Australian Cane Farmers Association Limited (ACFA)

Public Submission to the Productivity Commission

Inquiry into Rural Research and Development

November 2010

Key Points

- The RDC model is working well and the original intent should be maintained.
- The RDC model is transparent and competitive.
- Optimising the model for a particular industry is the responsibility of the stakeholders of that industry.
- The ACFA supports cooperative cross sectoral research investment.
- ACFA does not support the establishment of a new RDC focused on public good research.
- The ACFA provides – in principle – support for ongoing reviews.
- ACFA supports further investigation of the abolition of maximum levy rates.
- The Sugar RDC structure should be retained as a separate entity servicing, and answerable to, the Australian sugar industry.
- Government's contribution should be maximised.
- A forward thinking sugarcane industry will need all possible research and development funding in order to remain competitive in the highly subsidised world market.
- Contemporary political thought is indicating an increasing role for Government commitment to the agriculture sector, in the national interest.
- ACFA urges the Productivity Commission to think of the longer term and of the impact that the industry's restructure of milling research has had on industry capacity.

Introduction

- The Australian Cane Farmers Association (ACFA) is one of three representative bodies that inform the Sugar Research and Development Corporation (SRDC) under the PIERD act.
- ACFA has been in operation since 1907; previously as The Australian Sugar Producers Association (ASPA), with a name change in 1988. ACFA has members throughout Australia's sugarcane production areas.
- ACFA has a strong mandate to increase innovation and productivity in the industry and strongly supports research and development as a mechanism to do so.
- ACFA has concerns about the proposal presented by the Productivity Commission.

Contemporary debate is focusing on the strategic importance of Australia's food production and issues of public good related to Australia's water resources. On 9 November 2010, the Australian Government, in its 2010-11 Mid-Year Economic and Fiscal Outlook announced $1.5 million to develop a National Food Plan.

This concentration of focus on food and agricultural assets points to an increasing commitment to the sector, in the national interest.

Continuing the agreement

- First, we believe that government should continue the arrangement that was agreed with industry in 1989 to support ongoing joint funding of research and development in the sugarcane industry, and at the 50:50 rate originally agreed.
  - The current model offers an impartial, transparent and equitable mechanism for all investment activities and investors.
  - The current model encourages forward thinking and long term vision.
  - The current model supports investment across a broad range of areas including more risky 'blue sky' research by allowing risk sharing and in doing so, also encourages commercial investment.

In its submission to the Review of the National Innovation System (May 2008, p. 11), the Australian Government Department of Agriculture, Fisheries and Forestry stated the following:

The government's main channel of support for R&D in primary industries is through the RDCs. The rural RDC model was established in 1989 under the Primary Industries Research and Development Corporation Act 1989 (PIERD Act).

The government's rationale for the RDC model at that time (PIERD Act, Second Reading Speech, 1989) was to:

- *Enable industries to have closer involvement and greater influence in determining the objectives of R&D in their respective sectors.*
- *Allow the RDCs to operate on a commercial basis, expand the level of resources available for R&D, improve the efficiency with which R&D funds were spent and bring a 'focus to funding R&D in high payoff areas'.*
- *Implement a corporate structure designed to enable expenditure of R&D funds to be autonomous and flexible.*
- *Provide the Commonwealth's matching funding of up to 0.5 per cent of GVP as incentive or 'seed money' to encourage industries to invest more in R&D, and increase economic, environmental and social benefits to the rural and wider community, with government continuing to fund R&D on issues where the benefits extended beyond individual industries (eg soil and water) and where industry funding was not practical (emerging industries).*

Since its introduction, the RDC model has proven to be highly effective in building industry support, which is evident in the:

- *Increasing industry investment in R&D through levies (Appendix C.i)*
- *Increase in the number of RDCs and integration of R&D with marketing and promotion through the evolution from statutory corporations to companies*
- *Close involvement of industry in R&D priority setting, and uptake of results, demonstrated by productivity growth in primary industries which is largely attributed to R&D.*

Reduction in government contributions

- We do not support the proposed reduction of government contributions by 50% over ten years.
  - This argument conflicts with the Productivity Commission's own report which states that the current model performs well and delivers appropriate outcomes.
  - The argument against the current model based on purported non-delivery of public good outcomes does not define what public good might be or at what point acceptability might be reached. ACFA would like to see evidence of the Commissions argument.
  - Australia industries cannot always compete against subsidised competition in corrupted global markets, unless there is assistance given to address new opportunities and to keep our industries competitive.
  - The proposal also ignores the major impacts on primary industries from movements in currency, industry support overseas and the emergence of developing nation competitors.
  - This year, Australia's sugar is receiving very high prices which provide an opportunity for stakeholders to invest for the future. It should not be seen as an indication that the industry won't need co-investment. During 2010, the Australian industry is also in the midst of an extreme wet season, meaning that most of this year's crop won't be harvested and much of the planting cycle will be incomplete. The damage to ratoon crops from compacted and bogged-out paddocks, combined with a decreased plant crop will impact on the next several years' production. This will place additional stress on RD&E funding.

Support for cross sectoral research investment

ACFA supports cross-sectoral research investment as this brings both leverage and the opportunity to learn from other industries; however this should be undertaken on a cooperative rather than compulsory basis that allows each sector to choose areas of the greatest potential industry and community benefits as they see them.

- This could be achieved through a panel of RDCs, industry and government that meet annually to determine priorities, delivery agents and appropriate levels of funding.

Establishment of a new RDC focused on public good research

- We do not support the diversion of industry and government funds to a new organisation called Rural Research Australia – or any similar organisation as this would be a duplication of overheads, ignoring the fact that there is a Rural Industries Research and Development Corporation that deals with some of these issues and that there already is capacity to deal with cross industry and public good projects within the RDCs.
- This is evidenced by the many programs such as Managing Climatic Variability and the Farm Health and Safety Initiative that have been both long running and successful and used the capacity within RDCs to achieve outcomes.

Ongoing review

- The Productivity Commission's proposal that regular reviews be undertaken is supported, however it should be noted that the size and frequency of review should be commensurate with the budget of the organisation and in recognition that there are already a large number of checks and balances in place to monitor and manage our investment.
- The review process should be driven by the timing of the Five Year Plan with a review mid-way through the plan and just before the end of the plan.
- More frequent reviews would be better replaced by expenditure on data collection such as through ABARE questionnaires.

Abolition of maximum levy rates

- ACFA supports further investigation of the abolition of maximum levy rates and their replacement with a flexible alternative, for example a biennial review of levy rates.
- Flexibility is an important tool for investing and this needs to be reflected in industry's investment in this process.

Maintaining the current model within the sugar industry in the form of the Sugar Research and Development Corporation (SRDC)

The ACFA has confidence in the current structure of the SRDC. The SRDC is working well for the sugar industry, according to the needs of the industry and the original intent of the PIERD act.

Optimising the model for a particular industry is the responsibility of the stakeholders of that industry. If the SRDC is to be improved it is up to the stakeholders to chart the appropriate course, not unnecessarily change the vehicle.

The ACFA argues that the RDC model should be retained and the Sugar RDC structure should be a separate entity servicing, and answerable to, the Australian sugar industry