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## **ASWGA Response to Draft Productivity Commission Report into Rural R&D**

### **1. General Response**

The Council of the Australian Superfine Wool Growers' Association has reviewed the draft report by the Productivity Commission into the Australian Rural Research & Development Corporations considering both the implications of the proposed recommendations in relation to the Australian Wool Industry and in the wider context of Rural Research, Development and Extension for their overall farming operations.

Also considered are the implications that may flow from the recommendations on Education and Training, Rural Research facilities (CRC's, Universities, CSIRO) and career opportunities for talented young people wishing to undertake rural R&D.

### **Key Points**

- The report does not support the government commitment to the aspiration of Australia being the "smart country" leading the world in technology and innovation.
- The report fails to recognise that a reduction in commitment to R&D has long term negative effects on productivity and growth of an industry. The time lag from initiation to uptake of Research can often be considerable and the failure to keep momentum will often be felt 5-10 years later. The lack of funding for "blue sky" Rural research has become a serious impediment to Australia's long term prosperity and international competitiveness.
- On a positive note the acceptance that the case for retaining the core elements of the RDC model is strong. It is worth noting that the other countries appear to admire the present model. Apart from New Zealand the countries compared are not heavily dependant on exports for their agricultural products to the extent that Australia is.
- The finding that part of the Government's funding contribution supports R&D that producers should have funded themselves seems based on subjective rather than objective assessment. This is a major weakness in the overall report in that too much relies on subjective opinion and not enough objective data has been presented to justify recommendations.
- The finding that in terms of buying additional research, the Government's contribution appears to have been of more limited value is hard to follow and not backed by hard data. The reverse finding is equally justified that without a commitment from Government it would be harder to attract contributions from the private sector.
- The proposal to set up Rural Research Australia (RRA) that supports R&D across the broad spectrum of Rural Industry particularly in relation to environmental, land management and feral pest areas is a step in the right direction and accepts that the Land Water Australia model should have been continued. However this initiative should not be seen as a replacement for Industry Specific R&D but to enhance and coordinate Rural R&D and prevent duplication of resources.
- The Industry specific R&D focus on direct benefit to their levy payers as a result of setting up RRA is sensible but the reduction in funding may make them unviable in the delivery of their strategic plans and the dependence on the levy vote make their future uncertain.

- The phasing down of Government funding over years 5 – 10 and refocussing on social and community aspects rather than productivity and innovation is a retrograde step. Even maintain funding at present level does not allow for inflation and other costs.
- The proposed new set of programme principles, setting out the conditions for public funding of R&D are fair and reasonable provided that the Government funding is continued at a worthwhile level, preferably not less than the present level in real terms. The appointment of a government Director to RDC Boards has the advantage that in return for investment the Government has direct input and knowledge of the operations of the board's strategic directions and operations.
- This should be seen in the same context as any major investor in a company. It also has the advantage of closely monitoring performance and project evaluation.
- It is not clear in the review how funding for Exotic Disease Response and other industry threats will occur under the proposed changes.

## **2. Wool Specific response**

- Government funding solely for RD&E and not for marketing will be a problem as most post farm wool R&D requires a marketing assessment if it is to be relevant and adopted. This includes measurement of the success of an R&D project.
- Market research is a vital component of post farm research and should not be restricted as information gathered in market research flows back to the producer at farm level particularly regarding the superfine high fashion, high performance sector that leads the wool industry.
- The recommendations on levies are designed to force a greater contribution from wool producers rather than encourage greater support and this creates a greater risk of a zero vote or a rate being lower than that necessary for the effective operation of AWI to deliver to its strategic plan.
- The issue of the AWI Board election process moving to a skills based Board has largely been resolved through the Statutory Funding Agreement. The threat of abolishment if this is not carried out risks punishing an industry rather than solving a problem.
- AWI should be afforded sufficient time to operate their industry agreed Strategic Plan before there is another review.
- Trade issues have not been covered.
- Training and Education has not been adequately covered and the urgent need to attract more students into wool related R&D not addressed. The consequences of reduced funding for wool R&D will lead to fewer research jobs and will affect the CRC's and Universities. It will also make it more difficult for the continuation of sheep based CRC's.
- The recommendations if adopted will not encourage young graduates into Rural Research and are generally negative to the wellbeing of Rural and Regional Australia.

