Commissioner Philip Weickhardt
Productivity Commission
Locked Bag 2, Collins St East
MELBOURNE VIC 8003

Dear Commissioner Weickhardt

We are pleased the Australian Government has recognised rural Research and Development (R&D) as being important enough to warrant a review. I thank you for the opportunity to comment on the draft report.

vegetablesWA is the peak industry body representing all vegetable growers in West Australia. Our growers make a significant contribution to the West Australian economy and the nutrition and health of West Australians.

vegetablesWA is broadly supportive of the recommended structural change to create an across-industry R&D mechanism, as long as consultation and communication is responsive to constituent industries. Through our existing R&D body, Horticulture Australia Limited (HAL), the vegetable industry already has experience with this concept as our R&D already covers so many different vegetable lines or industries. vegetablesWA believes that tasking RIRDC with these responsibilities rather than creating an entirely new entity may reduce duplication and administrative waste.

However, vegetablesWA is strongly opposed to the proposed reduction in government contribution to R&D funding. If enacted, this reduction would threaten grower support for levies continuing to be charged and therefore the viability of the entire rural R&D system. It would significantly dilute R&D for specific vegetable lines. vegetablesWA also believes that the analysis is short sighted and does not take into account likely long-term market failure regarding national food security.

If the Commission would like further comment or clarification vegetablesWA would be pleased to assist.

Yours sincerely

Jim Turley
Executive Officer

Response to the draft Productivity Commission review of rural research and development

Draft Recommendation 5.1- Public funding principles

vegetablesWA does not agree that the role of public support for R&D should extend only to inducing R&D that would not otherwise be undertaken. However, regular independent reviews of R&D programs would be positive. The Draft Report includes a number of recommendations to increase reporting through different mechanisms. Whilst evaluation and reporting is critical to ensure services are being delivered and enhanced over time, vegetablesWA would appreciate further consideration and discussion by the Commission to demonstrate that these requirements will all add value and not provide unnecessary duplication.

Draft Recommendation 6.1- Changes to the configuration of the RDC model

vegetablesWA gives in-principle support for the development of a modified Rural Research and Development Corporation (RDC) model. vegetablesWA believes the existing model has served the industry relatively well, however, the creation of a new body to manage cross-industry R&D could provide advantages.

In assessing the likely quantum of these advantages, vegetablesWA would like more information from the Commission on what these 'national rural issues' may include. The Commission has nominated land water and energy use in broad terms, but there may be value in such a body also providing R&D into the social and community attitudinal environment which agriculture operates within and must respond to. Depending on this scope, there may be potential for the new body to fund and progress projects that may also be of private benefit.

How projects are prioritised and assessed will also require more detail and consideration to ensure a balance is achieved. It's possible that particular cross-industry projects may provide relatively greater advantage for some industries than others. vegetablesWA would be opposed to any system whereby the funds currently allocated to the vegetable industry are taken away and the resulting project portfolio is tilted yet further away to the advantage of other larger industries.

vegetablesWA believes any creation of an additional body should be also weighed against the potential costs of administrative duplication and non-responsiveness to the needs of individual industries across the areas of its remit. Therefore, vegetablesWA believes that further consideration should be given to broadening the scope of the existing Rural Industries Research and Development Corporation (RIRDC) to include the functions of the proposed Rural Research Australia (RRA).

Draft Recommendation 7.1- Changes to the funding of the RDC model

vegetablesWA strongly supports the existing co-investment level by government in rural R&D. The reduction by 50% proposed by the Productivity Commission threatens the entire R&D system, the viability of agricultural industries and the long-term national interest.

The contention on Page XXII of the draft report that in many other developed countries a considerably higher portion of R&D funding is sourced from private rather than public sources is a highly unfair and inappropriate comparison. R&D funding is only part of the support provided to rural industries in developed countries and it is appropriate that our government's R&D commitment is compared on those terms. vegetablesWA draws the Productivity Commission's attention to the relative support for agriculture amongst them (OECD, 2010):

	2008 PSE
Australia	4
Canada	13
European Union	22
Iceland	53
Japan	48
Korea	46
Mexico	12
New Zealand	1
Norway	60
Switzerland	57
Turkey	36
United States	8
OECD	21

Therefore, if the Productivity Commission's aim is to benchmark government support for agriculture with other developed countries, then there is an excellent argument for it to substantially increase its investment in R&D through the RDC system. With these higher levels of government support there is also much increased capacity for their industry to make private R&D investments.

