Ricegrowers' Association of Australia Inc.

Submission to the

Productivity Commission Inquiry

into

The Australian Government Research and Development Corporations Model

June 2010

RICEGROWERS' ASSOCIATION OF AUSTRALIA INC

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Introduction

The Ricegrowers' Association of Australia Inc (RGA) welcomes the opportunity to participate in Productivity Commission's Inquiry into the Australian Government Research and Development Corporations (RDC) Model.

This submission is in response to the Issues Paper released by the Productivity Commission in March 2010.

The RGA has not attempted to respond to all of the matters raised in the Issues Paper, instead restricting our comments to those issues relevant to the Australian rice industry and our experience with the RDC model through the Rural Industries Research and Development Corporation (RIRDC).

The RGA is a member of the National Farmers' Federation (NFF) and fully supports their submission to this Inquiry. The NFF submission covers issues which are common across agricultural industries.

The RGA believes the RDC model serves the rice industry well. It provides incentive to invest in research, direct pathways between producers, researchers and government as well as administrative efficiencies. This has enabled technological advancements that have made the Australian rice industry the most efficient in the world. The current model has also enabled the Australian Government to leverage industry activity in the pursuit of its economic, social and environmental goals. The RGA will demonstrate that rice research undertaken through the RDC model delivers a public benefit through water use efficiency improvements.

In seeking to address matters raised in the Issues Paper, the RGA is concerned to note that the Terms of Reference provided to the Productivity Commission by the Australian Government seem to place a priority on determining whether there is an economic imperative for government investment in research and development.

It is important to remember that producers and industries have chosen to pursue their research objectives through the RDC model, in partnership with the Australian Government. In this context, industry needs should be granted the same consideration as those of the Australian Government in determining any future model for agricultural research and development.

The decision to levy an industry for research and development purposes is not taken lightly. The fact that the Australian rice industry has managed to increase and extend its levy rate during the worst drought on record should send a message about the importance of, and support for, research and development at an industry level.

The RGA is therefore pleased to note that the Productivity Commission has chosen to undertake the review with primary producers and the rural sector being given "key

consideration"[1] in their assessment and was pleased to be able to host Commissioner Weickhardt on his recent visit to Leeton, NSW.

The Ricegrowers' Association of Australia Inc

The RGA is the collective voice of rice growers in Australia. The RGA represents over 1600 voluntary members in NSW and Victoria on a wide range of issues.

As much of the Riverina region has been built upon rice, and rice is still the mainstay of many towns today, it is important that RGA members have strong and effective representation. RGA fulfils this role by representing and leading growers on issues affecting the viability of their businesses and communities.

A Central Executive committee, comprised of representatives elected by each Branch, manages the RGA. They are supported by a small secretariat based in Leeton, NSW consisting of an Executive Director, an Environmental Programs Manager, two Environmental Regional Coordinators and an Office Manager.

The grower delegates to the Rice R&D Committee are all members of the RGA and the RGA Executive Director is the Secretary of the Committee.

The Australian Rice Industry

Rice was first grown in Australia in the early 1920's - near the townships of Leeton and Griffith in the New South Wales Riverina.

Today the rice industry encompasses the Murray Valley of NSW and Victoria and the Murrumbidgee Valley of NSW. Typically, when water allocations allow, around 150,000 – 160,000 hectares are sown to rice in October of each year across this region producing an average of around 1.2 million tonnes of rice annually.

Australian rice yields averaged close to 9 tonnes per hectare (t/ha) with an average yield of 10t/ha in 2007. According to the United Nations Conference on Trade and Development (UNCTAD), Australia is classified as the most efficient producer of rice in the world.

The Australian rice industry is also a world leader in water usage at 12 megalitres per hectare (ML/ha) with the world average being 15 – 20 ML/ha with some countries using upward of 50 ML/ha.

The industry has a farm gate value of around $350 million and total value (export earnings, value-added) of over $800 million. Including flow-on effects, it is estimated that the industry generates over $4 billion annually to regional communities and the Australian economy.

Rice growers have individually invested over $2.5 billion in land, water, plant and equipment and collectively invested around $400 million in mill storage and

[1] Productivity Commission, *Rural Research and Development Corporations – Productivity Commission Issues Paper,* Canberra, 2010, pg 2

infrastructure through Ricegrowers' Limited (SunRice) and the Rice Marketing Board of NSW (RMB). The industry is the backbone for our regional communities and, prior to the drought, generated around 21% of total regional income and 18% of total regional employment.[2]

The Australian industry, while small by world standards, has become a competitive supplier of quality packed and branded rice products into world markets. It has achieved this through the vertically integrated marketing arrangements owned and managed by the rice growers' company, Ricegrowers Limited (SunRice).