## **Overview**

### **Why should government support Rural R&D?**

- While recognising that rural R&D investment has significantly helped both Primary producers and the community with the qualification that the benefits are not sufficient to justify public funding. That primary producers would, if they see the R&D profitable, undertake the R&D anyway and the Government contribution is unlikely to lead to a different outcome is not backed by any quantitative analysis. The reverse would be the case in the wool industry where the large number of relatively small enterprises makes it difficult for individuals or even groups of producers to undertake their own research.

- The over concentration on “spillovers” and failure to accept that these should be seen as a bonus is disappointing. Soundly based rural R&D partly supported by Government funding does have a role in contributing to benefits such as food security and safety and helps build capacity in regional Australia.

### **How well is the RDC model performing**

- The comments in this section are largely supported.
- The finding that removing the ability to collect compulsory levies would have a much more significant impact on the level of industry-specific rural R&D ultimately carried out, than a reduction in the Government’s co-contribution is obvious but misses entirely the point that the Government contribution allows better and more detailed R&D to be undertaken and build producer confidence and greater support for the compulsory levy. While large corporations have the ability to undertake their own R&D the family farm size enterprise does not.

### **Improving the broad framework**

*Should governments be contributing more or less?*

- The comment that other developed countries, primary producers and other private parties meet a considerably higher share of the cost of rural research activity overlooks two essential points.
  - (i) Australia is different to most developed countries in that it covers a very large and diverse area with a very small proportion of the population in rural and regional Australia.
  - (ii) It is noted that other developed countries would like to have the Australian model.

*Improving the Rural R&D data base*

- The lack of data has become a major issue. Timely and rigorous assessment of the effectiveness of rural R&D is a major concern that must be addressed for future decision making.
- The lack of data is a major weakness in this review as it means that many of the conclusions are subjective and lack rigour. It is essential that an effective, accurate and efficient overall strategy for the collection of data from both public and private sources be implemented. This could be undertaken by RRA or an independent body.

### **A modified RDC model should be retained**

- Accepting that the case for retaining core elements of the RDC model is very strong, the rider that the government’s contribution has only added a modest level of additional research is unsubstantiated. The issue is that the Government funding may well have enabled ground breaking research to be undertaken that without the government funding would not have occurred.
- The Government support for R&D is an important contributor in the case of the wool industry in gaining support for the industry levy. If this is withdrawn or significantly reduced the chance for achieving a rate that allows AWI to operate effectively will be compromised and a risk of a zero vote or 0.5% rate resulting. This would effectively end wool industry R&D.
- The rejection of ASWGA’s long held view that the levy vote should be extended from 3 to 5 years has been rejected in the Commissions draft report. Notwithstanding that rejection ASWGA remains strongly of the opinion that a 5 year interval should be introduced.
- The proposal to fund the new RRA has merit as the importance of environment, climate change, water use and other important socio economic issues are important in determining the future for the whole of rural and regional Australia and Government has a greater responsibility in this area. However it should be in addition to rather than at the expense of individual rural industries.
- The report does not consider how RRA and the industry specific RDCs communicate and cooperate. If RRA is to be established then a consultative arrangement must be established.

### **More detailed changes to the RDC model and levy arrangements**

- Box 2. – Principles to guide the future operation of the RDC programme. These can be supported, with in the case of the wool industry, that post farm marketing research is an integral part of the operations of AWI and Government contribution should be allowed in this case. The finding that the use of Government funding for industry representation and agri-political activities should not be allowed is strongly supported and in the case of AWI it should not be supported from industry levy funds either.
- In the case of AWI and the ability of the Minister to deal with un-remediated breaches of obligations by an RDC has in the short term been covered by the renewal of the Statutory Funding Agreement. A longer term solution remains to be found. However balance must be achieved in that the whole R&D programme for the wool industry should not be compromised by a decision to cease the Government contribution. Hence a long term solution is required to ensure that a skills based board for AWI can be achieved.
- The conclusion that a decline in total public funding support for the RDC programme would mean the community as a whole would be better off has not been substantiated in the evidence put before the Commission and is theoretical only.

