CANEGROWERS

190 Edward Street (GPO Box 1032)
BRISBANE QLD 4001
T: 07 3864 6444 F: 07 3864 6429
E: enquiry@canegrowers.com.au
W: www.canegrowers.com.au

24 June 2010

Yvette Goss
Administrative Coordinator
Productivity Commission
LB2 Collins Street
East Melbourne VIC 8003

Email: rural-research@pc.gov.au

Dear Ms Goss

Re: Productivity Commission inquiry into Rural Research and Development Commissions

CANEGROWERS, the peak representative body for Australian sugarcane growers, appreciates the opportunity to make comment to the Productivity Commission on the issue of the performance of the Research and Development Commissions and specifically the Sugar Research and Development Commissions and the research effort in the sugarcane industry.

Our submission and cover sheet is attached. CANEGROWERS would be happy to elaborate on its submission and provide any other material that the Commission may require.

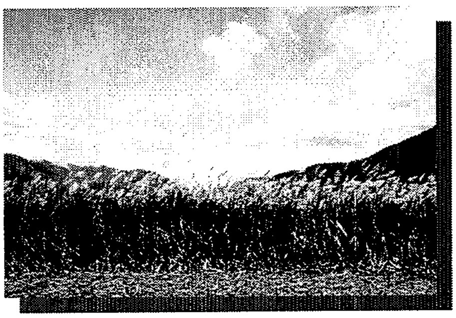
Yours sincerely

Ian J Ballantyne
CHIEF EXECUTIVE OFFICER

CANEGROWERS

CANEGROWERS Submission to the Productivity Commission's inquiry into

Rural Research & Development Corporations



CANEGROWERS is the peak representative body for Australian sugarcane growers. Over 80% of Australia's sugarcane growers are members of the organisation.
CANEGROWERS appreciates the opportunity to make comment to the Productivity Commission on the issue of the performance of the Research and Development Commissions (R&DCs) and specifically the Sugar R&DC (SRDC) and the research effort in the sugarcane industry.

CANEGROWERS has been involved in the preparation of a number of submissions and broadly supports the direction of that submission. These include:

- **NFF** - which has explored many of the structural and philosophical issues raised in the PC Issues paper. CANEGROWERS notes especially that the NFF has demonstrated that there is systematic market failure in the provision of R&D in the agricultural sector and that government investment in R&D is warranted. It has also pointed out cogent reasons for the continuation of the R&DC model.

- **QFF** has related the investment in R&D with the need to boost agricultural productivity to continue to supply food to Australia and maintain our export position in the face of climate induced changes to the availability of water and land. It also considers that the R&DC model is effective and should continue.

- **SRDC** has reviewed research and development in the sugar industry and pointed to some of the peculiarities of the industry, which are also explored below. It recounts some of the spectacular successes of research effort in the industry, one example being the Yield Decline Joint Venture, which has led to an ongoing revolution in sustainable farming practices.

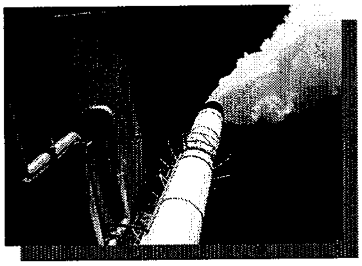
  SRDC also notes the high level of research expenditure in the sugar industry and the unique position of BSES Limited (BSES), the industry-owned research body.

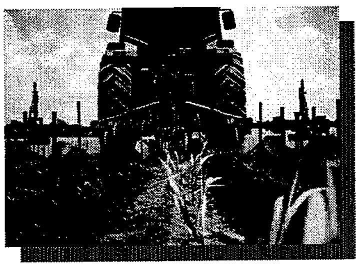
- **BSES** has commented on a number of the issues raised by the PC and has made cogent statements about the operation of the R&DC model, administrative costs, the rationale for community involvement through government and the need to maintain core research skills, *inter alia.*

CANEGROWERS endorses these fundamental issues and commends them to the Productivity Commission for careful consideration.

In this paper, CANEGROWERS makes comments on the shared cost model in the sugar industry, where growers and millers contribute to the SRDC levy, on the need for alignment between SRDC and industry research effort and the influence of government research policy objectives and on the desirability of maintaining SRDC as a separate decision-making entity.

Cost sharing model

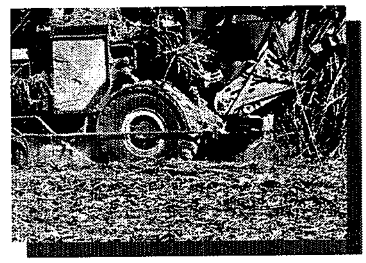




The Australian sugar industry has some unique features. It is characterised by significant interconnectedness within the value chain. Sugarcane cannot be transported economically beyond a distance of around 50km, which means that most sugar mills are in the position of monopsonists. A sugar mill is equally reliant on its growers for supply of product. Industry ownership structures are characterised by family farming operations and corporate ownership of mills, albeit many corporate mills have significant grower ownership. Relationships between growers and mills were traditionally mediated through legislation. This has now been removed and growers and mill owners engage in commercial negotiations to reach agreements for the supply of cane.

