Productivity Commission Inquiry into the Australian Government Research and Development Corporations Model

Submission

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Who we are:

AgForce Queensland is the peak lobby group representing broadacre industries in Queensland. AgForce represents thousands of Queensland beef, sheep and wool, and grains producers who recognize the value in having a strong voice. AgForce delivers key lobbying outcomes and services for over 7,000 members.

AgForce's leadership team is made up of members and elected by member representatives, who work alongside a dedicated team of policy and regional staff as the voice of primary producers, their families and regional communities.

AgForce Queensland is the only body in Queensland that represents the majority of beef, sheep and wool and grain producers.

The organisation exists for one purpose: to ensure the long term growth, viability, competitiveness and profitability of these industries in Queensland.

A national affiliation is maintained with the Cattle Council of Australia, WoolProducers Australia, Sheepmeat Council of Australia and previously Grains Council of Australia, all who are member bodies of the National Farmers' Federation.

AgForce works to ensure that the views of Queensland’s broadacre producers are heard at state and federal level.

Introduction

Queensland plays a vital role in Australia's agricultural landscape. Almost 21 per cent[1] of the nation's agricultural businesses are in Queensland.

There are 28 000 rural businesses, most of which are family owned and operated and account for one third[2] of the nation's agricultural land under production. Beef is the state's biggest agricultural industry – 44 per cent of Australia's 27 million cattle[3] are on Queensland farms. While beef dominates our farming industry, Queensland also grows almost 58 per cent of Australia's total summer crop[4] and, with the exception of Tasmania, produces the highest yielding wheat crop[5].

Agricultural production played an integral role in shielding the country from the full impacts of the recent global economic crisis. As well as contributing more than $28 billion[6] in export earnings, the day-to-day continuance of farm operations meant people in rural and regional communities, and throughout the food production supply chain, had greater job security than those employed in many other industries. This reduced the pressure on government to assist and helped to sustain rural communities.

The economic recovery in most of our key markets has commenced but, even given the return of the Australian dollar to more modest levels, export earnings from farm commodities are only forecast to increase by 2.5 per cent in 2010-11 (to $29.1 billion[7]). Beef, sheepmeat, summer crop and wheat production are all forecast to decline in 2010-11, making continued investment in RD&E absolutely essential for ensuring our farmers remain profitable, continue to sustain rural/regional communities, and play a continued role in helping the nation weather difficult global economic conditions.

[1] ABS 2008-09 Agricultural Commodities Australia
[2] ABS 2008-09 Agricultural Commodities Australia
[3] ABS 2008-09 Agricultural Commodities Australia
[4] ABARE Australian Commodities June Quarter 2010
[5] ABS 2008-09 Agricultural Commodities Australia
[6] ABARE Australian Commodities June Quarter 2010
[7] ABARE Australian Commodities June Quarter 2010

Executive Summary

This paper is in response to the 2010 review into Rural Research and Development Corporations (RDC's) by the Productivity Commission.

While AgForce views all rural research and development as important, the three RDC's that are relevant to AgForce are: Grains Research and Development (GRDC), Australian Wool Innovation (AWI) and Meat and Livestock Australia (MLA) so in terms of this paper all comments will be specifically about these three bodies.

AgForce supports the Australian Government's and industry's money continued investment in rural research and development (R&D) through a joint government-industry investment model as it:

- Provides industries with new technologies and knowledge needed to remain competitive
- Delivers considerable public benefits
- Overcomes market failures that exist in rural RD&E
- Allows the Rural Research and Development Corporation (RRDCs) to fill the void in extension services left by the decline in government R&E and extension services
- Promotes a partnership approach to Research, Development and Extension (RD&E) that is supported by members
- Allows AgForce, through its membership of industry peak councils, to put forward members' views on R&D direction
- Encourages member 'ownership' of R&D and its outcomes
- Allows for collaboration between RRDCs on issues of cross-sectoral concern

As funding for other research and development providers, such as CSIRO and state governments, is continually reduced, the need for RDCs become even more important to provide industry relevant R&D.

AgForce supports streamlining the work between different RDCs so that efficiencies can be made across industries and there is an avoidance of these corporations working in isolation and duplicating work that is relevant across the entire agricultural sector.

In order for the RDCs to work effectively the governing boards must have the appropriate skills set that enable them to compete in the global marketplace. Therefore it is imperative that directors are appointed based on business acumen, whilst also allowing industry endorsement of these candidates by levy payers.