The rice industry has also invested significantly in environmental improvement and impact reduction as part of its efforts towards better natural resource management and environmental stewardship. The Rice Environmental Program's flagship is the Environmental Champions Program (ECP) which received over $2 million in funding from the Australian Government Department of Agriculture, Fisheries & Forestry to implement a pilot program and then roll out of the ECP.

The Rice Research and Development Program

The history of rice research and development

The rice industry research and development (R&D) levy was established in 1991 and the research program is facilitated through RIRDC as part of the Established Industries portfolio.

But rice research in Australia has a much longer history. Pioneer growers in the 1920's realised that they needed to undertake research in order to make rice a successful part of their farming system. An early partnership with the NSW Department of Agriculture was developed and some very basic rice R&D commenced at the Yanco Experiment Farm.

A culture of innovation developed in the industry from those early days and was fostered by the fact that the industry very quickly became export focused and dependent. Growers realised they had to be more efficient producers than their global competitors, many of which even then, were significantly subsidised.

In 1950, following the formation of Ricegrowers Co-operative Mills (which later became Ricegrowers Cooperative Limited and then Ricegrowers' Limited (SunRice)) growers established a Rice R&D Committee through the Irrigation Research & Extension Committee (IREC), giving rice growers a better ability to collaborate with the NSW Department of Agriculture and other agencies to determine R&D priorities, provide funding and organise technology transfer.

This gave growers a real sense of ownership of the rice R&D program and further improved participation and rapid adoption of new technology.

By the late 1980's significant R&D was underway, but growers were still keen to self-manage the program in order to maintain the ownership and direct the research

[2] Leslie, D.G., Keyworth, S.W., Lynn, F.L., Magill, A.F. *Rice 2000 Project*, 1992.

undertaken. However, after observing the success of the RDC framework and the opportunities to partner with the Australian Government, the rice industry re-considered its position. Three options were considered:

1. Establish a Rice R&D Corporation. This was rejected as the rice industry was too small to justify the ongoing expense of a separate corporation.

2. Become part of GRDC. This was rejected as it was believed the crops managed by GRDC were too different to rice in terms of management practices and resource use. There was a concern that rice would get marginalised as a minor industry in the GRDC portfolio.

3. Become part of RIRDC's portfolio. This partnership was accepted after agreement by RIRDC to largely maintain the previous administrative arrangements through the RGA and maintain the very close connection of the program to growers.

The RIRDC model therefore provided flexibility to work with existing research and industry structures while enabling the industry to leverage additional funding for research. This is an important point to remember and should be given due consideration when any thought is given to potential new structures for rural research and development. The rice industry was able to voluntarily enter into a partnership with the Australian Government to undertake R&D and was able to choose the best RDC fit for the industry in terms of management style and structure. This is one important reason why the RDC model works so well for the rice industry.

The current rice research and development program

The rice R&D program aims to improve the profitability and sustainability of the Australian rice industry through the organisation, funding and management of a research, development and extension program that is both market and stakeholder driven.

Growers pay a compulsory levy of $3/tonne (which includes a 6c contribution to Plant Health Australia), which is collected and remitted by the rice processing companies.

Projects are undertaken by a range of providers, including universities, State Departments responsible for primary industries and other research institutes and are usually completed on a joint funding basis.

The rice R&D program is primarily targeted at pre-planting through to milling, and, with the exception of a few early projects, has not provided resources for marketing and commercial issues. The major Australian rice processor and grower-owned company, Ricegrowers' Limited (SunRice), have undertaken their own research on value added products, processing and market research.

The Cooperative Research Centre (CRC) for Sustainable Rice Production (operational between 1997 and 2005), which was in part funded by the rice R&D program, directed its investments across most aspects of the value chain, but did not include marketing or market based research.

Project funding is guided by the RIRDC Rice R&D Committee and informed by the Rice Five Year R&D Plan.

The RIRDC Rice R&D Committee comprises:
- The Chair
- Eight grower delegates (elected from the eight RGA branches)
- Two delegates nominated by Ricegrowers' Limited and the Rice Marketing Board for NSW
- Three independent technical experts
- The RIRDC program manager for rice
- An appointee of the Central Executive of the RGA.

The RGA Executive Director is Secretary of the Committee

The grower delegates report twice yearly to RGA branch meetings on the status and outcomes of R&D projects. These meetings provide a further opportunity for growers to receive feedback and raise any concerns that need to be considered in both annual and longer term planning.

The rice R&D program's objectives are outlined in the Rice R&D Five-Year Plan, which is used by the R&D Committee to determine project funding.

