Productivity Commission RDC Inquiry draft report – Cotton Australia Ltd. submission – November 2010

NOTE: The current RDCs derive the bulk of their revenue from statutory levies on producers and matching funding contributions from the Australian Government — up to a ceiling of 0.5 per cent of an industry's gross value of production (GVP). The PC RDC inquiry has recommended this cap be reduced to 0.25% of GVP over 10 years. The figures 0.5 and 0.25 below refer to the percentage of GVP cap or halving the current maximum level of matched Australian government funding with R&D levies.

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

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.*

The Productivity Commission whilst considering the contribution to rural R&D from sources, both public and private, in Australia have highlighted the lack of a broad R&D strategy for the sector. Cotton Australia agrees that an R&D funding target is not appropriate, however, an overarching strategy for national rural research would greatly assist in identifying current and emerging gaps and priorities for either additional initiatives or refinement of existing programs.

The RDC's are expected to align industries' investments with government's rural research priorities, however, there are significant areas of public funding highlighted in the PC draft report that are outside the scope of the DAFF National Primary Industries RD&E framework for individual RDCs. In this sense the PC has taken a relatively narrow approach to the scope of the investigation into rural research and development in Australia.

Cotton Australia urges the PC to find that there is a need for an overarching national strategy development process for the rural sector in Australia that is inclusive of industry stakeholders and private and public research providers.

FINDING 5.2 *Setting an indicative target for the share of total spending on rural R&D to be met by governments would be a blunt, and quite possibly counterproductive, approach. Rather, the appropriate share — and in turn the appropriate overall level of public funding — should 'emerge' from:*

- *an assessment of all of the various programs through which governments currently contribute funding to rural R&D against the public funding principles spelt out in draft recommendation 5.1; having particular regard to the characteristics of the R&D conducted and thus the likelihood that public funding will induce a commensurate amount of additional, socially valuable, research*
- *any evidence that the current program portfolio is failing to cater for particular types of socially valuable rural R&D that would meet the additionality requirement for public funding support.*

Cotton Australia agrees with the finding and would urge the Productivity Commission to further develop the finding and recommend who should conduct such an assessment, guidance on how best to conduct such assessments and by when such assessments be completed.

As the Representative Organisation for the cotton industry Cotton Australia would welcome a finding that the Australian Government Department of Agriculture, Fisheries and Forestry take a more participative approach to the partnership between the Australian Government and the rural industries as created by the matched RDC funding model under the PIERD Act. The implementation of many of the Commission's recommendations regarding the assessment, evaluation and reporting of RDC investment strategies would be enhanced by a dedicated focus area (group) within the Department such as an Office of Rural Research or similar agency.

FINDING 9.2

Rural Research and Development Corporations (RDCs) should continue to recognise and cater for differing regional research needs. However, RDCs should not be required to more precisely calibrate the expected regional distribution of the benefits of their project portfolios with the regional distribution of levy payments. Similarly, in determining the regional spread of their spending with research suppliers, RDCs should be cognisant of the intent of the National Primary Industries RD&E Framework.

Cotton Australia agrees with the finding and is an active participant in the development of the cotton industry RD&E framework.

PC request for further information from Cotton Australia appearance at RDC Inquiry public hearing - 5/11/2010

The Commissioners requested Cotton Australia substantiates the submission estimate for the total R&D investment in the cotton industry (below).

Cotton Australia submission (p.25)

FUNDING LEVEL ISSUES

Cotton Australia suggests that the average annual gross value of cotton production (GVP) is in the area of $1b (the recent drought notwithstanding). Estimates of the total R&D investment in cotton of approximately $60m per annum indicate the R&D investment is at a robust level in terms of the sector, reflecting broader confidence from non-government investors underpinned by the government commitment through the RDC model.

