Response:
Productivity Commission Draft Report into Rural Research and Development Corporations

25 November 2010

Department of Primary Industries, Parks, Water and Environment

Tasmania
Explore the possibilities

CONTENTS

PREPARED BY

This response has been prepared by the Tasmanian Department of Primary Industries, Parks, Water and Environment (DPIPWE).

DPIPWE is responsible for the sustainable management and protection of Tasmania's natural and cultural assets for the benefit of Tasmanian communities and the economy. The Department's activities guide and support the use and management of Tasmania's land, water and living marine resources and protect and promote its natural, built and cultural assets. The Department is also responsible for delivering the services that support primary industry development and for the protection of the State's relative disease and pest-free status.

This submission provides commentary on the recommendations and findings raised in the Productivity Commission's Draft Report of September 2010. The main focus is on research, development and extension (RD&E) as it applies to the Tasmanian agricultural sector. Information on the Tasmanian fisheries and forestry sectors is provided where appropriate.

OVERVIEW

DPIPWE is in general agreement with many of the recommendations outlined in the Draft Report.

DPIPWE does not agree with the proposed decrease in government funding support to Australian agricultural research, development and extension (RD&E) through a reduction in appropriation to Rural Research and Development Corporations (RDCs) as per Draft Recommendation 7.1.

DPIPWE would like to highlight that any reforms undertaken to the RDCs must focus on increasing both their efficiency and effectiveness. This could include such measures as: aggregation of specific RDCs with a cross-over in priorities; more rigorous project evaluation; a strengthening of extension within the R&D framework; and adoption of a holistic approach where production and resource management cross-sectoral activities are well integrated.

The Draft Report highlights the importance of rural research and development in enhancing productivity and competitiveness, providing affordable food, and improved environmental and animal welfare outcomes. All of these outcomes provide sound argument to support the continuation of Government funding of rural RD&E at the same or increased levels into the future. It could be argued that essentially all rural R&D provides some and often a significant, level of public benefit.

The National RD&E plan supported by the States through the Primary Industry Ministerial Council, industry through the peak Councils and the research community through the RDCs and Universities is viewed as an essential reform that can minimise duplication and ensure critical mass is available to deliver RD&E.

Given that the RDCs are publically funded they must also be responsive to the Australian Government as a major funder. The RDC model should be changed to allow the Minister to issue directives to the various boards with them being required to respond indicating how they will deliver on the Minister's directive.

The Australian Council of Deans of Agriculture prepared a submission addressing capacity in agriculture (1 p. see 1) and the steady decline of graduates of tertiary agricultural studies. They estimated an annual demand of 5,000 agricultural graduates, more than six times the number currently graduating annually from Australian universities. In summary, that paper highlights "Agriculture is poised to make an increasing contribution to the economic well-being of Australia but this depends on increasing productivity in a challenging environment. Such productivity depends on the underpinning of research together with strong professional input and a well trained production workforce." [1] Continued investment in RD&E is essential to provide training that ultimately provides the expertise that drives agricultural innovation and increased productivity.

Specific comment on individual recommendations is provided at the end of this submission.

SPECIFIC CONSIDERATIONS

Overall RDC model

The DPIPWE agrees that the RDC model as a concept for integrating public and private investment in agricultural research, development and extension remains sound and has delivered significant benefits to

[1] Need to acknowledge Paper

Australian agriculture, the economy and the community. Its basic structure and concept should therefore be retained and, if anything, strengthened to ensure it can continue to deliver positive benefits to the Australian and world communities.

Any reforms suggested or undertaken must focus on ensuring that the RDCs deliver services to government and industry in a more effective and efficient manner.

Aggregation of RDCs with like business such as Australian Wool Innovations and Meat and Livestock Australia should be considered in the interests of reducing administration costs.

The current co-funding model enables both producers and the community, through Government as the investors in RDCs, to directly engage in deciding where RD&E investments will be made.

DPIPWE therefore supports adoption of the public funding principles articulated as Recommendation 5.1.

If the current model is retained with efficiencies implemented, then the RDCs must be more responsive to Australian Government priorities as a major funder. This will ensure that the outcomes sought by the public and industry are taken into account by the RDCs. The RDC model could be changed to allow the Minister to issue directives to the various boards [see (2)].

