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

Introduction

This submission is partly based on my experience as a former Chair of an Australian government Rural R&D Corporation, Presiding Member of many of the government's Selection Committees of R&D Corporations and previous Councils, as a research provider for many of the R&D Corporations and a leader and a team member of many World Bank, FAO, UNDP teams concerned with policy, planning, implementing and/or reviewing rural R&D programs and/or projects.

Scope of this Submission

The scope covers directly two parts of the Review's Terms of Reference that cover:

- Appropriateness of current funding levels for agricultural R&D
- Impediments to efficient and effective functioning of the R&D models

and concludes addressing 'whether there are other models which could address policy objectives more efficiently'.

Assumptions

I assume that many of the terms of reference will be adequately addressed so that there is considerable agreement on:

- the rationale for the Australian government investment in Rural R&D
- the need for varying levels and balancing between public and private investment, between environmental and taxpayers interest, and between industry and public concerns
- ensuring appropriate bonds and effective interactions between an improved R&D model and other R&D provider arrangements
- an acknowledgement of the effectiveness of the current R&D model until recently but the need now for some major structural modification and changes while maintaining relevant strengths
- an increased R&D investment along the supply chain from production through to processing and marketing

- the retention of the opportunity of industry levy arrangements and appropriate Australian government matching investment to provide equity for benefits of various stakeholders

- the considerable variations that exist between RDC's and the need to eliminate these by consolidation as far as feasible to provide simplicity and avoidance of duplication in administration

- the fickleness, insecurity and often short-lived nature of industry voluntary contribution of funding R&D as compared with the assurance of legislative provisions and agreements from statutory levies

- the need to clarify and quantify more appropriately adoption pathways particularly for cross-sectional rural R&D and to introduce more uniformity and realism in empirically determined benefit/cost and return from public investment.

Background Information

The following recently published information was used as major sources for consideration:

- Cutler's review of the National Innovation System (2008)

- Core's retrospective review on Rural R&D in Australia (2009)

- Productivity Commission Issues Paper (2010).

The latter's 145 questions raised demonstrates the extent of the considerations facing the Productivity Commission.

Major components of an Improved RDC Model

The following components should be considered in developing an improved model:

- Simplicity and transparency – there is a complex arrangement of the present model/s of various statutory corporations and industry owned corporations interacting variously with the deliberations occurring in the framework key development for National Primary Industries RD&E, and the Minister's Rural Research and Development Council R&D rural investment study. In addition curiously there is another player – the Council of Rural Research and Development Corporation Chairs that have objectives that are dubious and have yet to produce outcomes to avoid organizational duplication

- Cost effectiveness in Administration – Investment in implementation of research projects should be paramount. Although the Issues Paper (page 7) states that 'Broadly, it appears that between 10 and 20 percent of R&D expenditure by each RDC is absorbed by administrative costs' the Rural Industries R&D Corporation (RIRDC), for example, has reduced the investment in research projects from 83% in 2002/03 to 67% in 2008/09 with the amount from $18.0m to $15.9m (RIRDC Annual Reports). Comparable expenditure in these years for corporate expenditure has increased from $1.97m to $3.45m.

- Recognition of the Increased Potential for Industry Contribution to R&D – via funding other than by levies – eg (1) adoption of the pending legislation replacing the 125% R&D tax concession with a 40 to 45% tax credit arrangement, eg (2) the contribution made by industry participants in R&D projects such as land, labour, inputs such as farm machinery, animals etc

- Acknowledgement of Varying Requirement based on the maturity of the industry – industry that are novel and emerging will often lack finance to contribute adequate funding for R&D, and will need more relative government investment than an industry that is larger and more developed in the supply chain

A New Model

- One Government Rural R&D Corporation – The Rural R&D Investment and Innovation Corporation

- Three Programs

  A Established Food Industries including read meat and contributing livestock, grains, horticulture, pigs, poultry, fish, sugar, forestry, grape and wine,

  B Established Fibre and Selected Rural Industries including wool, cotton, rare animal and plant fibres, oils, flowers

  C Prospective Rural Industries the name is more appropriate for R&D than new or emerging and include plants (eg olives, herbs, spice, pulses) and animals (crocodiles, ratites, farmed rabbits, gamebirds).

Cross sectional R&D from the above industries would be included as opportunity exists across all Programs.

- Management
  A Board selected by a government selection committee with representatives from NFF and Business Councils. The Board to have a members representing producers (2), processors (1), marketers (1), resources covering climate/weather, welfare and ethics, environmental management systems (3) and a Managing Director appointed by the Board. The Chair of the Board would be elected by the

Board. There would be a Director for each program and a Corporate Director. These Directors would be responsible for appointment of staff but there would be a memorandum of agreement by the Corporation that at least 85% of the budget would be invested in the implementation of research projects.

There would be a need for three year Strategic and Operating Plans for the Corporation, and for each Program, to address realistically what can be planned and implemented and in-line with the tenure of Board members.

Funding

Programs A&B – Levies should reflect the ability of established industries, that wish to participate to provide as a % of GVP more than for industries in Program C. Those in Programs A and B participating industries would provide at least 0.5% to GVP and this would be matched by government to a ceiling of 0.25% GVP for industry specific R&D projects and a ceiling of 0.25% GVP for cross section projects particularly for public good.

Program C – Levies should reflect the prospectivity and relative small size at various points of the supply chain and thus the need for relative greater investment by the government. Thus the levy should be up to 0.5% GVP from participating industries plus a ceiling of 0.75% GVP from government for industry specific R&D projects, and an additional ceiling of 0.75% GVP for investments for cross section projects, particularly those for public good, and also for projects that are from fledgling interests that need feasibility research before the creation of any industry is recommended.