There are five sub-program objectives. These are (with weighting in brackets):

- Varietal and rice quality improvement (50%)
- Crop establishment, agronomy/crop physiology, nutrient management and precision agriculture (10%)
- Crop protection (10%)
- Farming systems for whole farm management, profit and sustainability (15%)
- Technology transfer, communication, policy and communities (8%)
- Human capital formation (7%)

The current rice R&D program has been affected by 10 years of drought and has therefore been cut back to a bare minimum of projects; aimed at the industry's core priorities of water use efficiency and varietal development.

As at 30 June 2010, there are 7 projects underway in the following sub-program objectives:

- Varietal and rice quality improvement – 3 projects
- Farming systems for whole farm management, profit and sustainability – 2 projects
- Crop protection – 1 project
- Technology transfer, communication, policy and communities – 1 project

Achievements of the Rice research and development program

The achievements of the Australian rice industry can be mainly attributed to the rice R&D Program. These include numerous technological advances such as breeding of varieties for specific markets, improved varietal yields, the introduction of shorter season varieties and improved crop management. Other achievements include rice production being relatively free of pests and disease, lower chemical usage and technologies that have led to industry standards being established to govern which soil types are best suited for rice production.

The RIRDC rice R&D program has delivered consistently high benefits for industry and the broader community. When the Centre for International Economics [3] evaluated 157 projects in 2004 they found:

- An average net benefit to investment ratio of 40
- An average internal rate of return of 100 per cent
- That total investment of $11 million had retuned an estimated triple bottom line net benefit of $292 million. Of this return 59 per cent was estimated to be a direct return to rice growers with the remaining 41 per cent representing the estimated share of benefits flowing as environmental and social benefits of rice production.

Industry support for the Rice research and development program

As part of the rice industry's development of its Five-Year R&D Plan in 2006, consultation was undertaken across the supply chain to determine research priorities and included stakeholder workshops and surveys.

One hundred completed surveys were received from growers and revealed:

- Overwhelming support for the RIRDC Rice R&D program - 100% of respondents indicated that the program has played a critical role in ensuring the rice industry remains internationally competitive, profitable and sustainable.
- Overwhelming support for the role played by government - 100% of respondents indicated that government should continue to match each dollar growers provide to the program.[4]

These survey results, together with support for a levy increase from $2 a tonne to $3 a tonne in 2005, and the subsequent approval by industry and government to extend sunset a clause to maintain this levy rate in 2008 demonstrates strong support for the rice R&D program.

[3] Centre for International Economics (2004) *Evaluation of the Rice Program: An assessment of investment returns – Stage 2, pg xi,* Canberra, ACT
[4] Rural Industries Research and Development Corporation (2008) *Rice Five-Year R&D Plan 2006 – 2011 Revised*, pg 37, Canberra, ACT

Responses to Issues raised by the Productivity Commission

Rationales for Government funding support

It is pleasing the Issues Paper notes that there is enough empirical research to indicate a significant return to investment through investing in rural R&D.[5] What is disappointing is the assertion by the Productivity Commission that this will "unlikely be a sufficient reason" [6] to continue government funding support.
The RGA believes the Minister for Agriculture, Fisheries and Forestry encapsulated the benefits of government funding support perfectly, when he said in the House of Representatives:

"Australia's primary industries have a strong tradition of being innovative and adaptive to new challenges. The government's investment in research and development and innovation is vital for ongoing growth and improvement in the productivity, profitability, competitiveness and sustainability of Australia's agriculture, fisheries, forestry and food industries. Levies provide an effective system to support this. The government remains committed to supporting jobs in rural industries through increasing productivity and vital research and development…" [7]

This statement appears to be at odds with the assertion in the Productivity Commission's paper and further the Issues Paper does not make clear what characteristics of an R&D system would justify continued government funding support.

The RGA will therefore provide comment on the questions in the Issues Paper that relate to the trade environment, the public good versus private good debate, and the impacts of any government withdrawal from R&D, in order to highlight the benefits of co-investment by government and industry.

It is clear that Australian agriculture faces significant productivity and sustainability challenges in the years ahead. The sector's capacity to respond successfully to the challenges of climate change, global population growth and food security is underpinned by research and development.

Australian farmers produce 93% of Australia's daily domestic food supply.[8] This alone should provide a compelling rationale for government to partner with industry in securing the advancement of the sector.

Australian rice is not just sold in domestic and international markets as a branded whole product, but is used as an ingredient in a range of readily available consumer foods, such as breakfast cereals, snack foods, convenience foods, smallgoods and confectionery (as well as pet and stock food).

