GENERAL

Studies have demonstrated that there is an imbalance between the research understanding and the delivery to and uptake of that understanding by farmers. For instance, a study of wool growers in the Western District (Victoria) some years ago demonstrated that farm incomes could be substantially increased by adopting what was regarded at the time as current best practice although practices involved little if any additional financial outlay; rather greater awareness and management skill- e.g. time of shearing, bloodline choice and source of sires etc. With the on-going demise of state departments responsible for agriculture the extension capacity has declined greatly being in part replaced by the emergence of private consultants where often a serious vested interest is involved (e.g. by vertically integrated agribusinesses). A balance is required between fostering research and targeting delivery to relevant land managers of timely and pertinent information. The failure to adopt industry best practice not only incurs foregone opportunity for the current landholder but in all likelihood will have a detrimental impact upon the resource base upon which future agricultural productivity will depend. With declining terms of trade and increasing climate variability, there are increasing signs of landholders "battening down the hatches and toughing it out" with little if any investment and poor maintenance, again with consequences upon the resource base (this is not helped by the fact that average age of farmers is now 57, although age distribution varies between different industries, wool growers are probably the oldest). In this respect agriculture is different from other small businesses which if run down do so without significant collateral consequences to the all-important resource base of neighbouring properties.

There is a need for better coordination of projects applying across agricultural commodities e.g. increased climate variability and/or change. Many research & development issues are not limited to a single commodity or industry sector but rather involve the natural resource base upon which future (including future generations) agricultural productivity depends. Therefore a process is required for all relevant parties to contribute to a collective to address such issues. The process should not be left for individual R&DC to participate as they individually see fit but rather in accordance with the degree of benefit and constituency contribution to the issue (to minimise the free rider). This should apply particularly to the public contribution to R&DC finances where the wider public good is at stake. Further, R&D projects and programs that have a public good component should include public representative(s) on the project management committee to ensure the public expectations are honoured. The abolition of Land & Water Australia has left a vacuum in R&DCs with responsible for managing the research agenda for the natural resource base and an all-important perception that the long term interest in the base is best serviced by bodies that are focussed upon immediate production outcomes.

A number of issues that effect individual farming prospects are determined by actions undertaken beyond the farm gate and outside the immediate time frame (e.g. salinity). R&D projects should include a risk assessment of the final research outcome (a preliminary risk assessment could be also part of the initial funding proposal) to identify and address the externalities so that these can be addressed or managed in subsequent extension

program. On-farm productivity is increasingly affected by interactions with impacts upon the individual from adjoining landholders. For family farms at least, each landholder is a relatively small entity for the particular industry and therefore cannot quarantine their operation from the neighbourhood effects nor are they large enough to fund research or quarantine the benefits to their holding particularly in the case of natural resource management issues. Recognition of this point underpins the approach adopted by Catchment Management Authorities in delivering natural resource management programs, although there appears to be wide variation in the relevance, efficiency and quality of the roll out between different managers and providers.

Agricultural commodities are notorious for price fluctuations in response to erratic supply and fluctuating demand not to mention the effect of trade restrictions, embargoes and currency adjustments. Consequently levies received by R&D corporations are uncertain and fluctuate from year to year in response to seasonal prospects and prevailing prices. This has implications for budgeting by R&DCs who are often confronted with feast or famine with resulting budgeting difficulties. To reduce the impact of fluctuations (e.g. upon the certainty to research and service providers) consideration should be given to a counter-cyclical system of matching funding whereby when good industry returns are received the government contribution declines but when industry returns decline the government component kicks in more strongly. Hopefully this would not create an accounting nightmare. Over (say) a decade the ratio of respective contributions would be as agreed but in any one or more years it could be higher or lower than that agreed but with a more consistent revenue stream. This would have a benefit of buffering the variable producer R&D contributions and the subsequent impact upon projects and the staff involved in them thereby increasing the certainty and continuity for research and service providers. This model would appear to have benefit over current approach of accumulating reserves during the good times and running down the reserves in lean time; management of reserves (whether building up or running down) always seem to attract levy payers critical and divisive attention.