Report to Cotton Research and Development Corporation Triple Bottom Line Evaluation of Cotton Research and Development Corporation Investment over the 2003-2008 Planning Period - 18 December 2008 BDA Group

TOTAL COTTON R&D INVESTMENT

Total R&D investment in cotton growing and processing in Australia is not readily available. Partial information was available for a number of years from different sources, and this data was used to derive an estimate of total R&D funding by the CRDC, public agencies and private organisations. This information is shown in Table 1. It was estimated that the CRDC accounts for around 20% of total R&D expenditure, but through funding partnerships is financially involved with around 60% of all R&D carried out. Public agencies account for the greatest share of cotton R&D, estimated at around 50%. Considerable cotton R&D is also undertaken overseas in major cotton producing countries, notably the United States.

Source	*Research Provider*				*Total*
	Cotton CRC	*CRDC Partner*	*Public Other*	*Private Other*	
CRDC	***$6.5m***	***$4.2m***		***$1.2m***	***$11.9m***
Public	***$18.9m***	***$2.8m***	***$10.0m***		***$31.7m***
Federal	*$7.6m*	*$1.4m*			
State	*$6.0m*	*$0.9m*			
Higher Edu.	*$5.3m*	*$0.5m*			
Private	***$2.6m***	***$1.4m***		***$14.0m***	***$18.0m***
Total	***$28.0m***	***$8.4m***	***$10.0m***	***$15.2m***	***$61.6m***

Note: Cotton CRC figures were sourced from the 2006/07 Annual Report. CRDC partner figures were estimated assuming an average 59% (by value) CRDC contribution to projects. This data was provided by the CRDC for the period 2003 to 2011. CRDC figure includes operational and overhead costs. Other public R&D was estimated by BDA Group and Private R&D was sourced from ABS Business R&D Expenditure tables for 2005/06.

This commissioned study by the BDA Group (Canberra, 2008) was an attempt to estimate total cotton R&D investment for an average year (in the CRDC Strategic Plan period 2003-11) and to show that although CRDC contributed to a modest percentage of the total (about 20%), the Corporation was involved in a larger proportion of total projects (about 60%). Cotton Australia believes this is a positive in that our industry is gaining very good leverage of the matched RDC funding and a relatively high degree of influence on the direction and deployment of the outputs from the overall R&D investment.
Cotton Australia believes the Productivity Commission should find this is a positive for the RDC model and not penalise our industry or the rural sector for the successful implementation of this unique government and industry partnership.

The Commissioners requested clarification the submission comment on RDC Board selection.

Cotton Australia would submit that this is now well reflected in the diversity and skills of CRDC directors, even to the detriment of industry expertise on the board. P.29

Cotton Australia believes the Cotton Research & Development Corporation Board is selected on merit and in one sense this has led over time to a reduced number of 'industry expertise' based appointments. The Cotton Australia submission is asserting that the selection criteria and process is very responsive to Ministerial direction through the selection criteria and the selection process. This is evidenced by a minority of cotton grower directors on the last two CRDC boards even though the selection panel is comprised mostly of industry representatives.

This is not to say the criteria or process are flawed but simply that, if addressed in the selection process, there seems to be adequate means of determining a very balanced skills-based RDC board within the current arrangements.