It is additionally inappropriate to compare Australian private investment in R&D against international levels to argue that relatively high public investment is substituting for private investment here on other levels. The reality is that globalisation has meant that extremely large corporations which invest private R&D in chemical development and biotechnology for agriculture are based in countries which have larger market access. Through the purchase of their products in this country however, Australian growers are able to benefit from this overseas R&D investment which is built, in part, upon profits generated in the Australian market. vegetablesWA believes this effect is likely to significantly skew the data and invalidate the comparison.

The Commission claims on Page XIX that publicly funded R&D may contribute to food security, but this outcome isn't sufficient reason for the government to contribute to research costs. However, surely the event whereby Australia can no longer produce enough nutritious food to feed itself represents a market failure in terms of the broader national interest. This issue becomes sharpened as other nations continue to purchase Australian agricultural land with the likely aim of feeding their own populations and not ours.

The Commission has not produced any data or analysis to prove this statement. vegetablesWA would welcome further analysis by the Commission to evaluate the economic costs of food insecurity on the Australian economy. Treasury projections (2010:10) suggest that the Australian population will rise from 22.2 million in 2010 to 35.9 million in 2050, a 62% increase. On a global scale, Tweeten and Thompson suggest that global farm output needs to nearly double in the first half of the 21st century to fill demand without increasing food prices (2009: 13). Cribb (2009: 54) notes that to fill this global demand in meat alone, based on current techniques, will require additional grain production across a land area twice the size of North America and 2000 more cubic kilometres of fresh water.

This challenge will also need to take into account the impacts of climate change, urbanisation of agricultural land, increased oil and electricity costs and likely irrigation cuts in the Murray Darling Basin. The requirement for increased food imports will also increase biosecurity risks for crops still grown here. Against all of this, power structures and information asymmetries across the supply chain mean that growers are unlikely to increase their margins with rising prices but continue down the path of declining terms of trade and therefore become less able to bear the burden of private R&D investment.

Food produced by rural industry is a basic human requirement. Although the Commission believes that the nature of the sector in producing food does not justify the current disparity in government R&D support (Page XXVII), an appropriate analysis of risk both in terms of likelihood and magnitude of impact needs to occur. vegetablesWA believes R&D investment is one mechanism for the government to manage this risk to the public good. Obviously these matters require full analysis and quantification by government before it may be judged that the current public investment in R&D is not justified in terms of future food security. vegetablesWA believes it very likely that the results of this analysis would not justify a halving of the government contribution to RDCs and may instead justify and increase.

The draft report also claims that government money is being spent on R&D that growers would have had reason to undertake themselves. However, in reality, it is very unlikely that the required portion of growers would agree to raise their levies to compensate the removal of this government contribution because they are already under extreme financial pressure due to the long-term decline in terms of trade. The Commission notes that at the time the existing RDC model was developed the relevant ministers foresaw that farmers would be likely to increase their contribution over time. That this hasn't happened tends to demonstrate that they are also unlikely to increase it in the future.

The government funding contribution was an important element in getting growers to agree to make their levy contribution in the first instance. By breaking this contract and withdrawing the government's matching contribution it may cause many growers to withdraw their support for levy also. If this were to occur then the RDC as a model would collapse. Individual growers do not have the resources to fund their own R&D into projects which are of large scope and significant industry importance, so R&D across the industry may collapse.

The net result will be a reduction in research and development. The vegetable industry is diversified, producing multiple species product lines unlike wool, sugar, cotton, beef or dairy. Within our industry levy funds paid by say, carrot growers, are not necessarily captured by them for research but may be used for R&D on other vegetable lines. So it is not the case that R&D would have occurred in the absence of government assistance. Individual growers tolerate the system because government funding doubles the pool and enables activity across multiple lines. Reducing government support would undermine the capacity of Horticulture Australia Limited to deliver for the vegetable industry as it currently does.

In regards to the funding level of the proposed RRA, vegetablesWA notes that elsewhere the Commission has recommended against a particular funding target or intensity, but has suggested a funding level of $50 million without providing concrete definition for responsibilities.

Draft Recommendation 8.1- Principles to guide the future operation of the RDC program

vegetablesWA would like the Commission to provide further discussion behind this recommendation before it could support it. However, as a list of general aspirations the proposed conditions for public funding would seem sound. The mechanism for assessing whether an RDC has met these conditions will require more consideration.

The Commission has suggested that the minister be removed from industry priority setting and approving RDC plans. However, it also proposes that a condition of receiving government funding be that it includes a balanced portfolio of long-term risky and short term low-risk projects which infers a level of government involvement or oversight. vegetablesWA believes that the condition be amended that government be satisfied that industry has considered the need for a balanced portfolio in its priority setting and planning.

vegetablesWA believes that a condition for receiving government funding should also include a portfolio of projects which is also balanced for regional research needs. Whilst we will provide more detail on this matter in our response to Draft Finding 9.2, vegetablesWA believes that the issue is critical enough that it should be enshrined in the conditions for funding.

