26 November 2010

The Productivity Commission
via email rural-research@pc.gov.au

Dear Sir/Madam,

Comments on draft report: Rural Research and Development Corporations

The Cooperative Research Centres Association represents all Cooperative Research Centres (CRCs). The CRC Association's objective is to enhance Australia's economy, society and environment through the development of sustained user-driven, collaborative public-private research centres that achieve high levels of outcomes in adoption and collaboration.

The CRC Association values the opportunity to comment on the draft report of the Productivity Commission's Draft Report into Rural R&D Corporations. Our views on the main recommendations are set out below:

1. **Overall funding levels.** The CRC Association does not believe rural R&D receives more than its fair share of government innovation spending simply because it has a higher rate of support than the average. We believe Government should be aiming to increase the total innovation funding across industries rather than cut the rural sector down to the average. There is a myriad of evidence that Australia's innovation spending is too low and a higher level of innovation will assist Australia breakthrough its current "productivity plateau". We are disappointed with this recommendation of the Productivity Commission in light of so much recent work by the OECD showing the link between levels of innovation spending and productivity of nations[1]. It seems an extremely retrograde step in our view to conclude that Rural R&D should effectively be brought "back to the pack".

   The direct beneficiaries of Rural R&D are not only producers and agribusinesses associated with the food production sectors. At least a third of the direct financial benefits of agricultural R&D have been shown to accrue directly to food consumers in Australia and overseas through our export markets, via greater value for money, product quality or availability of food products[2]. This is atypical of many RD&E sectors such as manufacturing, mining and IT, where the direct beneficiaries of R&D are almost entirely the commercial companies operating through those industries. That consumers of agricultural produce are financial beneficiaries of R&D underpins a legitimate expectation that some government (consumer/taxpayer) funds should continue to be available for investment in Rural R&D to directly benefit food consumers.

   No industry in Australia funds all its basic research needs. It is instructive to compare Rural R&D with medical research. Medical research is well funded from government sources such as the ARC and National Health and Medical Research Council schemes,

[1] Measuring Innovation: a new perspective. OECD 2010.
[2] Griffith GR, Parnell PF and McKiernan W (2006) The Economic, Environmental and Social Benefits to NSW from Investment in the CRC for Beef Genetic Technologies, ***Economic Research Report No.30***, NSW Department of Primary Industries, Armidale, September. Available online at http://www.dpi.nsw.gov.au/research/areas/health-science/economics-research/reports/err30

despite the fact there are large pharmaceutical companies with enormous research budgets of their own, many or most of which are not Australian, but who nevertheless benefit from co-investment of Australian government R&D funds. Just as medical research in Australia would wither without government investment, so will Rural R&D.

2. **Establishment of a $50 million Rural Research Australia.** The CRC Association believes Rural Research Australia would not enjoy sufficient levels of drive from end-users of R&D to be successful. More effective funding across cross-sectoral issues in the rural sector would be better achieved by a series of Cooperative Research Centres that addressed each issue at a much more specific level, with a much more specific group of end-users involved. We believe a $50-million a year generic RDC would run the risk of being too large, inflexible and remote to address the innovation needs of regional Australia. We believe that the cross-sectoral innovations needs of regional Australia could be better met by CRCs, which wind-down on completion of their tasks. Examples already exist in biosecurity, water management, CO2 sequestration, salinity, invasive species, remote economic participation and many other areas where the new Rural Research Australia would presumably be tasked to operate.

3. **Cutting the funding of Rural R&D Corporations.** The CRC Association believes cutting the funding of Rural RDCs would be detrimental to their respective industries and a major blow to regional Australia. We see no evidence that the RDCs are over-funded (indeed, we would contend quite the opposite). We believe they are vital to the future of regional Australia and should be at least maintained at their current levels of funding. CRCs work in partnership with Rural RDCs in many areas and are often the means of delivery and adoption of CRC research, including beyond the life of an individual CRC. The Commission has acknowledged in its report that one of the strengths of the RDC model is to "help ensure that money is not wasted on ill-conceived research, or research of limited practical value". Wouldn't cutting the funding of the RDCs result in the balance of research in the sector reverting to research of limited practical value?

