WOOLPRODUCERS AUSTRALIA

## INTRODUCTION

WoolProducers Australia (WPA) appreciates the opportunity to respond to the Draft Report of the Productivity Commission (PC) into Rural Research and Development Corporations (RDC's).

The organisation welcomes the recognition of a number of the issues raised by WPA in its original submission to the PC inquiry. However, we wish to raise a number of concerns centred mainly on what we consider is a lost opportunity by the PC to delve deeper into the subject matter of rural research and development and consider how this system can be further enhanced and positioned for the coming decade.

Despite the length and breadth of the investigation into RDC's, the only recommendation that could be considered as major reform is that of creating Rural Research Australia – although some may argue that even this is lacking in true vision given the history in respect of Land and Water Australia.

WPA does not support the reduction in funding to commodity specific research as proposed and considers that funding for the proposed new RDC should be from seperate programs.

It may be argued that the scope of the inquiry limited the PC to focus primarily on the RDC model. However, we believe that that Terms of Reference give more than enough scope to consider the rural R&D system in its totality. Or at least to the degree that if RDC's are investing taxpayer and grower funds in broadly the same group of research institutions, then how are these recipients of funds placed to meet the need for research over the next ten years.

In considering only a possible future scenario where the 'middle men' of RDC's are removed and funding flows straight to research institutions directly, the PC - in our view - ignored the better question of which of these entities (Universities, CRCs, state departments, CSIRO or another alternative) will actually be capable, or even available, of delivering research outcomes in the future.

It could also be countered that, on the whole, the current model provides an adequate return on investment to stakeholders and despite some anomalies is generally sound. This may indeed be the case, but this should not mean that possible improvements or enhancements should be disregarded or not considered.

Following are more specific comments in respect to a number of the recommendations and calls for further comment.

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## 5 OVERALL SPENDING ON AND FUNDING FOR RURAL R&D

Draft Finding 5.1

*It would not be appropriate to establish a target level for overall spending on rural R&D — nor a target for rural R&D intensity. Rather, the emphasis should be on ensuring that the policy framework is comprehensive and soundly based, and that settings within the framework facilitate efficient use of available public and private funding, and timely and effective funding responses to emerging needs.*

WPA does not support the finding that targets for overall spending or intensity of R&D should be rejected. While a sound framework is essential and goes without saying, the intensity of R&D is a measurable outcome that can be benchmarked against other nations or expressed as a trend within Australia.

As the Australian Farm Institute points out in the Across Agriculture Submission (pg 63-64) the investment intensity in Australia is well below that of the US and also that of the OECD, which should be of concern to industry and government.

WPA also notes that through its interaction with other wool growing nations – particularly the less developed ones – that there is a desire to access the type of innovation that growers in Australia have available to them. No doubt this is the same in other agricultural sectors. WPA considers that as developed nation there is a need to ensure that our research dollars not only keep pace with our competitors, but also consider the possible spill over benefits of additional R&D funding to our less developed neighbours.

## 7 FUTURE GOVERNMENT FUNDING OF RDCS

Draft Recommendation 7.1

***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:***

- ***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***
- ***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, with the cap reducing by 0.025 per cent of GVP each year during this period.***

WPA supports the general concept of a separate entity undertaking cross commodity research, however, is concerned at the proposal to reduce funds from existing RDCs. Given the nature of much of the intended research (water, carbon, environment etc), WPA considers that a new RDC warrants additional funding in line with government policies in these areas.

A reduction in research spending in the wool industry, even for projects with a strong public benefit, will reduce the R&D capacity further, when it is already at perilously low levels. As outlined in the WPA submission, the focus of Australian Wool Innovation (AWI) has moved from research and development towards marketing. In 2005 AWI spent $35.8 million on wool production, however, 2009 this figure had halved to $18 million. A further reduction in R&D would have negative impacts on the industry.

## 8 SUPPORTING CHANGES TO THE RDC MODEL

Draft Recommendation 8.1

***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***
- ***implement board selection processes that result in boards with an appropriate balance of relevant skills and experience, rather than a balance of representative interests***

WPA supports stricter controls on the investment portfolio balance of RDCs to ensure that a range of projects with different risk and return profiles are met. In respect to the wool industry, along with a general scaling back of research, longer term or 'blue sky' research has been ruled out by the industry RDC, leading to concerns as to how the innovations for the future will be developed.

The proposed limitation on government funding to only RD&E is sound, however, it would be expected that this is already a firm principle. WPA would be concerned if the implication is that therefore 'other' funds can be used for activities such as industry representation and agri-politics. Given the PC has highlighted concerns in respect to the wool industry already on this front and noted the new exclusions in the current wool industry SFA, perhaps the intent of this recommendation could be made clearer.

WPA supports the strong indication from the PC in favour of skills based boards in RDCs. In our view, this remains the one big structural problem within AWI that has led to numerous performance issues.