Draft Recommendation 8.2

As stated in reference to Draft Recommendation 5.1, vegetablesWA does not agree that the role of public support for R&D should extend only to inducing R&D that would not otherwise be undertaken.

Draft Recommendation 8.5

vegetablesWA supports the Commission recommendation that RDCs should be amended to participate in a regular, transparent and comprehensive project evaluation process. In addition to the methodology indicated in the CRRDC guidelines, vegetablesWA seeks that the results be reported in ways which could be easily understood by vegetable growers, the levy paying members, as well as the high-level economic analysis. Such reporting could include case studies on how project outcome impacted individual growers. If levy payers are to fund activities, they deserve the same level of consideration in extension of the review results as the initial R&D outputs so they can best understand what their RDC has achieved.

Information Request- Decisive action and actions to address underperformance

vegetablesWA strongly supports the Commission's view that withdrawal of funding should be the option of last resort. Rightly, this would unfairly impact on growers and researchers where they are not responsible for the underperformance of the RDC. Clearly this is a circumstance that justifies government intervention rather than withdrawing altogether which may only further an industry's future viability.

Depending on the circumstances, another intermediate action before spilling an entire board, which may be useful for a minister in rectifying the situation may be dispensing with the Chair or Chief Executive Officer. The minister may also exercise a special right to demand a government representative join the board.

Draft Recommendation 9.2- Streamlined application of the Levy Principles

vegetablesWA supports the streamlining of the application of the Levy Principles process.

With regards to the Levy Principles, vegetablesWA is of the strong view that any voting procedure be on a per individual basis rather than weighted for production.

Draft Recommendation 9.3- Timely enactment of levy proposals

vegetablesWA supports the provision of an indicative time limit of 6 months for the implementation of new levies and changed levy rates.

Draft Recommendation 9.4- Efficient levy collection

vegetablesWA supports the routine monitoring of Levies Revenue Service performance

9.5 Matching public funding for non-levy contributions

vegetablesWA strongly supports the retention of matching public funding for non-levy contributions. It has proven vitally important for the development of our industry which is geographically and agronomically isolated from the rest of Australia.

In Western Australia we are fortunate enough to be able to collect a state-based fee-for-service from the proceeds of grower sales by the Agriculture Produce Commission (APC). These funds are distributed by a special Vegetable Producers Committee (APC). A significant portion of these funds go toward projects which are possible because of the matched public funding from HAL. A loss of this ability will see a large deterioration in the R&D done in this state for our specific conditions. A key driver for Western Australian grower support for HAL levy payments is that at least their state based APC-VPC levy can still able to be matched for projects relevant to Western Australian growing conditions.

Draft Finding 9.2- RDCs recognise and cater for regional needs but precisely calibrate for them

vegetablesWA believes that RDCs need to be more responsive to regional needs and this should rightly be contained in the conditions of funding. The Western Australian vegetable industry is based predominantly on the Swan Coastal plain around Perth where production occurs on highly sandy soils. We face a range of other agronomic factors which are also different to the East coast. The view amongst Western Australian growers is that the national levy supports projects which are not so relevant to their conditions. It is for this reason that our tomato growers are vehemently opposed to the introduction of the proposed fresh tomato levy in the current process. Other vegetable growers in Western Australia, whilst unhappy that they may not be getting an appropriate return on their HAL levy are somewhat consoled that important projects relevant to them can still occur through their state based fee for service being matched by federal funding.

Industry extension delivery through the Vegetable Industry Development Program is utilising the state peak bodies and is tailoring its mechanisms on a state by state basis which is appropriate. However, enough projects which are relevant to regional growing conditions are also required for that extension to deliver results for the levy payer.

Should the draft recommendations be adopted so the government reduce its contribution to industry specific RDCs and this mechanism no longer be available, it will be critical that HAL account for regional project needs or any remaining grower support for the national levy in this state will quickly vanish.

References

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2. OECD 2010, *Agricultural Policies in OECD Countries at a Glance 2010*, Organisation for Economic Co-ordination and Development
3. Tweeten, L and Thompson, S 2009, ‘Long-Term Agricultural Output Supply-Demand Balance and Real Farm and Food Prices’, *Farm Policy Journal Vol 6 No. 1*, Australian Farm Institute, Surry Hills.
4. The Treasury, 2010, *Intergenerational Report 2010*, Canberra.