Matters that emerged from Cotton Australia appearance at RDC Inquiry public hearing - 5/11/2010	
Cotton Australia outlined that the PC had not considered income or revenue from the RDC model derived from royalties and licenses etc. to the public sector, especially in regard to Section 2 Rural Research in Australia (pp. 9 - 36) and specifically Table 2.1	Cotton Australia outlined that the detailed discussion of annual funding and expenditure on rural research in Australia in the draft report (pp. 10 - 17) did not fully represent the long term RDC investment model. This was illustrated by an example of the royalties flowing to CRDC from the licence agreements between Monsanto and CSIRO Plant Industry to provide Bollgard II® and Roundup Ready® transgenic traits in CSRIO cotton varieties. Cotton Australia urged the Commission to at least consider the return on government investments to the sector. The returns from such licences are derived from producers so it is not insignificant that the beneficiaries of the research are also continuing to pay for research outcomes on an annual basis. Cotton Australia suggested that the PC have not recognised that a significant component of the high price Australian growers pay (relative to their overseas competitors) for transgenic trait technology is returned to R&D in Australia through licence fees collected by CSIRO from Monsanto. As a result Australian growers probably already pay around $70-85/ha (estimated at $50-60/ha indirectly via technology licence fees to CSIRO and $20-25/ha via RDC levies assuming 10 bales per hectare yield) which would be the equivalent of about 1.5- 2% of GVP into R&D. In other words the return from government expenditure to the public sector from cotton industry research and development is considerable. **In the case of cotton industry licences and royalties to CRDC and CSIRO these figures should be readily available and should be further investigated.**
Cotton Australia outlined in discussion that it was critical for the PC to consider the risk of disengagement of the sector from R&D undertaken by the proposed RRA.	The option identified by the PC for funding cross-sector R&D through the proposed RRA (federal budget allocation to RRA) should be explored more fully. The Commission's proposed model could lead to significant industry dis-engagement in non-industry specific rural R&D through an RRA model that had no industry levy funds component of income and no associated wider stakeholder involvement from producers. Cotton Australia has strong reservations that industry would 'fill the gap' if government funds were withdrawn from the RDCs through the reduction in the matched funding cap (0.5% to 0.25% GVP). In discussion Cotton Australia encouraged the PC to reconsider the 'stand alone' government funded RRA model for non-industry specific R&D and derive a recommendation to require each RDC to spend a predetermined part of its public funding on this research within an integrated strategic model (RRA like). This could be achieved through a moving average GVP mechanism that currently underpins the commodity RDC's and other government – industry coinvestment models such as Plant Health Australia Ltd. **The foundation of the RDC model in the Australia rural sector is the government industry partnership in research formed through the matched funding mechanism of the PIERD Act. The Productivity Commission should fully explore options to identify the process and structure that delivers the best outcome and promotes engagement, collaboration and coinvestment with industry while preserving the fundamental value proposition to levy paying producers.** **This should involve preserving the current level of matched funding while developing a proportional funding mechanism for cross sector, non-industry specific R,D&E through an appropriately cost effective structure that maintains broad producer involvement.**

PC Draft Recommendation	***PC Draft Report Targeted benefits***	**Cotton industry and rural sector impacts and Cotton Australia Ltd. response to PC RDC Draft Report**
Public funding principles		
Recommendation 5.1 *Institute an overarching set of public funding principles covering: the basis for government to contribute to the cost of rural R&D; the relationship with other policy levers; and good program design features.*	*Provision of clear and consistent guidance on what public funding is intended to achieve and how those goals are best pursued. Improved program evaluation and thereby greater accountability.*	Currently government points to national rural research priorities as partial justification for the RDC investment. This recommendation is for a broader justification or rationale for the PIERD Act investment in rural research. **Cotton Australia supports this recommendation – The Australian Government Department of Agriculture Fisheries and Forestry (DAFF) should have proactively addressed this with the Council of RDCs before now. It appears that the CRRDC has been substantially resourced in recent years** **The cotton industry's expectation of DAFF is that they actively participate in advocating the benefits of the RDC Model within government and to the community. A key component of this role is a more positive engagement with the Council of RDCs.**
Framework data collection and program coordination		
Recommendation 5.2 *Establish a process to collect and maintain robust data on funding and spending flows within the framework.*	*Address a major information impediment to effective policy making in the rural R&D area.*	To some degree the lack of this information in a readily packaged format is a key reason the former Minister Burke had this inquiry commissioned in the first place. **Cotton Australia supports this recommendation - DAFF should generate and report this information for the sector (e.g. DAFF or an agency; ABARE – BRS).** **Depending on the remit for RRA there may be a role defined for this proposed new organisation focused on rural research?** **Alternatively the PC could recommend that a focused group within DAFF (e.g. Office of Rural Research or similar) take responsibility for managing the process of collection and reporting on rural research in Australia including the RDC's.**
Recommendation 5.3 *Establish a mechanism to coordinate the Australian Government's various funding programs for rural R&D.*	*Decisions to introduce new programs, or adjust funding for specific programs, less likely to be made in isolation.*	The Council of RDC's is apparently focused on the RDC spend – something broader is needed for the whole sector and clearly DAFF should play a leadership role in developing this knowledge of the sector they represent in government. **Cotton Australia supports this recommendation – It is hard to believe that this isn't in place within the department [DAFF] and/or executive structure already but would caution against a 'not just another committee' approach.**