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[5] Issues Paper, pg 9
[6] Issues Paper, pg 8
[7] Hon Tony Burke MP, *Primary Industries (Excise) Levies Amendment Bill 2010*, Speech to the House of Representatives, 26 May 2010
[8] NFF Submission to the Rural Research and Development Council, 2010

Australian rice is recognised worldwide for its high quality and is demanded by the higher priced international markets. The Australian rice industry is the most efficient in the world, operating without any production or export subsidies — unlike most of its major competitors. Australian rice competes in international markets, against subsidised product and is prohibited from free entry into many countries by trade barriers, including import tariffs and tariff rate quotas in key importing countries and price supports in key exporting countries.

The RGA is a strong supporter of free trade and does not believe government subsidies, as they exist in Europe and the United States, are the answer to maintaining our competiveness. The Australian rice industry's competitive advantage comes from advances in irrigation, crop breeding, crop protection and product development which enables the production a high quality product sought after in 60 countries around the world.

The RDC model has provided the partnership framework that promotes an incentive for producers to pay levies and commit to research. But equally it provides governments the ability to leverage industry activity to achieve government economic, social and environmental objectives. The Government influences RDC planning and investment through the application of the National Research Priorities thus enabling governments to share the cost of meeting research objectives with industry.

The private benefits that rice growers accrue from R&D, such as varietal improvement for water efficiency, disease resistance, yield improvement and international competitiveness provide a public benefit through the provision of a reliable food supply and export earnings.[9]

Australian farmers manage 54% of the nation's landmass [10] therefore rice research projects delivering advances in water efficiency, biodiversity management, river health and lower chemical use deliver a significant public benefit. Farmers see themselves as custodians of the environment for the whole nation. Research enables farmers to undertake actions that represent best practice in protecting the environment, providing a public benefit.

Case Study - Water Use Efficiency as a Public Benefit of Rice Research

Rice is grown using irrigation water extracted from the rivers of the Murray-Darling Basin. The dual public benefits of ensuring the environmental health of those rivers while securing the regional economies within the Basin have always been top priorities for the rice industry.

A key to delivering these benefits has been the RIRDC Rice R&D Program.

In 2008, the Rural R&D Corporations found that rice research delivered $162 million in public benefits from improved water-use efficiency in rice production, resulting

[9] As previously stated, the Australian rice industry has a farm gate value of around $350 million and total value (export earnings, value-added) of over $800 million.
[10] NFF Budget Submission

from expenditure of $2 million.[11]

Research outcomes that have underpinned the industry's public benefit contribution include:

The development of increasingly water efficient rice varieties
Between 1996 and 2006 Australian rice growers improved their water use efficiency by 60%.[12] *However, the continuing pressure of decreasing water availability means the industry is continually striving for further water savings. Through research, development and extension, the rice industry aims to further increase system yield per hectare by at least 50 per cent with a further 25 per cent saving in on farm water use per hectare.*

Increased water use efficiency provides a significant public benefit. It contributes to secure food production when water availability is low and provides human and environmental benefits through access to additional water.

Rice growing is subject to strict environmental controls and is the most regulated and monitored agricultural industry in Australia. Many of the regulations and controls have been self-imposed by industry based on findings from projects funded under the rice R&D program. The Australian rice industry is a responsible and efficient user of water.

All of the rice varieties grown commercially in Australia have been developed through the R&D program specifically to have low water usage and high yield per hectare. The rice R&D program is also working to develop cold tolerant varieties will further increase yield.

The development of higher yielding rice varieties
Australian rice yields have steadily improved with the support of rice production research funded through the RIRDC Rice R&D program. This research has particularly concentrated on rice nutrition. Work on the role of nitrogen and other nutrients in the production system has resulted in a well supported nitrogen tissue test and assisted the continued development of the MaNage rice decision support system.

The identification of suitable soils for rice production and guidelines for the removal from production of unsuitable soils
Rice can only be grown on approved 'heavy clay' soils that minimise seepage into water tables. Approval for growing rice is granted after electro-magnetic technology (EM31) and soil textural analysis of samples bored at intervals across the paddock is applied. More than three metres of heavy, continuous clay is required for unrestricted rice growing. Electro-magnetic induction is used to create a picture of the soil to a depth of five metres or more allowing targeted soil sampling that is combined with evaluation of soil chemical properties particularly soil sodicity. Soil sodicity levels have been related to decreased soil permeability especially in clay soils. Any land deemed unsuitable for rice growing is withdrawn from production.

[11] Rural R&D Corporations *Measuring economic, environmental and social returns from Rural Research and Development Corporations investment*, 2008 Canberra, pg 8
[12] Australian Bureau of Statistics, "Agriculture Commodities 2006", Canberra (cited on NFF website)

EM31 technology for the rice industry was developed by projects funded under the rice research and development program.