The draft inquiry report has come to many conclusions with which we agree. For example, that the RDCs perform a vital job, do it well and the model should be retained. However, the Commission appears to have a serious misunderstanding regarding the relative roles of RDCs and CRCs. On page 100, the Commission states:

> ...while collaboration and funding linkages mean that the specific research sponsored by RDCs and counterpart Cooperative Research Centres (CRCs) is generally complementary, it is not clear to the Commission that the underlying research focus of the two programs is fundamentally different — a view seemingly shared by the CSIRO (sub. 123, p. 5) and the Department of Agriculture and Food Western Australia (sub. 137, p. 10). Thus, were the rural funding component of the CRC program to instead be provided to the RDCs, it is conceivable that the ensuing mix of R&D would not change greatly.

The premise, that CRCs are simply "sponsoring" research is fundamentally wrong and requires amendment. CRCs are borne of the innovation needs of end-users and they do not simply purchase or sponsor research but are involved in originating, developing, conducting and most importantly the adoption of research. We do not think the Commission should rely on this misconception of the business of CRCs in drawing the conclusion that RDCs might fund the same research as the rural CRCs if they were in receipt of the CRC's funding. The Commission offers no evidence for this conclusion, only the "seeming" agreement of two submissions. The value of CRCs and the difference between RDCs and CRCs is best understood by discussion with rural end users not research providers. Whilst RDCs and CRCs both deliver research outcomes, CRCs are generally commissioned by their investors to achieve particular outcomes and are responsible for using their internal technical capacity to identify and develop a program of research, and then working with stakeholders directly to deliver these outcomes. Whilst familiar with technical issues related to research that might be undertaken, the RDCs generally do not have the technical capacity to develop research proposals – which is why they call for proposals from researchers or commission CRCs to undertake research.

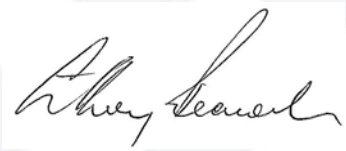
Would a large Rural Research Australia plus the current RDCs fund and coordinate research currently conducted by the rurally-oriented CRCs? We contend that the outcomes would be significantly inferior to the current situation. We strongly believe cross-cutting issues such as biosecurity, invasive species, animal welfare, irrigation, catchment and groundwater management have been addressed in very different ways through the CRC Program than if the CRC funding had simply gone through the RDCs. The presence of an over-arching Rural Research Australia would in no way replace the richness of the diversity of end-users who were responsible for the inception of CRCs in these areas.

Indeed, in some areas, CRCs have arisen during periods when there were perceived deficiencies in the research spread or performance of an RDC, so the Commission is not justified in this conclusion even in the case of single-sector rural CRCs. The original Beef CRC arose due consumer concerns about the inconsistency of beef products and the feedlot sector perceiving the simple answer was to grain-finish young cattle (the major beneficiaries of the Beef CRC's first two terms have been the processing and retailing sectors of the industry, neither of which directly contributed to the cost of the research); the current Sheep CRC has continued to "get on with the job" of innovation in that sector during a period where the Commission has acknowledged there are many concerns in the industry about the performance of Australian Wool Innovation; the CRC for an Internationally Competitive Pork Industry has very clearly addressed issues seriously affecting the productivity and sustainability of the industry that, at the time, were not the priority of Australian Pork Limited.

We contend that there is good evidence that the diversity provided by CRCs has been a great advantage to the spread of research undertaken for rural Australia. In the absence of any evidence supporting the Commission's conclusion contained on pages 100-101 of the report, we suggest its removal.

Once again, thank you for the opportunity to comment on the draft report.

Yours sincerely,



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CHIEF EXECUTIVE