INFORMATION REQUEST

The Commission seeks further input from participants on what precise form this new mechanism should take and what particular functional responsibilities should be encompassed within it.

The Productivity Commission has identified the need for a national mechanism to coordinate rural research, which would seem at once obvious and yet surprising that this does not already exist. Whilst there is no direct criticism of current organisations in the draft report it is apparent that this role and responsibility has not been either taken up nor commissioned but rather a major omission from the public policy framework for the Australian rural sector.

Cotton Australia would assert that the Department of Agriculture, Fisheries and Forestry are ideally placed to play a major coordination role in the development of a national strategy for rural R&D and that it is surprising that DAFF have not developed this role as the key public advocate for the sector in the Australian Government.

DAFF has a direct administrative role in the RDC program both through oversight of the governance arrangements, reporting processes and funding arrangements of the RDCs. The department also administers many other funding and regulatory programs for the sector. DAFF also represents the Australian Government in many official capacities e.g. Australian Government membership of Animal Health Australia and Plant Health Australia.

DAFF also facilitates the Ministerial Rural R&D Council. The first of the Council's Terms of Reference is to: develop a National Strategic Rural R&D Investment Plan based on an agreed list of national priorities for profitable, globally competitive, sustainable, innovative and adaptable primary industries. It is difficult to measure the impact this small 'high level' advisory group on the strategic landscape for rural R&D.

Cotton Australia also concurs with the Productivity Commission's assessment "In addition, when government is responsible for making most of the key decisions, the accountability of other participants in the system is commensurately reduced" (p.112).

Cotton Australia also supports the Commission's view that there is " value in some sort of 'lower key' mechanism to better coordinate the Australian Government's funding contribution for rural R&D [which] is currently channeled through a significant number of individual programs, many of which do not reside within the agriculture, fisheries and forestry portfolio" (p.112).

If the proposed RRA is properly implemented it could have a 'peak-body' role for rural research in Australia. To limit the focus for RRA as a sort of '*reinstatement of LWA on steroids*' would be to miss an opportunity for a broader vision for the coordination of rural research, development and capacity building in the Australian rural sector.