One of the prominent successes that feature in some of the current RDC models is the ability for recognised industry bodies to have direct input into research and development priorities. This must continue and be a core trait across all RDCs. The benefit of this is twofold: firstly, that the R&D is relevant to industry and arises out or an identified need from stakeholders and secondly in order for innovation to be successful industry must feel a sense of ownership to adopt new practices.

Industry Owned Corporations (IOCs) provide the vehicle to deliver industry relevant research and development, which in turn allows for the continued improvement and streamlining of industries that enable them to meet public expectations and consumer demands.

Rational for Continued Public Investment

AgForce strongly supports continued, and increased, Australian Government investment in RD&E activities to ensure the increasing productivity, sustainability and global competitiveness of Queensland's cattle, sheep and grain industries.

Our members are export-oriented price-takers, subject to global market fluctuations which our competitors, most of whom are heavily-subsidised, are cushioned from. In the last decade, prolonged drought, intensifying competition for land from the mining industry, and rising input costs has put considerable pressure on Queensland's cattle, sheep and grain farmers. . The sustained high Australian dollar only compounds the difficulties facing our export-oriented industries.

Primary producers manage these declining terms of trade through productivity growth. Research suggests agricultural productivity needs to grow by 2 per cent per year to keep pace with the declining terms of trade[8]. But productivity growth has declined by around 1.5 per cent[9] over the last ten years. While some of this can be attributed to prolonged drought, research suggests that the failure of government to increase public investment in R&D over this time has been a key factor in lost productivity growth[10]. While agricultural R&D accounted for 20 per cent of total expenditure in 1982, it had declined to around 5 per cent in 2007[11]. Increased government investment in R&D is essential to curb the downward productivity spiral and ensure our members retain their competitive advantage.

Rural R&D produces public goods that directly benefit all Australians. While it is difficult to quantify these benefits in monetary terms, the ongoing productivity gains and continued profitability afforded by RD&E for the cattle, sheep and grains industries has delivered:

- reliable consumer access to safe, high-quality and secure food supply
- improved management of Australia's environment and natural resources, with 54 per cent of the nation's landmass under agricultural production
- economic and export diversity. For example, in 2008-09, Australia exported 967 729 tonnes of beef and 893 158 live cattle, worth approximately $5.6 billion
- growth and stability of regional economies and communities. One in eight Queenslanders are employed in agricultural jobs. For rural communities, productive agriculture means more employment opportunities, new industries, potential population growth and a greater chance of continued service provision. Without viable agriculture to support rural and regional communities, more of Queensland's (and Australia's) population would migrate to cities, causing further congestion pressure for governments.

The fact that such benefits can be taken for granted by both governments and consumers are testimony to the success of the current co-investment model. That agricultural RD&E produces such public good benefits can, however, constrain private investment. Private investors can receive a return on investment provided they can secure intellectual property rights. In the event they cannot, or they cannot quarantine the benefits to a particular sector of the public and charge them a fee for use, private companies may be deterred from rural RD&E investment.

This market failure is compounded as many of the key areas of investment, such as veterinary chemical development or genetics research, requires a long-term funding commitment and, as a

[8] Mullen 2010.
[9] Mullen 2010.
[10] Mullen 2010.
[11] Mullen 2010.

result of regulatory approval requirements, is often subject to a considerable lag between research and commercialisation. This deters private companies who need more rapid return on investment for their financiers.

Private investment in RD&E is further restricted because farms are geographically-decentralised, independent enterprises, often with limited capital to undertake their own on-farm research. The levy and matching funding model overcomes this market failure because it allows collective investment in RD&E. In the absence of an RRDC or central, industry-specific research organisation to coordinate RD&E activities for an industry, very few farmers would conduct on-farm R&D projects.

Those who did would be unlikely to capture sufficient benefits to balance the cost. Conducting R&D in such a manner would also hamper extension, with farmers either limited in their capacity or reluctant to share the outcomes of their own research. The clear market failure, and considerable public benefits that rural R&D produces, clearly justify the Australian Government's investment in agricultural RD&E.

In Queensland, like other states and territories, state government investment in rural RD&E has continually declined, from around $120 million in 1995 to $80 million in 2007[12]. This has meant the loss of vital research programs but also, the majority of government extension officers and support staff from rural communities. This loss is sorely felt by farmers, who learn best when given the chance to see new technologies being applied in an on-farm environment. This makes the availability of on-the-ground staff, whether associated with RRDCs or government extension services, vital to ensuring the uptake of R&D outcomes.