Productivity and evaluation

Evaluation of RD&E investments is incredibly complex once the emphasis moves from project outputs to industry outcomes usually in the form of productivity gains. Few would argue that productivity of Australian agriculture has not increased significantly over time and that it has been one of the forces responsible for farmers remaining viable. It is much more difficult to argue the quantum of productivity increase that can be attributed to RD&E investments especially by small States such as Tasmania. DPIPWE therefore believes a National effort aimed at attributing agricultural productivity increases to RD&E investment must be sustained using an agreed approach within defined cost efficiency boundaries. Such data should ensure future debates such as is the topic of this review become academic.

DPIPWE is of the firm belief that individual program and project investments made by RDCs should be ex ante and ex post evaluated using agreed national methodologies. This stance is in agreement with the National RD&E framework as well as Draft recommendation 8.5.

Reduction in Government funding

In recommending a 50% reduction in public investment in agricultural RD&E the Draft Report is essentially questioning the need to invest in this area other than from the perspective of resource management. Access to adequate food is a fundamental right of humanity thus an issue for public investment. The argument for reducing public investment is presented at a time of unprecedented population rise with the associated increased food demand.

Some experts estimate that world food production must double by the end of this century to meet the demands of an increasing population. This will come at a time when traditional production methods are challenged by forces such as climate change, dwindling energy and nutrient supplies, degrading land and reduced contributions from sea food. The ability for agriculture to meet these forces and respond positively to them will largely be driven by the quality and quantity of RD&E outputs. Such outputs will only be available if Governments and industry continue to invest at a rate of at least that currently devoted to the RDCs.

This is an opportunity for Australia to become a global hub of agricultural RD&E which will ensure food security for Australians as well as meeting international obligations by providing technological aid to help other countries feed their people.

Reduction in Government funding to RDCs is unlikely to be met with a countering increase in producer levies. This is because of volatility in farmer profits, perceptions around affordability of levies, and the long lag time between investment and realisation of benefits from RD&E. The lack of clarity between cause and effect are not conducive to increasing farmer investment. The long lag time by definition also means that for productivity and industry advancement to continue RD&E must be continually fed into the system in order to avoid a future period of industry regression or stagnation.

Rural RD&E is often undertaken in regional centres with the results almost certainly being applied in these areas. There is thus an argument for at least maintaining the current level of Government investment in RD&E as a means of supporting and developing regional Australia.

Productivity gains don't just happen. They are a product of ongoing extensive RD&E over a period of years. Ongoing investment in RD&E over the longer term, both by the Government and industry, in partnership is essential for productivity gains. The Draft Report recognises that many of the benefits from rural R&D in Australia are through the adaptation of overseas technologies and products to the local environment. Maintenance of a strong production focused local RD&E capacity is essential to allow Australia to capitalise on overseas lessons.

As a consequence, DPIPWE does not support draft recommendation 7.1 that suggests an overall reduction of public investment in production RD&E.

Rural Research Australia (RRA)

Investment is made in rural RD&E to deliver productivity gains and to ensure resource protection. It can be argued that production RD&E should be the domain of industry funding and resource management the domain of public investment. However, agricultural production and resource management are inextricably linked so traditionally RDCs have invested in both. The recommended creation of RRA appears to be an attempt to partition investment between these two areas such that the proposed RRA focuses on resource or cross-sectoral investments.

The proposed model forces a defined quantum of investment into cross-sectoral areas, whereas that invested in production is variable dependent upon levies collected. This may result in less integration of production and cross-sectoral areas to the detriment of the whole agricultural system.

Creation of another RDC must be considered in the context of administration efficiencies and the ability of the organisation to add value to the outputs already being provided by the current RDCs. All of the current RDCs deliver cross-sectoral (pastures, biosecurity, climate change, resource management) outcomes so a new RDC must either deliver these better or more efficiently in order to be a good investment. The Draft Report does not provide an evidence-based argument that this will be the case

Funding for the proposed RRA would come from a redirection of $50m from the current Commonwealth investment in the RDCs. Such an investment would make RRA one of the most significantly funded RDCs as well as insulating its funding from the vagrancies of commodity prices which dictate the funding received by the industry RDCs. This funding inequity between the proposed RRA and other RDCs has the potential to make RRA more competitive in attracting and maintaining scientific expertise to the detriment of production agriculture.

An alternative model to creating a new RDC would be to enhance the role of an existing one such as the Rural Industries Research and Development Corporation by making it responsible for the functions of the proposed RRA. This would however still create a distinct divide between production and other issues.

DPIPWE recommends a holistic approach to agricultural RD&E be adopted whereby production and resource management cross-sectoral activities are well integrated and not forced to compete for resources.