Changes to the configuration of, and funding for, the RDC model		
Recommendation 6.1 *Create a new RDC, 'Rural Research Australia' (RRA), to sponsor non industry specific rural R&D. Leave industry-specific RDCs to focus on research of direct benefit to levy payers.*	*Remove the tensions that arise under the current arrangements from the attempt to use industry-specific RDCs to simultaneously meet both industry and broader research needs.*	The reinstatement of LWA + energy as RRA with enhanced capacity - $50m v's $15m is very positive for cross sector research. LWA appropriation was $15m but LWA managed $45m of projects (~3:1 leverage) and the PC is recommending fully funding to a similar level so RRA will not have to depend on RDC co-investment. In theory the PC is recommending direct government control over public funds for cross sector research – Land, Water and Energy to fill the strategically important gap in R&D left by the loss of Land & Water Australia. However, land, water and energy are not the only non-industry specific issues confronting the sector that operates primarily in regional and remote Australia. Also funding by direct budget appropriation leaves this 'model' exposed to future budget cuts or long-term erosion of funding levels in real terms. **Cotton Australia has qualified support for this recommendation – the RRA proposal confirms axing LWA was a bad idea. It is positive that RRA is 'fully' funded thus potentially reducing the high transaction costs of the previous LWA 'leverage' model. However, the effectiveness of RRA will be in the development of the organisational vision and scope and implementation of the investment programs.** **(Further discussion see below: Information Request – RRA)**
Recommendation 7.1 *Progressively build up government funding for RRA to around $50 million a year (with additional funding provided for any research responsibilities transferred from other programs). Over ten years, reduce government funding for the existing, industry-specific, RDCs to half the current rate.*	*Reduce unnecessary subsidization of research that primary producers would have had sound financial reasons to fund themselves, and use some of the savings to fund the sort of broader rural research that has been under-provided by the current arrangements.*	RRA is funded by reductions in RDC matching funding model (from 0.5 to 0.25). Reduction on current RDC spend (08/09) of $218m by reducing matched funding to 0.25 is $109m. RRA cost of $50m (in 10 yrs) results in net government saving of approximately $59m (after 10 yrs). The implication is that levies must rise ~25% to maintain the gap in individual RDC funding and ~50% to maintain the current RDC quantum. In theory RRA relieves CRDC of a component of project funding (in turn dependent on the performance of RRA). Reduced match funds leaves CRDC with less funds for R&D and without a producer levy increase or major organisational restructure, may lead to reduced efficiency by driving up the proportion of funds spent on administration and governance. RRA will face the challenge of efficient delivery of research funds by minimising overheads and the Commission has weighed up this cost against reconfiguring the RDC model and determined that the non-industry specific RDC pathway is the most efficient and possibly effective. It is somewhat disappointing that the demise of LWA was not followed by a clear articulation of the government's vision for how the non-industry specific R&D might be better coordinated, commissioned and conducted under the currently configured RDCs. **Cotton Australia is concerned by this recommendation – the cotton R&D levy would need to increase 50% from $2.25/bale to $3.38/bale to maintain current Cotton Research and Development Corporation income. It is unclear if RRA research projects would be developed (commissioned) to incorporate cotton enterprise objectives and in this sense it is not clear how RRA will manage the potential duplication of research in the land, water and energy disciplines. The base funding from Australian Government budget appropriation will ensure that RRA funding is not directly subject to the seasonal fluctuations that the industry RDCs need to manage on an ongoing basis.**

INFORMATION REQUEST – RRA
The Commission seeks further input on the appropriate remit and funding for the proposed Rural Research Australia (RRA) and, in particular, on:
• areas and types of non-industry specific rural R&D that would be relevant to promoting productive and sustainable resource use by the sector
• opportunities to beneficially consolidate funding and management of research that is currently the responsibility of other entities within this new RDC
• whether $50 million a year, plus additional funding for any research responsibilities transferred from other programs, would be a reasonable target for the government appropriation for RRA
• the rate at which RRA's funding appropriation could reasonably be increased towards the target level.

While Cotton Australia is broadly supportive of the Rural Research Australia recommendation it is apparent that the success of this recommendation is contingent on the detail of the implementation of the proposal. Cotton Australia is not convinced that another statutory [CAC Act] RDC is required.

Of particular concern is the administration and overhead cost burden of the recommended RDC format. It is noted in the PC draft RDC inquiry report (p.77) that the Rural Industries RDC administrative costs (2008-09) are approximately 33% and significantly higher than any other statutory RDC. This level of overhead could also be expected of RRA especially if high investment leverage targets are in place (as seemed to be the case for LWA). This level of overheads could substantially diminish the projected impact of the R&D outputs of RRA.

Innovation Australia is an independent statutory body established to assist with the administration of the Australian Government's innovation and venture capital programs designed to support industry innovation. Cotton Australia has no view on the performance of Innovation Australia, however, the model may be useful for the PC to consider along with other examples across the Australian Government agencies.