CANEGROWERS notes that the marginal cost of producing sugarcane is relatively close to the average cost. However, mills are capital intensive and the marginal cost is significantly less than the average cost. This is the reason that the sugar industry uses a funding model where the producer and processor share equally in the cost of the SRDC research levy. CANEGROWERS strongly suggests that this model should continue.

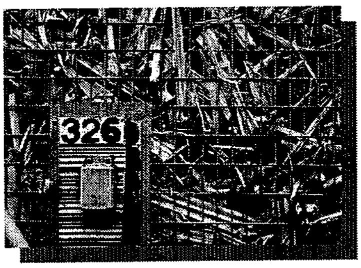
Alignment of research direction



As noted, the sugar industry is unique in its reliance on its own industry-owned research body, BSES (see the BSES submission for more details on the structure of this organisation). The board of BSES, through consultation with the industry, sets its research priorities and direction. At the same time, the board of SRDC sets its own priorities. Clearly, it is desirable that these priorities be aligned and that they are both consistent with an accepted set of industry priorities. As noted in the BSES submission, the proportion of SRDC funds flowing to BSES has fluctuated over the years (see figure 3 in the BSES submission).

In order to improve this alignment, the sugarcane industry, through the Australian Sugar Industry Alliance (ASA) is developing an industry vision that will encompass broad areas of industry direction. This is being used in the development of the national Sugar Industry RD&E Strategy, under the PIMC framework. This will be completed by August 2010.

In 2009, ASA made inquiries as to the possibility of merging SRDC and BSES. Despite some obvious difficulties of housing the general research funder and the main research body together, it was felt that, with appropriate governance and oversight arrangements, this could be achieved. The main rationale was for savings in administrative costs and an alignment of direction between the bodies. It appears that it would be difficult for this merger to be supported by the Department. However, CANEGROWERS believes that measures could be put in place to facilitate alignment. This could be achieved through joint priority reviews and development of agreed industry plans and improved contact between the boards of the relevant industry organisations. Administrative economies should also be explored, such as co-location, which would also improve alignment.



Clearly, one potential source of misalignment could be seen as the requirements for the R&DCs to include government-determined objectives in their priorities. CANEGROWERS does not see this as necessarily the case. Cane growers are members of the community and have objectives of sustainability and social improvement. They therefore share in "community benefits" that may accrue from research. That said, CANEGROWERS maintains that all research must fit within a matrix of attractiveness and feasibility. An attractive research project is one that promises high returns if it is successful. Feasibility in this context refers to researchability; the likelihood that the research performed in a project will be successful. A suite of industry research projects should include some with high attractiveness and lower feasibility as well as some with lower attractiveness but high feasibility. And, of course, any that score highly on both measures, if they come along. But a project that has low attractiveness and low feasibility should not be funded, regardless of whether it contributes to industry objectives or community outcomes. There is no point doing research that is not likely to have a significant outcome, no matter whose priorities are being addressed.

The need to maintain SRDC as a significant entity

As noted, the sugar industry has some distinct features. It operates in sensitive environmental areas, it has a strongly integrated value chain, and it has a unique structure of research bodies and unique research challenges relating to the difficult genetic makeup of the crop.

CANEGROWERS maintains that the structure of SRDC should remain as an independent body or as a component of an integrated industry agency responsible solely to the sugar industry. There are no obvious alliances that could be made where the unique elements of the sugar industry would not be either swamped or marginalised. In particular, a disparate commodity R&D agency would have little in common with the intensive, tropical and closely interconnected value chain that characterises the sugar industry. CANEGROWERS would be prepared to review any proposals for administrative cost saving within the R&DC structure or, as suggested above, within the industry. It would be most concerned if its ability to align industry research direction with that of the SRDC was compromised by SRDC being subsumed into a larger organisation. This organisation believes that the investment of levy funds in research through SRDC should be directed to achieve the maximum output and that a complete sugar focus of the agency is the only way to ensure this outcome.

Conclusion

CANEGROWERS believes that the R&DC model is working successfully in the sugar industry. It notes the importance of maintaining a centre of mass of industry-specific expertise in research and the need for this to be aligned with industry direction. CANEGROWERS does not believe that the sugar industry's direction and government's priorities are necessarily at odds, provided that all research proposals are evaluated properly for attractiveness and feasibility. It supports the shared cost model as appropriate in an industry that is marked by significant interconnectedness in the value chain.