Any further reduction to the total RD&E spend would result in further loss of human capital in rural RD&E. Australian Government investment – both through the collection of statutory levies and contribution of matching funding for eligible R&D - is required to fill this void and prevent productivity stagnation.

AgForce members rightfully view rural RD&E as a mutual obligation between government and industry. For the twenty years in which this model has operated, the Australian Government has made a considerable investment in rural RD&E which has afforded it the authority to provide significant direction on R&D policy direction.

If government were to pull out of this partnership and stop providing matching funding for eligible R&D activities, we believe farmers would question the value of investing in rural R&D and would be likely prioritise short-term projects that deliver maximum return, at the expense of long-term, strategic priorities. This would severely disadvantage industries, as some major projects which deliver the biggest payoffs have long lead times. An obvious example is the continuing development of more efficient varieties of hybrid sorghum that require lower inputs and provide higher yields.

The loss of government funding would also mean investment was tailored to suit immediate industry needs and that strategic government priorities, including climate change, would not be likely to be taken into account.

[12] Mullen 2010.

Strengths of Current R&D Model

AgForce supports the RD&E model in providing compulsory levies and matching government funding to industry-specific R&D organisations. The current model, with its mix of industry-owned companies and statutory authorities, applies differently for the three industries that AgForce represents – cattle, sheep and grains. However, there are general strengths of the model which are common to the RRDCs that we take specific interest in: Meat and Livestock Australia (MLA), Australian Wool Innovation Limited (AWI) and the Grains Research and Development Corporation (GRDC).

Importantly, the model allows each industry's peak councils to input to the direction of R&D and marketing expenditure. AgForce wants to see its members' priorities reflected at the national level by their industry RRDC. The current model gives us a greater assurance of this by allowing industry peak councils to work with the RRDCs to shape R&D priorities and future expenditure.

Using MLA as the example, AgForce members have a direct role in setting the strategic direction for the company through our membership of the Cattle Council of Australia (CCA) and the Sheepmeat Council of Australia (SCA), the beef and sheepmeat industries' peak councils. The statutory requirement that MLA consult peak councils when developing its strategic and annual operating plans means that AgForce can put forward members' research priorities and encourage MLA to invest accordingly.

The model also allows industry to have direct input on the industry's RD&E direction through the Northern Australian Beef Research Council (NABRC) – the key industry-agency forum for determining and advising on strategic requirements for RD&E in the northern beef industry. NABRC membership includes all the major beef research agencies and educational institutions as well as local producer representatives and allows direct producer engagement in the National Beef Production RD&E Strategy.

The ability for industry peak councils to set directives for research and development is also a vital mechanism by which the RRDCs receive timely information on emerging industry priorities. The direct, well-established consultation channels of our RRDCs means that they can quickly respond to emerging industry priorities and reflect these in their investments. This responsiveness would not be possible if industry R&D was led by a government-controlled research body, university, or private company, few of which would have such established industry relationships.

In terms of return on investment for AgForce members, we support the current model, with its joint industry-government contribution, because it means the RRDCs are accountable to government, peak councils and farmers. Again using MLA as the example, its governance arrangement allows both CCA and SCA to scrutinise the company's RD&E budget through an internal R&D taskforce, and scrutinise the marketing budget, together with other councils and members of the beef and sheepmeat supply chain, through a marketing taskforce. This joint accountability of the RRDCs heightens the need for them to operate effectively and efficiently – a system we see as vital and must not be changed.

The government contribution of RRDCs provides a safety net that allows for continued innovation to occur in the event of drop in industry levies. For example without the continued support from the government it would be extremely difficult for GRDC to remain viable in adverse climatic conditions, as the levy received is reduced due to overall income received in the grain industry. Basically without continued commitment and support from the government it is very difficult to ensure the future of GRDC.

Further to this, because the RRDCs' income depends on farm production, which is subject to dramatic annual fluctuations, these organisations, unlike a government-authority with secure income, must seek efficiencies in expenditure and look for the best value provider. This delivers value for both industry and taxpayer.

The current model allows the RRDCs to undertake a marketing function on behalf of their industry. As well as building demand for our products both domestically and internationally, this function provides RRDCs with direct feedback on consumer preferences and concerns that can be used to shape research priorities and future product development. MLA currently engage in the Industry Collaborative Agreement (ICA) which sees MLA partner with individual Australian exporters or overseas importers to jointly fund marketing activities in specific countries aimed at increasing awareness and demand for Australia's red meat.