A non-RDC model for the delivery of cross-sector R&D would allow the scope of the agency to be broadened and incorporate the implementation of many other PC recommendations contained in the draft report including; additional project evaluation and reporting, strategy development for the sector and impact reporting for rural R&D. Such a model could also allow for the coordination of existing RDC research portfolios with the cross-sector initiatives reducing potential duplication.

An non-RDC agency approach could also allow the delivery of additional targeted government programs for the rural sector.

Cotton Australia also believes that the Productivity Commission should broaden the recommended RRA research agenda and incorporate 'development' portfolios such as cross-sector human capacity development and possibly rural and regional socio-economic research.

The implementation principals will be critical for value of RRA to cotton growers. Presumably RRA research will be portfolio and not commodity based. In this sense if a major cross-industry program does not address objectives relevant to cotton growers the Cotton Research and Development Corporation may be expected to reinvest in an area nominally covered by RRA. This would not be a desirable outcome of the proposed new construct.

Cotton Australia would highlight the apparent 'gap' created in national water use efficiency R&D through the completion of Irrigation Futures CRC, cessation of Land & Water and completion of NPSI in June 2011. CRDC currently administer the NPSI program and there is a recognition of the need for a more enduring national water use based R&D structure that can take a more strategic investment view of this critical water productivity research area while maintaining stakeholder engagement in research outputs to drive greater adoption and impacts.

RRA should have a 'stakeholder' group or forum to consult with the sector on research priorities, objectives and outcomes. Cotton Australia acknowledges that the proposal is for a fully government funded agency, however, RRA R&D will be (wholly or partially) removed from the commodity RDC's but never the less will aim to enhance the sustainability and profitability of the Australian rural sector.

The delivery and adoption of RRA research should be carefully considered in any implementation model proposed by the PC final RDC report. The formal engagement of stakeholders across the sector should be given some consideration in the RRA proposal.

Principles to guide the future operation of the RDC program		
Recommendation 8.1 *Implement a set of principles setting out the conditions that should attach to public funding for RDCs and the obligations on the Government as a key stakeholder in the program.*	*Greater flexibility for RDCs to tailor requirements to their particular circumstances, subject to them meeting overall performance obligations. More onus on the Government to engage constructively with the RDCs and take effective action where an RDC breaches its obligations.*	The Productivity Commission has identified a lack of formal principals under the PIERD Act for directing the spend of the government's RDC contribution. In recent years DAFF have relied on alignment with the national rural research priorities. However, these are very broad and open to interpretation. This recommendation seeks to tighten the 'tie-in' of the government's RDC contribution to the government's research objectives. It also creates an onus for government to act on performance. The risk is that the RDC's will have to maintain an onerous reporting administration framework for half the government contribution of the past (when fully implemented). This recommendation does ignore to some degree the 'power' of the RDC model in that the government's funding contribution is matched by producer levies. Therefore the RDC's are charged with meeting both government and industry priorities and currently do so (in the case of the statutory RDCs) through their five year strategic plans and annual operating plans. In this sense the whole is greater then the parts and the commonwealth and producer funds are not strictly seen as separate or 'tied'. **Cotton Australia supports this recommendation – it is hard to argue against but expect push back due to halving of matching funding formula as industries consider increasing R&D levies to cover the government reductions.**
Specific changes to help give effect to those principles		
Recommendation 8.2 *Lessen Ministerial involvement in the priority setting and planning processes of the industry-specific RDCs.*	*Greater scope for RDCs to bring their expertise to bear in the formulation of research portfolios and reduced administrative costs.*	Presumably this recommendation represents a tradeoff for reduced matched government funding (from 0.5 to 0.25). It implies the removal of Ministerial sign-off of RDC strategic plans and possibly annual operating plans. It is difficult to reconcile that the former Minister for Agriculture, Fisheries and Forestry, who was critical of the RDCs, would have been more informed about the investment activities and research outcomes of the RDCs without the current level of Ministerial oversight of the program. **Cotton Australia has qualified support for this recommendation – it is difficult to see that DAFF, as administrator of the RDCs, will require less involvement in the RDC planning process on behalf of the government. In some ways Ministerial sign-off represents the highest level of authority or approval of RDC activities.**
Recommendation 8.3 *Allow statutory as well as industry owned RDCs to take on industry funded marketing functions.*	*Realisation of synergies and administrative efficiencies through the combination of functions.*	The PC has suggested amendments to the PIERD Act to ensure R&D levies are only spent on R&D but that this is extended to the Corporations as well as the industry owned companies. A number of rural industries processors pay R&D and marketing levies. **Cotton Australia has qualified support for this recommendation – The presumption in cotton industry has always been that the processors and/or merchants would pass any R&D levy costs on to growers; however, the industries cited above must have similar challenges? The cotton industry currently has shared goals for developing differentiated products aligned with the national rural research priorities. This recommendation is welcome given the likely realignment of industry based RDC investment portfolios if the PC recommendations are adopted (to create RRA and reduce government funding).**