Identifying the crop rotations to make the best use of remaining subsoil moisture

In Australia rice grows as part of a unique farming system, designed for efficiency and sustainability. Once Australian rice growers harvest their rice, they use the subsoil moisture remaining in the soil to plant another crop, for example, a wheat crop or pasture which will establish using the subsoil moisture. This form of rotation is the most efficient in natural resource and agricultural terms as it is high yielding and establishes a pest and disease break.

Advances in precision agriculture to increase yields and water use efficiency

Rice, like other crops, suffers from large in-field variability of production. The potential for increased returns through precision agriculture is considerable. Research has already indicated the possibility of using remote sensing to assist nitrogen management to increase rice yields and nitrogen and water use efficiency. Further precision agriculture research promises to deliver at least a 1 tonne per hectare increase in average yield over rice- based systems.

Adoption of environmental improvements and standards

A total industry commitment to change underpinned by innovative leadership has resulted in the Australian rice industry becoming a recognised leader in meeting environmental challenges. Environmental Champions is a five level achievement program that guides growers through a series of activities. Each level contains different actions to gain credit under a program linking on-farm action with catchment improvement. The program design is to connect environmental performance with better farm business performance. The RIRDC Rice Program works closely with the RGA to provide research support to the Environmental Champions. This program has been acknowledged widely as one of the most progressive for an Australian industry.

This case study demonstrates that the rice R&D program, through its focus on water use efficiency, is providing a significant public benefit. The co-investment of grower and government funds in on-farm improvement has a much broader impact than at the farm-gate.

Case study adapted from "Rice – Reaping the Rewards of Innovation"

The Rice R&D Program has been under stress since 2003, when the effects of the drought started impacting the program's budget. The Issues Paper, in its ruminations on alternative models for R&D, suggests that Government matching funds could be diverted to the CSIRO or universities. [13] The drought has cut rice R&D funding by half and so provides a timely illustration of a possible future should the Government cease providing matching funds to RDCs. The RGA therefore provides the following case study for the Productivity Commission's consideration.

[13] Issues Paper, pg 13

Case Study – Impacts on Cutting Government funding to R&D

The expenditure on rice R&D averaged $3.12 million per annum during the three years ending 2001-2002. The impact of the drought and low (or no) water allocations for irrigators in the Murrumbidgee and Murray Valleys saw the R&D Program budget fall to $1.8 million in 2007-08 and cut again to $990,000 in 2008-09.

This severe reduction in expenditure resulted in 5 jobs disappearing from rice research projects in the regional towns of Yanco and Leeton, which equates to about 40% of the rice research team. The ability to increase productivity, maintain international competitiveness and promote sustainable practices has been hampered as human capital is lost and projects are delayed.

While Ricegrowers' Limited (SunRice) had contributed $550,000 in 2005 to assist the research program, they too were suffering the impacts of the worsening drought and had temporarily closed two of their three Australian rice mills with approximately 200 staff being retrenched. It was not reasonable to seek further financial support from them at that time.

All rice production areas in Australia were Exceptional Circumstances declared and many growers were unable to sow any crops at all (winter crops included). During this time, rice growers agreed unanimously to have the rice R&D levy extended beyond a three year sunset clause, but having only increased the levy rate two years earlier, it would have been unacceptable, to both industry and government, to seek yet another increase.

Indeed, with total rice production only reaching 19,000 tonnes in 2008 an extra dollar per tonne (for example) would have made very little difference to the overall program but would have placed an additional burden on those growers who had managed to grow some rice during the drought.

There were broader impacts of the drought and the community's capacity to support rice research and development. In communities across the rice growing region jobs were lost, school enrolments fell, property prices plummeted, people left towns and water left the Valleys. The people and businesses in the Basin reverted to focusing on their own survival. Some of these issues may be expanded upon in the Murray-Darling Basin Authority's (MDBA) socio-economic survey profiling of Murray-Darling Basin communities as part of the MDBA's development of a new Basin Plan.

While the RGA can demonstrate very clearly that the rice R&D program is highly regarded and valued along the rice production chain, this case study demonstrates that it is not always possible for industry participants to provide additional funding.

It is therefore simplistic to suggest that if government matching funds to RDCs are discontinued that the private sector and/or growers will be able to step in and make up the shortfall.

Is the RDC model fundamentally sound?

The RGA believes the RDC model is fundamentally sound. It provides a direct pathway between government and industry in pursuing research goals. In seeking to determine whether the RDC model is appropriate going forward, the RGA queries what has changed that makes a model that coordinates government and industry so effectively no longer effective in addressing future challenges.

