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PRODUCTIVITY COMMISSION INQUIRY INTO THE AUSTRALIAN GOVERNMENT RESEARCH AND DEVELOPMENT CORPORATIONS MODEL

Submission by the Australian Olive Association Ltd

The Australian Olive Industry and its Recent Development

In 2010 the Australian olive industry is an example of a new and emerging industry taking its place in domestic agriculture and in domestic and world markets. During this century we have seen the production of olive oil from Australia expand to about 15,000 metric tonnes in 2009 (wholesale value about AUD$75M) from a low base of a few hundred tonnes in 2000. Pickled olives are becoming more important with annual production now over 2000 tonnes. There are more than 2500 olive businesses within this industry that exists in every State and Territory. These range from the numerous boutique and often part time enterprises to a few operators that are large scale by world standards.

The peak industry body for the Australian olive industry is the Australian Olive Association Ltd (AOA) that was established in 1995.

The AOA estimates that the 2009 level of production is about 50% of the potential of current olive plantings.

While the 2009 Australian olive oil production is only about 0.6% of global production of olive oil the Australian product meets exacting standards for quality and is beginning to be significant in the global marketplace for high quality 'extra virgin' olive oil.

Pickled Australian olives are also becoming important in domestic markets with an emerging and dynamic range of whole and value-added olives gaining traction from an annual product base of over 2000 tonnes of fruit suitable for pickling. The increasing success of the mechanical harvesting of pickling fruit should see the expansion of this part of the industry.

Despite this apparent expansion towards critical mass, the development of the Australian olive industry has been challenged and hindered by market manipulation from traditional producers. The industry has been further challenged and restricted by the climate change and variability apparent during the first decade of this century. This is despite the olive tree being one of the most adaptable and resilient

sources of food in the world being particularly suited to dry and challenging conditions and a range of climates - as demonstrated by the wide geographic spread of the industry in this country.

The expanding Australian olive industry has of course required R&D to be done on the 'normal' issues facing new plant industries – including cultural practices, pest and disease management, varietal evaluation, irrigation, processing technology, technology transfer, mechanization - and this has been underway since about 1995.

Unexpectedly the increasing production of olive oil has required a special effort to attempt to meet the unforeseen challenges of deficient product specifications, associated trade barriers and fraud in the marketplace. These complex issues have been a major focus over the last eight years.

Australian work will shortly result in the development of world leading Australian Trade Standards for olive oil. This work has been described as a **textbook example of government and industry working in partnership to develop evidence based consumer related standards**. These proposed standards will bring measurable quality definitions and enhance the market rewards for quality. They will benefit both producers and consumers alike in Australia and overseas. That these standards will apply to all olive oils sold in Australia and should provide better quality products overall combined with clearer consumer choices highlights the public good outcomes from such R&D.

The research and development effort for the Australian olive industry has been funded by government and industry mainly though the efforts of the Rural Industries Research and Development Corporation (RIRDC) and also occasionally through Horticulture Australia Ltd (HAL).

In recent years it has also become clear that the Australian olive industry will require further capacity – and therefore R&D - to respond to the unforeseen challenges of climate change and variability that are common to agriculture throughout Australia and in fact challenge the nation.

There is currently unexpected consolidation and stress in Australian agriculture because of such climate challenges and the olive industry is party to this. The major effects of climate change and variability on the olive industry have been reduced production and impaired product quality.

Drought and irrigation water shortages, associated record frost events and last spring a record heat-wave in November have all meant that the industry is running at only about 50-60% of its expected productive capacity. At times frost has also damaged olive fruit and destroyed product quality.

In summary the 40-50% of production that the industry has missed out on to date is the much needed profit that underpins viability. With regard to R&D efforts this is where the industry funding would ordinarily come from as happens in well established industries. The Australian olive industry has therefore yet to reach critical mass in this regard and this may well limit its capability to support much needed further R&D efforts.

At the same time these challenges are driving innovation and within the olive industry there are emerging responses to strategically address extreme climate events. There is encouraging evidence that the olive tree can be resilient – the trees have survived the challenges - but we need to learn more about maintaining productivity under these conditions. All of this will require increased and ongoing R&D expenditure.

The Australian olive industry has already contributed positively in many regions in Australia. This goes along with supplying the consumers of Australia with previously unseen high quality olive products - beneficial because of quality from both health and culinary points of view. About 30% of our olive oil is exported and this brings increased national benefits.

What the Australian Olive Industry needs now is confidence - in the face of the climate challenges of today and tomorrow - that the industry's technical capacity to respond can be addressed with increased and ongoing R&D support and capacity.

RIRDC – the Key RDC Responsible for Olive Industry Research and Funding

The AOA representing the olive producers of Australia has a strong working relationship with the Rural Industries Research and Development Corporation (RIRDC) that developed since the late 1990s. This has led to the highly effective application of limited R&D funds.

In the early years because of the trusting relationship with the officers of RIRDC many of the olive industry's assumptions were successfully challenged and as a result R&D efforts became more productive and much more targeted than they may have otherwise been.