Recommendation 8.4 *Provide for the consensual appointment of a 'government director' to RDC boards.*	*Complement existing RDC board skills and improve dialogue with the Government.*	The 'consensual' option assumes the desire for government engagement by RDC's and RO's is not uniform. The RO and RDC desire for greater engagement by DAFF will diminish with reduced matched funding. The CA submission supported a government appointed director, however, not on the basis that the matched funding would be halved… It is imperative that the 'consent' for the appointment of a government director is in consultation with the Representative Organisations. Experience in the field of Public Administration was added to the desirable skills set for RDC Directors in 2008 and the Minister for Agriculture, Fisheries and Forestry currently directly appoints the Chair-persons of the Statutory RDCs. **Cotton Australia has qualified support for this recommendation – would Cotton Australia support a government CRDC director after halving the matched funding?**
Recommendation 8.5 *Require all RDCs to participate in a regular, comprehensive and transparent program-wide project evaluation process.*	*Better information on project outcomes with flow on benefits for future investments.*	The Council of RDC's appears to have been reactive in responding to government concerns regarding the lack of a uniform evaluation process. Presumably this will be now applied in a 'top-down' format by DAFF? Recommendations for greater public accountability by RDC's will ultimately result in increased overheads with less capacity for funding from reduced government contributions. **Cotton Australia has qualified support for this recommendation – will formalise expectations of government and industry (but especially DAFF), however, additional reporting will add to RDC administration and management costs. The reduced government contribution will be taken up by increased compliance with investment principles and evaluation and reporting procedures.**
Recommendation 8.6 *Require all RDCs to commission regular, independent, performance reviews, including an assessment of the balance in their portfolios between short-term and longer-term research; the scientific merit of that research; and whether research outcomes have been sufficiently accessible to all levy payers and other researchers.*	*Through extension and augmentation of the requirement already in place for industry-owned RDCs, enhance performance disciplines and the quality of research, and help ensure that potentially high payoff research is not ignored.*	The PC are recommending a 3 year review of individual RDC's, however, RDC Strategic Plans are 5 years duration? RDCs should report on a 5-year strategic plan outcome basis. **Cotton Australia has qualified support for this recommendation – but every five years at the end of the RDC strategic plan period may be more appropriate?**
Recommendation 8.7 *Require DAFF to prepare a consolidated, publicly available, annual report on RDC program outcomes.*	*More onus on the Government to effectively monitor the RDC program and take prompt and effective action to deal with any ongoing poor performance by an RDC.*	Formalising an expectation that DAFF should have proactively addressed given the RDC model is a 'flagship' investment program for the sector they represent and advocate for in government. This would be within rural sector stakeholder expectations. DAFF should engage the Council of RDCs to streamline this program level reporting. **Cotton Australia supports this recommendation – will formalise expectations by government, industry and community of DAFF regarding the RDC program.**