Extension

The Draft report fails to recognise the importance and complexity of extension as it suggests it is easy if potential users of a technology see benefits from adopting it. Extension is clearly imbedded into the RDC culture as an essential link between R&D, practice change and thus increased productivity. Strengthening extension through both research and application may be beneficial in reducing the lag between research and community benefit.

System improvements following the enquiry

The major changes suggested by the Draft Report are creation of RRA and reduction in Government contributions to RDCs. DPIPWE does not support either of these proposals.

Irrespective as to the fate of these recommendations, the RDC model should be regularly reviewed to determine value for the money invested necessary to achieve defined industry and community outcomes both currently and with an extended horizon of 30-50 years.

If the major changes recommended are adopted their implementation should be reviewed after five rather than ten years to allow for impact assessment and potential reversal before consequences become too significant.

INFORMATION REQUESTS

Draft recommendation 5.3

Tasmania proposes that the RDC model be amended to allow the relevant Minister to issue a directive to the respective boards on Government priorities with the boards being required to respond to the directive. An example of this is the Environmental Protection Authority in Tasmania (2 p. see 2), with the Statement of Expectation setting out the Minister's objectives on matters relating to the role and functions of the Authority, during a defined period. The Board then responds with a Statement of Intent (3 p. see 3) that sets out how it will meet the objectives within the Statement of Expectation.

The Government could also provide a representative on the Board of each of the RDCs as a mechanism for information exchange and improved policy development.

Draft recommendation 7.1

This recommendation is not supported by DPIPWE for the reasons articulate above, and in addition:

- The nature of agricultural businesses is characterised by fragmented small to medium enterprises with little or no internal RD&E capability, when compared with say the mining and manufacturing industries which are dominated by larger multi-national corporations. Therefore a higher level of Government RD&E to support agriculture is justified.
- World food commodity prices are frequently well below the cost of production in Australia, and that reflects our higher labour costs and use of sustainable production methods. Private RD&E sector investment is not attracted to agriculture as the potential returns in other sectors are substantially higher. In these circumstances, investment by Government is warranted.

Draft recommendation 8.7

In order to assess under performance of an RDC a clear set of KPI's must be established and agreed to. Withdrawal of public funding should be a last resort response and should be preceded by the appointment of an administrator who takes over running the organisation until its direction and performance is improved.

Draft recommendation 9.1

Marketing and technological improvements both drive the profitability of farming and the associated community benefits. The relative investment in RD&E and marketing must therefore be in response to an analysis that identifies the relative short and long term returns. This philosophy implies there should be a single levy which the individual RDC through its various stakeholder committees and forums attributes to RD&E and marketing according to perceived priority. These stakeholder committees should be representative and thus reflect the views of the whole levy payer population.

COMMENTS ON FINDINGS AND RECOMMENDATIONS

Number	DPIPWE Response	Comments
Finding 5.1	Agree	
Finding 5.2	Agree	
Recommendation 5.1	Agree in principle	Need definition on 'socially valuable R&D'
Recommendation 5.2	Agree	
Recommendation 5.3	Agree	
Recommendation 6.1	Disagree	
Recommendation 7.1	Disagree	Funding levels to RDCs should not be reduced
Recommendation 8.1	Agree	
Recommendation 8.2	Undecided	Need more information on what 'socially-worthwhile rural R&D' is
Recommendation 8.3	Agree	Marketing functions are already undertaken by some Industry-owned RDCs
Recommendation 8.4	Agree	
Recommendation 8.5	Agree	
Recommendation 8.6	Agree	
Recommendation 8.7	Agree	
Recommendation 9.1	Agree	
Recommendation 9.2	Agree	
Recommendation 9.3	Disagree	Do not support either RRA or a reduction to levy rates
Recommendation 9.4	Agree	
Finding 9.1	Agree	Whilst original DPIPWE submission supported processor levies in principle, recognise that cost is likely to be passed back to growers
Finding 9.2	Agree	
Recommendation 9.5	Agree	

WORKS CITED

1. **Australian Council of Deans of Agriculture.** *Capacity in Agriculture - A Matter of National Concern.* 2009.

2. **Environment Protection Authority (Tasmania).** EPA Tasmania/Statement of Expectation. *EPA Tasmania.* [Online] [Cited: November 24, 2010.] http://www.epa.tas.gov.au/index.aspx?base=587.

3. E**nvironment Protection Authority (Tasmania)**EPA Tas/Statement of Intent. *EPA Tasmania.* [Online] [Cited: November 24, 2010.] http://www.epa.tas.gov.au/index.aspx?base=1157.