During the intense 8 year effort with regard to olive oil quality RIRDC has been flexible, responsive and fundamental to the success of this critical work. The RIRDC support has underpinned both the industry and Australian government efforts here and overseas. It has given international credibility to these efforts and now we are leading the way.

There is currently a highly effective working relationship between the AOA and RIRDC that the olive industry would seek to protect and enhance as part of its submission to this Review.

In our experience RIRDC has particular skill with new and emerging industries. This goes beyond the evaluation of R&D needs. In many cases it leads to helping such industries to focus on their opportunities and deficiencies as well as assisting in the development of effective industry organizations.

Of late RIRDC has been particularly effective in developing cross-sector linkages and cross-industry value. Two examples of this are the emergence of Bio Energy Australia and New Rural Industries Australia (NRIA).

The AOA supports the development of NRIA and has found the cooperation and exchange with other industries valuable in evaluating its own priorities. Olive industry members have also participated in Bio Energy Australia as they seek to diversify and build value in their enterprises.

We are hopeful that this cooperation and exposure will lead to more diverse opportunities for our members and help to bolster the strength of their businesses. Diverse integrated farming is now a focus for both large and small-scale olive producers. Cross-sector efforts like NRIA and integrated multi-enterprise research and development will be needed into the future.

Given the success of our association with RIRDC (off an already limited funding base) the AOA was appalled at the recent government cuts to the RIRDC funding for R&D. The AOA wholeheartedly supports the submission of NRIA to this Review and in particular its comments about the need to redress such cuts and in fact the need to significantly increase R&D funding to new rural industries through RIRDC.

In short there should be increased matching R&D funding available as new industries expand and more seed R&D funding for new and emerging industries some of which logically don't exist yet. RIRDC should at the same time be more able to facilitate and assist with collective industry market development activities.

RIRDC also has some problems common to all RDC's regarding the ever-increasing compliance burden on its staff getting in the way of the core business of working on industry relationships and delivering R&D. The AOA believes that there may be opportunities to streamline the governance and compliance processes within RDCs offering much needed cost savings and in fact freeing up funds for R&D.

RDCs and Their Operation

The RDC model is in our view a good one offering advantages to industries, scientific bodies and the public. Overall we strongly support the RDC model.

From an industry perspective RDCs are seen as somewhat arms-length from day-to-day government and this removes much of the potential political nature of industry-government relationships regarding R&D. This perception of independence is important in developing the long-term objectives for R&D in partnership with industry.

The RDC experience of AOA is the development of long-term trust and the effective prioritisation and delivery of industry-driven targeted R&D with effective outcomes.

The RDCs have also demonstrated the capability of evaluating the capability of the scientific skills base in Australia and helping to direct industries to where their needs can best be met.

In the past it was sometimes observed that new industries were seen as sources of funding for scientists looking for things to do when in fact the industry needs may best be served by well established scientific facilities (that in turn may need encouragement to broaden their focus). Long-term skilled assistance from RDCs can have a major impact on helping industries to make effective choices regarding how best to address their issues in particular how drive R&D in response to their needs.

This has certainly been the case for the AOA in representing the Australian olive industry and there is now have an effective working partnership with RIRDC that drives research priorities rather than just responding to suggestions from the scientific body of Australia.

We would encourage the RDCs as a group to be increasingly cooperative and proactive in their efforts to address the need for R&D to underpin Australia's response to climate variability. We see this as the major future challenge for agriculture generally and the RDCs as a group can offer solutions.

The AOA suggests that the governance and compliance costs of the RDCs should be examined with a view to streamlining these activities. We are not suggesting at all that accountability should in any way be compromised. However our observations of the working of a few RDCs over several years indicates that the resources in these organisations dedicated to these administrative activities are well out of proportion – overdone - in relation to the amounts of money involved at least in comparison to our experience in the commercial world.

R&D Funding and New Industries – the Need for Increases

In support of NRIA we contend that there are justifiable urgent needs for attention to the amount of R&D funding applied to Australia's rural sector in particular in the face of increasing climate variability. This is in our view an irrefutable public good argument for increased R&D efforts within and across rural industries.

Overall the return on public R&D funding for rural RDCs has been independently calculated as dramatically positive. This alone should justify an increased spend in this area.

Under more variable conditions agriculture needs flexibility and new industries such the olive industry and many others offer alternative and potentially more resilient activities for rural businesses and communities. The primary need in these cases is for technical knowledge to underpin private investment. This technical knowledge will depend largely on public funding.

Cross-sectoral activities within this context are also likely to require direct public funding because individual industries may not see direct value to them while there may be clear broad public good and social outcomes. This is a further argument for public funding and leadership in these areas.

Given the current and future climate risks facing Australia (including as a result potentially reduced independence of this country), the associated need for innovation and diversification, plus the

potentially devastating cost of bailout funding for many communities under the predicted climatic future (if no changes are made), in our view **it would be irresponsible for Australia not to undertake significantly increased R&D in these vital areas for its future**.

With appropriate support our RDCs are well placed to deliver the outcomes.

Paul Miller
President