Draft Recommendation 8.3

***The case for making industry representation a generally-allowable function for any RDC — statutory or industry-owned — should be considered as part of the proposed future review of the new RDC arrangements (see draft recommendation 9.5). In the interim, the two RDCs that already have an industry-representation role — the Australian Egg Corporation and Australian Pork Limited — should be allowed to maintain that function.***

WPA has no comment in respect to the arrangements currently in place within AEC and APL. However, in terms of other RDCs, WPA find the recommendation to leave the issue of industry representation 'on the table' until a future review inconsistent with its own analysis and current trends.

The most compelling reason given by the PC for allowing industry representation functions within RDCs appears to be efficiency. Yet WPA argues that representation for growers should rightly be the domain of separate, and politically based, organisations that are funded through voluntary channels. Hence there is no 'efficiency' to be gained as may be the case with say marketing and R&D.

The PC notes the new restrictions on AWI both in respect to industry representation and agri-political activity yet, in our view incorrectly, consigned these to being an individual case for the wool industry. As was highlighted in the original WPA submission, the problems within AWI emanate from structure and could therefore occur in any industry. It also highlights the inherent danger of allowing these functions to mix with R&D.

In the view of WPA, while the PC seems to draw a clear distinction between industry representation and agri-political activity, in reality the separation may not be so clear cut. That the PC appears to draw some comfort with regards to this subject from the explanation by an IOC that “most other RDCs engage in strategic policy development directed at improving industry or government policy, despite it not being specifically recognised in their SFAs” is curious to say the least.

More importantly, it questions whether such a distinction can be made as is done by the PC, as what can influencing government policy be considered, if not ‘political’?

**Initiatives to Improve Administrative Efficiency (page 201)**

The PC’s consideration of the governance of RDCs and administrative efficiencies is generally lacking in rigour and shows little vision beyond the status quo. Two major flaws are that the review has narrowed its focus to just the consideration of amalgamation of RDCs and it has relied too heavily on the feedback from RDCs – who are heavily conflicted - to justify its decisions.

That the PC could not widen the scope beyond just focussing on amalgamation as the answer to inefficiencies is disappointing, when perhaps there are many more ways that could be considered to help position Australia as a ‘silicon valley’ of agricultural research for the future.

While no doubt worthwhile implementing, the list of efficiencies put forward by the CRRDC in Box 8.7 have their limitations and it is surprising that the PC has apparently put such weight on these measures, as to use them as the basis to justify its decision for no further action or recommendation. Yet strangely, despite the hands off approach by the PC in terms of administration and structure of RDCs, the Commission still does recognise that it ‘seems hard to justify’ the location of RDCs in very costly CBDs of capital cities.

Information Request

*The Commission seeks further input on what ‘intermediate’ sanctions could be used to address ongoing underperformance by a Rural Research and Development Corporation prior to any withdrawal of public funding for the entity concerned.*

WPA has previously supported the new measures within the most recent AWI Statutory Funding Agreement that address the issue of intermediate sanctions. The withdrawal of funding by government is an extreme option and should not be used unless in the most severe of circumstances (of which there has been no recent examples) and a ‘board spill’ by government would – particularly in the wool industry – cause significant unrest amongst levy payers, to the detriment of research and innovation through the RDC model.

Hence the introduction of intermediate sanctions for AWI and other RDCs is welcome to allow government a middle ground.

## 9 LEVY AND REVIEW ARRANGEMENTS

Information Request

*The Commission seeks further input on whether R&D and marketing levies should be separate; or combined into a single industry levy, with some scope for a Rural Research and Development Corporation (see draft recommendation 8.3) to vary the allocation of funds between R&D and marketing without seeking the formal approval of levy payers.*

In our original submission, WPA raised concern at the limitations in the degree to which growers can contribute to the levy setting process. Successive polls in the wool industry have supported a consistent rate of levy (2%), with the board of the RDC determining the breakup of funds each WoolPoll.

This suggests that levy rate is generally accepted by growers; however, they are given no choice as to the break-up. As such, the public debate over the split between marketing and research in AWI tends to occur more within the forum of directors elections, which both politicises the company and the result of which probably better reflects the capacity of organised groups to collect proxies rather the will of individual growers.

WPA previously noted that many growers have expressed the view that they would consider the exercise more meaningful if they were able to be given choice on the split of funding between marketing and R&D.

Giving growers a choice between different rates of marketing and research levies, rather than having the break-up dictated to them and only be given a choice of the levy rate in total could be a viable option to address this problem – potentially providing a more transparent and democratic system than is currently in place.

Draft Recommendation 9.5

***At the end of the ten-year phase-in period for the new arrangements governing the funding and operation of the Rural Research and Development Corporations (RDCs), there should be a further independent and public review.***

WPA generally accepts the principle of a review in ten years time of the arrangements and considers it prudent to regularly measure and enhance such an important component of Australian agriculture.