The marketing function has also allowed the RRDCs to harness international R&D for Australian benefit. With their established international networks and overseas staff, the RRDCs have established international networks that allow them to operate as a point of call for international researchers; seek out promising international R&D and cooperative opportunities; and leverage appropriate offshore outcomes.

The delivery and uptake of R&D outcomes is maximised under the current model because the RRDCs can use their broad and secure industry networks to drive on-farm practice change. Industry-wide, government-supported investment helps to foster awareness and support within industries of the importance of investing in R&D and improves uptake of research outcomes.

In addition to their delivery of RD&E and marketing outcomes, the RRDCs perform a range of functions to assist their industries and agriculturally-dependent rural/regional communities. These include community education and engagement; building international trade relationships; animal welfare; and food safety and product integrity systems (for example, the National Livestock Identification System). In this capacity, the RRDCs perform a supportive role that was once filled by government.

Improvements to the Current Model

At the broad policy level, the key weakness of the co-investment model is that it is responsive to federal political cycles. Decisions are made by the government of the day, often in the interests of particular political sectors. Such decisions usually come at the expense of the long-term good of agriculture.

Farmers are in business for the long haul and decisions are made for seasons and even years ahead. Similarly, research programs have a long time span; when trialling new plant varieties, for example, researchers need to see that plant growing in a field before they can assess its merits. To be successful, and to attract private investment, agricultural R&D needs a long-term, secure government commitment that extends beyond political cycles.

Industry cannot afford to have a static model that is incapable of reacting to evolving demands, the major aspect to the RRDC model is an undertaking from government that there will be continued funding.

The current system provides the framework to work effectively, but has some issues in the execution. While the ability for levy payers to vote the directors onto RDC boards is accepted by industry as a positive, different RDC's have varying methods in electing these boards – some with better outcomes than others.

AgForce believes that in order for the effective and efficient use of levy payer and Commonwealth contributions, that all RDC board must be skills-based. This would go some way in alleviating potential conflict of interest issues by board members.

Having a skills based board to oversee individual RDC's would also remove the threat of these bodies engaging in popular politics. The difference of these systems is illustrated between Meat and Livestock Australia (MLA) and Australian Wool Innovation (AWI). MLA engages in an interview process to check suitability of candidates with a panel of industry leaders, while any eligible wool growers (those that have paid greater than $100 in levies in the last three years and who gather signatures from woolgrowers) can stand for the AWI Board. As has been demonstrated in the last few elections it is often candidates with personal agendas that stand – generally sprouting fashionable opinions rather than opinions with the longevity or betterment of industry in mind.

While there is a clear directive in all the Statutory Funding Agreements of RDCs for them not to engage in industry politics – this has been clearly breeched numerous times by the board of AWI – then July 2009 announcement made by AWI stating that industry will not meet the 2010 mulesing deadline is a clear example of this.

MLA have a clear consultative process to take advice from peak industry groups- this results in clear and relevant prioritising of industry research and development.

AWI, on the other hand, have very little formal consultative mechanisms in place, meaning that industry R&D is not correctly targeted. AWI has minimal to zero procedures in place to even meet with the peak industry body – let alone state farming organisations. This industry consultation is unfortunately getting worse.

The Future

AgForce wants maximum return for members' levy investment and we support opportunities for the RRDCs to collaborate on cross-sectoral research activities, such as those afforded by the National Primary Industries RD&E Framework. AgForce supports the Minister for Agriculture, Fisheries and Forestry in his efforts to ensure greater accountability and transparency of all RRDCs and maximise the efficient and effective use of levy payers' funds. It is important, however, that the quest for efficiencies does not come at the expense of delivering commodity-focused RD&E and marketing outcomes to the farmers who have paid for them.

AgForce is aware that rural research is under the microscope by the Australian Government, including the Primary Industries Standing Committee's development of a rural RD&E framework for human capacity and research facilities and the Rural Research and Development Council, convened by the Minister for Agriculture, Fisheries and Forestry to examine the rural R&D system. To make these processes worthwhile and ensure that the outcomes of these reviews lead to an improved rural RD&E system, government must commit to a long-term funding relationship with industry.

In summary, AgForce is strongly supportive of continued investment in the current RD&E model for the cattle, sheep and grains industries. While we acknowledge there are some industries for which the model is not working effectively, it is essential that, in the quest for improved accountability, transparency and governance, the key strengths of the system (centralised collection and expenditure of industry levies and matching government funding, and capacity of industry to influence R&D direction) are not abandoned.