How the RDC model fits into the broader research framework is perhaps an issue for others to address. The RGA will restrict its comments to the role the RDC model plays in the delivery of rice research and provide an example of where it provides superior communication and collaboration advantages over CSIRO.

The RDC model brings together industry, government and researchers to undertake projects with deliver public and private benefit in a transparent, contestable and accountable manner.

The rice research program is underpinned by Five-Year plans, which are consistent with the Government's research priorities and result in high quality research outcomes that are consistent and relevant to the challenges faced by the sector.

As a comparatively small industry, the RDC model, or specifically the RIRDC model, works well for rice research. The industry does not have the human or financial resources to manage the governance, compliance and administration of a research program.

The RIRDC model provides the rice industry economies of scale. The RIRDC program manager for rice is responsible for six[14] portfolio areas in total, meaning administration costs are around 8% of the rice R&D program's annual budget, which provides good value for money to government and producers.

Some specific strengths and weaknesses of the RDC model

Specific strengths of the RDC model include:

- The ability to broker research on behalf of industry and government;
- Experience in the research market and therefore able to determine which projects provide value for money;
- The management of the administrative, compliance and governance role that industry does not have the resources or capacity to undertake;
- RDCs monitor research projects and ensure they are meeting milestones;
- RDCs ensure projects are managed appropriately with regards to any conflict of interest matters (particularly relevant to smaller industries.)
- An independent body that can manage grower and government funds with appropriate levels of diligence;
- The RDC model ensures collaboration and consultation with industry takes place.

[14] Rice, Fodder, Pasture Seeds, Trees for Climate Change, Pastures Australia and Weeds (May 2010)

Experience in the rice industry does not support the assertion that levy payers are only interested in R&D having direct benefit to the industry.[15] While obviously, there needs to be accountability back to growers (who contribute half the research funds) the broader public interest is addressed through the research program's alignment with Australian Government research priorities.

As mentioned, the RGA believes that most of the rice R&D program projects have a public benefit, whether through technological and environmental improvements, regional employment and the development of rice varieties for export markets.

The RGA has not identified any "tension"[16] between the goals of government and levy payers in the pursuit of research outcomes. In fact, the RGA believes the underlying strength of the RDC model is that it enables government and industry to work in partnership to ensure joint goals are met.

The RGA was alarmed, therefore, to see the suggestion in the Issues Paper that government funding to RDCs might be diverted to "a new body" or "CSIRO and the universities." [17] This would suggest there has been a major breakdown in the relationship between RDCs and the Australian Government. The RGA can see no evidence of such a rift and is unclear on the intent behind these statements. The Productivity Commission should be careful to ensure that any isolated issues within individual RDCs are not taken as wider evidence of a failed model.

It was the understanding of the rice industry that one purpose of this inquiry was to investigate methods for introducing efficiencies and lowering administrative costs of undertaking rural research and development. It is the RGA's view that creating a new body, or diverting funds to the CSIRO or university sector will not deliver these outcomes and will not deliver relevant research outcomes for industry.

Importantly, the links between the Minister and industry would be lost as CSIRO and university sector are not accountable to the Minister for Agriculture, Fisheries and Forestry. They have their own accountability and reporting structures through the Minister for Innovation, Industry, Science and Research and the Minister for Education. The RGA asserts that it would be to the detriment of Australian agriculture to remove the Minister for Agriculture's involvement in rural research and development.

Further, the rice R&D program has contracted CSIRO and universities to undertake research projects over many years. CSIRO and metropolitan universities are undoubtedly the most expensive research partners the rice industry has contracted.

As an example, CSIRO have a flat rate administration fee built in to all rice research proposals of between 20 - 24%. During the drought, when the rice R&D program was facing a 50% cut in funds available for projects and when other research providers revised their budgets downwards to enable at least some research to take place, CSIRO were not able to lower this administrative fee.

[15] Issues Paper pg 13
[16] Issues Paper pg 12
[17] Issues Paper pg 13

The RGA would also question the capacity of CSIRO to undertake the work the rice industry would require. It is no secret that CSIRO has increasingly moved away from agricultural research, which has blunted their capacity in this portfolio. To support this assertion, former CSIRO Chief Executive, Geoff Garratt was quoted as saying that the CSIRO has been consciously moving away from research in food production and supply.[18]

The proposed merger of CSIRO's Sustainable Ecosystems with Entomology to create a "Super Division" based in Canberra with the possible loss of 300 jobs in agricultural and environmental research [19] and speculation based on internal documents, that could see an additional 500 jobs cut from CSIRO[20] further leads the RGA to query the capacity of CSIRO to undertake meaningful research into issues critical to the rice industry.