Although levies are based on a percentage of gross product value, there appears to be wide variation in the levy percentage applied by different R&DCs and some inconsistency in multi-product operations. For instance, a wool grower will pay the wool levy (AWI) on wool value from sheep which when sold off-shears attract another levy (MLA), on the other hand a grain grower will pay a levy on the grain value (GRDC) but can then bale the stubble and sell the straw without a further levy. Off-shear sales are as much a by-product for a specialist wool grower as straw sales are for a grain grower- but the approach to levies is different.

WOOL INDUSTRY SPECIFIC

The issue of composition of the board of wool industry R&D (currently AWI- but applied to its predecessors) and its limited skill base has been an on-going issue of long standing although widely raised. There is an on-going risk of the board having limited skill for a modern and demanding business involved in research, development and marketing. There

should be serious consideration of the skill set required of an effective board chartered with managing the wool industry for the future and a transparent process adopted to ensure that this is achieved and supported. This would be in the best interests of wool growers and board members. The history of board disunity over a number of decades is counter-productive to the performance of the board and a bitter disappointment to long suffering levy payers.

Board elections have historically tended to be a popularity contest, with promotion before elections focusing upon each individual's claims rather that what the collective skills and interests might comprise. Consequently members elected to the board tend to be high profile large growers from the wool growing sector. By focusing upon electing individuals, the result is prone to electing a board of clones with a narrow representative base and limited diversity or complementary skill set. The aim should be to encourage board diversity which engenders synergism but avoids disunity.

Strategies on issues that run beyond current wool growers' direct interests- e.g. mulesing, need to be rationally considered in a wider context beyond on-farm production considerations. To attempt to hang on to the past runs a risk of loosing the future (e.g. as evidenced by considerable expenditure on legal costs). Thirty-years ago wool occupied about thirty percent of the apparel market, this has now declined to around 2 percent and continues to decline. To retain (and hopefully increase) market share requires the wool industry to be receptive to processors and customers expectations and undertake to work together to develop realistic strategies for the future.

Fellmongered wool attracts no levy and with increasing number of sheep being slaughtered (particularly before first shearing) yields no levy for AWI- although MLA will receive levy. This is further accentuated by falling sheep population and lower wool cut under prolonged dry conditions. My understanding is that fellmongered wool does not contribute any levy to AWI yet the wool removed from sheep skins competes with shorn wool in a number of applications. This was previously reviewed in 2002, but since that time shorn wool production has continued to decline and the production of prime lamb has increased considerably with resulting increase in sheep skins and opportunity for fellmongered wool. In addition, levies paid by wool growers provide a cross-product subsidy (e.g. lice control, wild dogs etc.) to producers whose major sheep income (viz. prime lamb) produces a by-product (viz. sheep skins) that leads to fellmongered wool. With increasing production of prime lamb delivering MLA a levy upon slaughter, the fellmongered skin produces wool that then competes with conventionally harvested wool (shorn or bioclipped) without being subject to a wool-based levy.

Likewise, what is the position of levy collection for sheep sourced by live sheep exporters where sheep are sourced direct from farms? Production of such sheep is dependant upon AWI and/or MLA research and development outcomes e.g. fly strike avoidance etc. and therefore there is a case for levy contribution to support research for the sheep and wool industry. Perhaps a way of avoiding the meat-wool divide for the sheep industry is to give

consideration to having a Sheep R&DC (combining wool, sheep meat) or Livestock R&DC (combining wool and meat i.e. combining the responsibility of MLA and AWI).

SUMMARY

In summary, agricultural production is undertaken predominantly by family farm units (certainly in numbers) and levies on the value of production provides a viable, equitable, efficient and transparent approach to accumulating funds for supporting research relevant to levy payers' interests for their respective commodity. Given that the total area of land that is used for agriculture amounts to over 50 per cent of the continent's natural resource based research has a large geographical coverage. Matching funding from government in particular provides opportunity (and no doubt an obligation) for R&DCs to tackle research on issues that have a public good component.

To ensure the best and most efficient return to levy payers and taxpayers, boards of respective R&DCs increasingly need a complementary skill base to address the essential research, development and marketing agendas necessary for Australia's on-going agricultural prospects. This is not only required for the immediate future but increasingly with a vision for the more distant future in a world embracing globalisation. Past trade loyalties hold diminishing value and customer rights and sentiments are mounting in world of unrivalled global communication.