### **Draft recommendations, findings and information requests**

#### **Overall spending on, and funding for, rural R&D**

- Draft finding 5.1 and 5.2 are supported. In the case of 5.2 greater pressure should be placed by DAFF on State & Territory Government Primary Industry Departments to provide better and more timely data on R&D funding in their jurisdictions. Many States are putting fewer resources in their Primary Industry Departments. In particular extension of R&D by State departments has declined.

#### **DRAFT RECOMMENDATION 5.3**

*The Australian Government should establish a mechanism to better inform and coordinate the totality of its funding for rural R&D with a view to:*

- *promoting consistency in approaches across specific and more general Australian Government programs that provide funding for rural R&D*
- *assisting in the identification of gaps or unnecessary overlaps in program coverage and means to address them*
- *informing considerations of the effectiveness of overall Australian Government funding support for rural R&D*
- *ensuring that the States and Territories and other relevant entities are fully aware of changes in Australian Government funding programs and the likely implications for other rural R&D funding arrangements.*

#### **Draft recommendation 5.3**

- *This is a most important recommendation if objective data for assessment of performance of R&D is to be achieved. Consideration could be given to placing this under RRA as a separate part of their overall charter. It should include reporting from Industry RDCs and RRA. Commonwealth and States should consider this at Minco level.*

*It is in this forum that provision could be made to take action against underperforming RDCs and where they have failed to meet obligations under Statutory funding Agreements. For example in the case of AWI if it failed to undertake the required Board Selection reforms the authority could have power to demand that the reforms are enacted and if not to dismiss the Board. This would be preferable than abolishing funding to the RDC and damaging the future of a whole industry and jeopardise the research programmes underway together with the careers of research workers.*

## **Changes to the configuration of, and funding for, the RDC Model**

### **DRAFT RECOMMENDATION 6.1**

*The Australian Government should retain a modified Rural Research and Development Corporation (RDC) model.*

- *It should establish and fund a new RDC, 'Rural Research Australia' (RRA) to sponsor non-industry specific R&D intended to promote productive and sustainable resource use by Australia's rural sector.*
  - *RRA's remit should broadly encompass land, water and energy use, with the precise coverage of its activities determined having regard to the further input to this inquiry.*

### **Draft Recommendation 6.1**

- The proposal to set up Rural Research Australia to cover national across all rural industry together with public good and other wider socio economic issues has merit. The governance model for this entity needs to be carefully addressed to ensure that rural industry is adequately represented. Under the Land Water Australia model AWI & MLA made contributions from their funding. It is not clear whether the Industry RDCs would have to contribute out for their funds or whether RRA is fully funded by government. It is impossible to determine whether \$50 million per annum is sufficient. If RRA takes on some of the responsibilities presently being funded by the Industry RDCs then there is a case for an equivalent reduction in the Government allocation to that RDC.



*The Australian Government should contribute to the cost of rural R&D sponsored by the Rural Research and Development Corporations (RDCs) on the following basis:*

- *There should be direct appropriations for the proposed new RDC, Rural Research Australia (RRA); for ‘public-good’ research sponsored by the Fisheries RDC; and for ‘national rural issues’ research sponsored by the Rural Industries RDC (RIRDC), unless responsibility for this research is transferred to RRA (see draft recommendation 6.1).*
- *The appropriation for RRA should be progressively increased over five years to around \$50 million a year, with additional funding provided for any research responsibilities transferred to the new entity from other programs (see draft recommendation 6.1).*
- *The Australian Government should continue to link its funding for the industry-specific RDCs to contributions made by the industries concerned.*
  - *However, the cap on matching contributions for all statutory levies should be reduced from 0.50 per cent to 0.25 per cent of an industry’s gross value of production (GVP). This reduction should be phased in over ten years,*

#### **Draft Recommendation 7.1**

- The phasing down over time of the government contribution to R&D is not supported. The reforms should not be seen as robbing Peter to pay Paul. The areas that would be most relevant for RRA relate to environmental management, biodiversity, climate change, biosecurity (both on farm, quarantine and international trade) and public good socio economic research. The transition of some of these functions from RIRDC need careful consideration and the future role and funding of RIRDC particularly with small emerging industries should be properly established in the transition to RRA.
- **RRA** should have the ability to leverage research funding from industry specific RDCs if it can be demonstrated that a more overall industry approach is possible.
- Consideration should be given to placing RRA under or in association with RIRDC