CSIRO does not currently have the rice research expertise required by the Australian rice industry and indeed their rice research section does not have an Australian focus. Plus, CSIRO has a niche in undertaking genomic research and does not undertake the applied research fundamental to the Australian industry. While additional resources may enable the CSIRO to develop the personnel to undertake relevant rice research, the Australian industry could not afford the delays in transition when there are already experts based regionally, within the geographic boundaries of the rice industry.

The Australian rice industry does not have any input into the development of CSIRO or university strategic research objectives. This becomes problematic when the Australian rice industry seeks to undertake any projects with CSIRO in particular, as it can only happen if the project fits with CSIRO objectives. There is not enough flexibility in their current structure for CSIRO to easily engage and collaborate with industry.

CSIRO and the university sector certainly have an important research role, but in their current form they do not fit neatly with industry requirements. Meanwhile, the RDC model enables industry and government to provide the research framework and research institutes can determine their capacity to deliver via their internal strategic planning processes before submitting a research proposal.

Introducing a model that gives the CSIRO and universities funding for cross-sectoral research is essentially the status quo but would give them additional financial resources over which industry would have no input.

Funding level issues

The RGA does not have a view on any need to rebalance the funding contribution across individual RDCs. We do, however, have a comment to make on the assertion in the Issues Paper that surpluses may reflect a lack of investment opportunities.

[18] "CSIRO to slash jobs and research" The Age, 22 May 2008
[19] "Merger sparks CSIRO job fears" The Canberra Times, 20 April 2010
[20] "CSIRO looking at cutting 500 jobs" The Canberra Times, 6 May 2010

Holding surpluses, or reserves, is good management practice. The rice industry's reserves policy was reviewed and updated after the string of unforeseen, dire production years led to the R&D program facing a situation where it may not have been able to meet contracted commitments.

In this instance, Ricegrowers' Limited (SunRice) made a grant to the rice R&D program of $550,000 in 2005 to enable research to continue. RIRDC also contributed funds from its core budget to support the rice R&D program on one occasion.

When the Australian Government withdrew the offer, in late 2007, to provide short-term financial support to those industries with R&D programs facing severe financial stress, it sent a strong message to industries about the importance of managing the R&D budgets more conservatively in order to better deal with seasonal volatility.

The rice R&D program has to take a more conservative approach to project funding and manages reserves in order to be able to meet contracted commitments should levy revenue be affected by prolonged poor seasons.

The holding of reserves should certainly not be interpreted as a lack of quality projects for investment.

Improving the RDC model

Ways to enhance governance arrangements

The RGA has no comment to make on the governance, representation or board structure of RDC's, other than to mention that the RGA has always enjoyed a constructive relationship with the RIRDC Board and staff.

Members of the RIRDC Board and staff always make themselves available to discuss rice research issues and many Board members and staff participate in visits to the industry and attendance at the Rice Field Day in February and the RGA Annual Conference in August.

In terms of the Issues Paper's questions in relation to industry consultation, the RGA will provide comment on the RDC model as a conduit for consultation between government and industry, as well as consultation within the rice industry.

In terms of communicating government objectives through to industry, the RGA's Executive Director and the Chair of the rice R&D Committee participate in RIRDC's strategic planning activities, ensuring that the rice R&D program's priorities align with government research priorities. A recent example of where the communication of government priorities resulted in changes at an R&D level was the Australian Government directive that action on climate change was to be a key a policy priority. In response, the rice industry revisited its Five-Year Plan to ensure it aligned with the new priorities and released an updated version in 2008 to reflect a stronger emphasis on climate change research. This demonstrates the effectiveness of the RDC model in delivering research and policy outcomes on behalf of the government.

In terms of internal consultation, the point should be made that the Australian rice industry has a unified and coherent representational structure. As previously mentioned, the rice R&D Committee has representatives from all RGA branches, the Central Executive of the RGA, Ricegrowers' Limited (SunRice), the Rice Marketing Board for NSW (RMB), RIRDC as well as Technical Experts from outside the rice industry. All sit around the one table for decision-making and can easily and frequently communicate with all levy payers.

The RGA is in a fortunate position in that it has access to all levy payers through a centralised mailing list managed by Ricegrowers' Limited (SunRice). Even in a deregulated domestic market for rice, SunRice is the only major processor, and as a member of the rice R&D Committee, they are prepared to provide access to their shareholder list to assist the industry for communication and extension purposes.

All Branch delegates are required to report to Branch meetings (twice yearly) on the status of the research program. Members of the R&D Committee farm within their Branch region and are easily accessible to growers who may have queries or concerns.

The RGA staff are also regionally based and provide any grower feedback to the rice R&D Committee.

These structures provide transparency and accountability in managing the rice R&D program.