Levy arrangements		
Recommendation 9.1 *Abolish product-specific maximum levy rates.*	*Removal of an impediment to primary producers taking on a greater role in funding rural R&D.*	PIERD Act – Cotton Levy Schedule 5 - The rate of levy imposed by this Schedule in respect of leviable cotton is $1.75 per 227 kg or, if another rate (not exceeding $3.0267 per 227 kg) is prescribed for the purposes of this clause, the other rate. The cotton levy is not set at the maximum rate, however, Cotton Australia would be required to conduct a full industry consultation as per the levy guidelines to utilise the maximum rate. In one sense the levy rate range in the schedule is redundant given the requirements of changing the set rate; however, it does provide one less step in amending a levy. **Cotton Australia supports this recommendation – DAFF LRS requires full industry compliance with the levy guidelines to change the levy (from the scheduled rate to the maximum rate) therefore there is no incentive to utilise maximum rates.**
Recommendation 9.2 *Streamline those parts of the levy principles and guidelines dealing with changes to levy rates.*	*Ensure that the costs for rural industries of seeking levy changes are commensurate with the magnitude of the change.*	The PC has highlighted inflexibility with industry requirements for changing existing levy rates. The current expectation is to virtually treat rate changes like new levies. The cotton industry has a PHA levy as per regulations under Schedule 27 to the *Primary Industries (Excise) Levies Act 1999* to fund Cotton Australia's membership subscription of Plant Health Australia Ltd. The levy is fixed to collect the quantum of the annual PHA membership subscription (some $35,000 per year) at a rate of 4 cents per 227kg bale of lint cotton. In drought years the rate is not high enough to collect the subscription from the bales produced yet DAFF LRS would require Cotton Australia to conduct a full industry levy increase consultation to amend the rate to collect a subscription that the industry has already agreed to. As stated in the Cotton Australia submission to the PC RDC Inquiry issues paper (June,2010) the cotton R&D levy has not been increased in 10 years, in large part, due to the difficulty and cost of compliance with the current levies and principals guidelines. **Cotton Australia supports this recommendation – hopefully this would make changes to levy rates less onerous then implementing new levies.**
Recommendation 9.3 *Introduce an indicative time limit of six months for implementing a levy proposal that complies with the relevant requirements.*	*Increase the discipline on DAFF to process levy change proposals in an expeditious fashion.*	This would effectively allow a levy change in the financial year before commencement of collection if DAFF could adhere to the timetable. **Cotton Australia supports this recommendation.**
Recommendation 9.4 *Require the Levies Revenue Service to routinely monitor its performance and promptly communicate the results to levy payers.*	*Greater surety for levy payers that there is minimum leakage of their levies to collection costs.*	**Cotton Australia supports this recommendation.**

Further review		
Recommendation 9.5 *After the new RDC arrangements have been fully implemented, undertake a further, independent, public review.*	*Opportunity to examine how the new arrangements have influenced program outcomes and what further changes should be made, including in response to changes in other parts of the rural R&D framework.*	Presumably a ten year review is not a bad principal policy tool for a major government investment program i.e. a public review in 1999 (of the first 10 years) may have already resulted in improved Monitoring, Evaluation and Reporting processes. **Cotton Australia supports this recommendation – it proactively addresses public assessment of effectiveness and efficiency of RDC model.**

Acronyms

CAC Act - The Commonwealth Authorities and Companies Act 1997
CRDC – Cotton Research and Development Corporation
DAFF – Department of Agriculture, Fisheries and Forestry
IOC – Industry Owned Corporation (e.g. MLA, HAL)
LRS – DAFF Levies Revenue Service (levy determination, collection and administration unit of DAFF)
LWA – Land and Water Australia
MAFF – Minister for Agriculture, Fisheries and Forestry
MER – Monitoring Evaluation and Reporting
PC – Productivity Commission
PIERD Act - Primary Industries and Energy Research and Development Act 1989
RDC – Rural Research & Development Corporation
RO – Recognised Organisation (key industry RDC stakeholders)
RRA – Rural research Australia (as recommended by the PC Rural RDC inquiry Draft Report)