*As a condition of receiving government funding, Rural Research and Development Corporations (RDCs) should:*

- *invest in a balanced project portfolio that includes longer-term, riskier and potentially higher-reward research, as well as short-term, low-risk, and adaptive research*
- *have in place effective processes to ensure timely adoption of research results*
- *use government funding solely for R&D and related extension purposes and not for any marketing, industry representation or agri-political activities*
- *promote effective communication with industry stakeholders, researchers and the Australian Government*

### Draft Recommendation 8.1

- It is important that RDCs have a balanced R&D portfolio and that longer term riskier (blue sky) and potentially higher reward research is possible together with short term and adaptive research. This is particularly the case for AWI where the results may take considerable time to be achieved. This has been demonstrated in the much longer than expected time for the development of alternative technologies to replace surgical mulesing. The time taken for research to be achieved plus the time for registration of new chemicals before adoption in the field can take place. The Australian wool industry is virtually completely export based with the important post farm sector based overseas. The added complication is the long complex nature of the wool processing pipeline to final consumption.
- The use of Government funding solely for R&D and related extension and not for industry representation or agri-political purposes is supported. However in the case of the wool industry market research is an essential component in the decision making process. Hence clarification is needed to differentiate market research from marketing.

### DRAFT RECOMMENDATION 8.4

*Provision should be made in statutory funding agreements for the Australian Government to appoint a director to the board of an industry-owned Rural Research and Development Corporation (RDC) where that RDC requests such an appointment in order to complement existing board skills and improve dialogue with the Government. This director should not be a current Commonwealth public servant, but should have experience in, and knowledge of, government policy processes and public administration.*

*For the same purpose, the Primary Industries and Energy Research and Development Act 1989 (Cwlth) should be amended so that the Government can, if requested to do so by a statutory RDC, select and appoint a single director to that RDC's board outside of the usual nomination process. Such a director could be, though need not be, a current Commonwealth public servant.*

### Draft Recommendation 8.4

- The ability for the Government to appoint a director to the Board of AWI is supported as this would improve the understanding of the operations of AWI and provide a better two way communication between Government and the industry. It would also help in the development of cooperation between AWI and the proposed RRA.
- The appointment of Government representative Director should be in addition to the Industry Directors.

*The Primary Industries and Energy Research and Development Act 1989 (Cwlth), and the statutory funding agreements for industry-owned Rural Research and Development Corporations (RDCs) should be amended so that all RDCs are required to participate in a regular, transparent and comprehensive program-wide project evaluation process, such as that currently facilitated by the Council of Rural Research and Development Corporations (CRRDC).*

#### **Draft Recommendation 8.5**

- The review process is most important and the timing and cost of reviews must be closely monitored.

#### DRAFT RECOMMENDATION 8.6

*The Primary Industries and Energy Research and Development Act 1989 (Cwlth) should be amended so that statutory Rural Research and Development Corporations (RDCs) are required to commission an independent performance review at least every three years, as is currently required for industry-owned RDCs.*

*Among other things, performance reviews for both the statutory and industry-owned RDCs should explicitly examine:*

- *whether there has been investment in a balanced project portfolio that includes longer-term, riskier and potentially higher-reward research, as well as short-term, low-risk, and adaptive research*
- *the scientific merit of the research involved*
- *whether research outcomes have been made sufficiently accessible to all levy payers and other researchers.*

*Review reports should be provided to the Minister for Agriculture, Fisheries and Forestry — along with proposed actions to address any identified performance deficiencies — and then be made publicly available.*

#### **Draft Recommendation 8.6**

- In assessing performance of post farm wool research undertaken by AWI the long term nature of achieving results must be considered. Three year assessments unless considering the longer term nature of achieving results could lead to the loss of ability to undertake longer term high risk research.
- The outcome of a research project may not be successful even though the rationale for undertaking the R&D is soundly based. For example in the wool industry a major cost factor is the cost of wool harvesting. The only possible way to address this issue is through Research. However to date despite millions spent little success has been achieved but much has been learnt. There have been worthwhile spin offs from the research in improved sheep handling systems that are becoming commercially available. The outcomes have improved the understanding of OHS issues in the shearing industry leading to a better outcome for workers. It is important that this is understood in the review processes and that this can be as important as the scientific merit of the research.