Increasing administrative efficiency

The RGA believes the RDC model, and the RIRDC model in particular, provides administrative efficiencies. The RGA does not have the resources or capacity to run an R&D program of the size and sophistication of the current RIRDC managed portfolio.

The fact that the RIRDC program manager for rice is responsible for six portfolio areas[21] results in administration costs of around 8% of the rice R&D program's annual budget. This represents good value for money and the RGA does not believe the rice industry could run an R&D program for the equivalent price.

The RIRDC model, where industries share the fixed costs of running an RDC and program managers are responsible for a number of portfolios is possibly a way to increase administrative efficiency across the RDC network. However, the RGA would stress that any move toward amalgamating RDCs would have to be done in consultation with affected industries, allowing them to choose the RDC with the best fit for their R&D program. It would also be crucial that growers maintained the ability to direct project funding, in coordination with government priorities. Otherwise, industry could lose faith in the model and disengage, resulting in dissatisfaction at an industry level and the loss of research gains for the public good.

[21] Rice, Pasture Seeds, Fodder, Trees for Climate Change, Pastures Australia and Weeds (May 2010)

More effective coordination and collaboration

The rice R&D program actively seeks ways to collaborate with other institutes and RDCs in order to maximise investment outcomes.

Some of the current collaborative efforts include projects with the Australian Centre for International Agricultural Research (ACIAR) in Cambodia, Laos and Vietnam, which cross link with universities and the private sector.

As well, the rice R&D program is active in supporting the expansion of rice production in Northern Australia. This project has had early success at a pilot level and when finally realised in its entirety will hopefully include RDCs (RIRDC, Sugar), State government departments across three jurisdictions and the private sector.

There is an agreement in development between Ricegrowers' Limited (SunRice) and RIRDC that will provide some private investment in the rice breeding program.

There are currently discussions underway to enter into an agreement with the Grains Research and Development Corporation (GRDC) in order to undertake systems research across the irrigated grains sector.

The RGA and the rice R&D Committee are represented on the Irrigation Research and Extension Committee (IREC) which coordinates research and extension relevant to irrigated agriculture in the Murrumbidgee Valley of New South Wales. IREC provides a forum for irrigators, irrigation industry professionals, and research and advisory groups to engage on issues of common interest and concern.

There are no features of the RDC model that discourage such collaboration.

Indeed, the only factor limiting the rice R&D program from entering into more collaborative projects is the current inability to provide partnership funding. As stated previously, the impacts of the drought on R&D revenues has resulted in a stronger focus on domestic core activities of water use efficiency and grain quality.

Improving the levy arrangements

The RGA recognises that there must be appropriate diligence and accountability when seeking to ultilise taxpayer funds. Therefore, we accept that there must be appropriate levels of scrutiny and rigour in making the case to amend a levy.

But as the Issues Paper notes, this often results in "unduly frequent and potentially disruptive or costly attempts to change levy rates." [22]

The rice industry has undertaken two levy amendments in the last 5 years, one to increase the levy (2005) and one to extend the levy beyond a sunset clause (2008). Another case to extend the levy beyond a sunset clause will need to be made in 2011.

[22] Issues Paper pg 24

These are extremely resource intensive processes and the RGA has to start from scratch each time by addressing the full Levy Principles and Guidelines. The RGA would submit that there must be a more streamlined way of assessing and approving submissions that only seek an extension to the levy at its current level. Being able to demonstrate support for the extension to the levy would be crucial, but having to re-address the issues of market failure and describe how the funds will be spent, when publicly available information is readily available (Rice 5 Year R&D Plan) is possibly unnecessary.

If seeking to introduce a new levy, or increase the rate of an existing levy, then the RGA would accept the need to provide a greater level of detail.

Conclusion

The RGA has benefitted from undertaking research through the RDC model, in particular the RIRDC model, where economies of scale are achieved through the sharing of fixed costs and program managers with other industries.

The model provides direct pathways between government, industry, the private sector and producers to guide research priorities.

The co-investment from government has enabled the rice industry to leverage funds for research projects that have had an enormous public benefit, including securing food production and environmental and landscape improvements.

The RGA has been able to demonstrate that a significant public benefit arises from the investment of government and industry funds in water use efficiency research, resulting in a return of $162 million from $2 million expenditure.

The rice industry would not be able to run an R&D program of the scale and success of the current program without the RDC model and government matching funding.

The RGA does not believe that the creation of new body, or the diversion of government matching funds to the CSIRO or university sector will do anything to improve the quality or efficiency of the research currently undertaken through the RDC model.

The RGA believes that any changes to the RDC model proposed by the Government must maintain the right of growers to direct funding according to industry and government priorities.

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