the environment in which they are working.
- Define the issues of importance for success of farming in the zone.
- Define the key questions to be considered.
- Determine what work has already been done.
- Decide whether a research, development or extension approach is required.
- Plan and decide who is best suited to do the work and how to fund it, either singly or jointly.
- Commission smaller works to be done and make recommendations to funding bodies for large programs.
- Evaluate the work in scientific, adoption by and impact on farmers, benefit to the community and industry.

Such an approach is very challenging but will achieve several ends:

- It confines the field of planning to a zone which people understand, and makes the process manageable.

- It is a bottom up approach which is also informed by the best science input available. It has the best chance of overcoming the issue of “not knowing what you don’t know” for all parties.

- It provides for a whole farm system approach by which the needs of the various enterprises etc can be brought together.

- It brings together the scarce intellectual resources across a broad spectrum. In fact it provides the means by which the scarce capacity of experienced scientists can be better utilised.

- It identifies the core issues and processes using the best skills from a range of disciplines and knowledge available.

- It informs those who make policy and therefore their R&D initiatives and is more likely to lead to a more integrated approach.

- It would provide the opportunity for better quantification of the benefits of doing particular work.

- It determines who is best equipped to do the work, the partnerships required and who the most appropriate investors are.

- It provides the basis for effective evaluation of outcomes and on going identification of further work and investment required.

There is no question that this will be a complex process and won't be easy. It requires the long term commitment of all the parties, agreement on a "straightforward" process, a high level of trust and no pushing of agendas.

But it does offer a practical means by which many of the problems with the current planning approaches can be addressed and warrants serious consideration.

The strength of the Australian RDC model is the balance of private and public investment it delivers to achieve a balance of private and public benefits. SAGIT believes that still to be the case and can be improved by addressing the suggestions made in this submission.