*The Australian Government's Department of Agriculture, Fisheries and Forestry should prepare a publicly available, consolidated, annual monitoring report on the activities of the Rural Research and Development Corporations (RDCs). These monitoring reports should draw, as appropriate, on the outcomes of the program-wide project evaluation process (see draft recommendation 8.5) and independent performance reviews (see draft recommendation 8.6), and contain:*

- *detailed data on each RDC's funding arrangements, including a breakdown of industry and matching government contributions, as well as the division of expenditure between R&D-related activity and any other functions*
- *a broad overview of R&D sponsored by the RDCs and associated outcomes*
- *details of any identified breaches of obligations under relevant legislation and associated funding agreements during the monitoring period; and the steps that have been, or will be, taken to address those breaches*
- *a summation of the Department's performance in implementing new R&D levies, and changes to existing levies (see draft recommendation 9.3).*

#### **Draft Recommendation 8.7**

- While supporting this recommendation the proposed report by DAFF should largely be a précis of the reports generated under Recommendations 8.5 and 8.6.
- In regard to breaches of obligations there needs to be a mechanism to investigate and rectify these in a timely manner. The corrective procedures and results should be included in the report.
- With regard to 'intermediate' sanctions where an RDC is underperforming or as in the case of AWI appearing to have a dysfunctional Board every effort should be made to resolve the issues rather than withdrawing public funding. The Government should set up a Regulatory Review Panel that has expertise in dispute resolution to investigate and mediate the issues involved. Before public funding is withdrawn the government must give the Industry that the RDC represents the ability to work with the RDC to seek resolutions.

#### **Levy Arrangements**

*Product-specific maximum levy rates should be removed from schedules 1 to 26 to the Primary Industries (Excise) Levies Act 1999 (Cwlth).*

#### **Draft Recommendation 9.1**

- This would allow in the case of the wool industry greater flexibility in setting the overall levy rate. Over the history of reviews of the wool industry structure there have been a range of models either combining R&D and marketing and separating them. Vines separated R&D from Marketing, Garnaut put them back together and McLachlan separated them. The present structure where they are integrated should be maintained.

- AWI in its WoolPoll consultancy has provided growers with good information on where the balance between On-Farm, Post Farm R&D and Marketing is set. This must be allowed to continue through the WoolPoll process. To allow the board of AWI to vary the allocations between R&D and Marketing without proper industry consultation would run the risk of further division within the industry. The present system has allowed the development of the AWI strategic plan based on the agreed split under the WoolPoll consultation.
- The issue that ASWGA has is that the 3 yearly woolPoll does not give sufficient time for strategies to be rolled out and with the long term lead time in a complex production chain this should be extended to 5 years. It is noted that on page 223 of the Draft Report the Commission disagrees with our position. Nevertheless we stand firmly behind our position. The decision on the levy is open to all wool producers who have sold wool over the previous period and the levy vote attracts far greater support than the Board vote. Also if the necessary reforms to Board selection take place this will further remove the Board appointment from the levy setting and it is important that the two are seen as separate. ASWGA though its extensive international network and its close relationship with leading wool industry companies together with the annual visiting of customers, AWI, IWTO and with Australian Research Institutions is well aware of the uncertainty that is created prior to WoolPoll votes. The cost of the WoolPoll is considerable and if three years are to be continued the cost must be reduced and the process streamlined.
- The time taken from the WoolPoll until the SFA is signed off is far too long. This should be reduced to three months if 3 year polls are continued.

#### DRAFT RECOMMENDATION 9.2

*The Australian Government's Department of Agriculture, Fisheries and Forestry should revise the Levy Principles and Guidelines document to ensure that the costs for an industry of seeking a change to a levy are commensurate with the magnitude of the proposed change.*

#### **Draft Finding 9.2**

- This finding is supported. However consideration should be given in the case of the wool industry for particular groups to have part of their levy put to specific projects. In the case of the superfine sector there are opportunities to undertake R&D and marketing that will benefit their sector. This would have to be negotiated with AWI and would require a financial contribution from that sector. This would open up opportunities to leverage research dollars.