Australian Livestock Exporters’ Council

Submission to Productivity Commission

Inquiry into the Australian Government Research and Development Corporation Model

26 November 2010

The Australian Livestock Exporters' Council (ALEC) welcomes the opportunity to respond to the Productivity Commission's draft report into rural Research and Development Corporations (RDCs). This submission will respond to the two principal recommendations in the draft report: the recommendation that Australian Government funding of the R&D undertaken by the rural RDCs be halved; & the recommendation that Rural Research Australia (RRA) be established to undertake non-industry specific R&D in the areas of land, water and energy use.

Recommendation for a halving of Government funding of RDCs

ALEC is very firmly of the view that the principal of the Australian Government matching industry levy funding of rural R&D must be retained, for the following reasons:

- Matching Government funding for collective R&D is essential because the majority of live export R&D funding is for research that addresses a societal issue – the concern of the Australian public for the welfare of livestock exported from Australia. Almost two thirds of live export research funds are spent on animal welfare research to address concerns of the Australian public. Approximately half of this research provides no productivity improvements for the industry, but rather often results in increased costs and regulation. It is essential that the Government provide funding to at least match the funds contributed for research by live exporters. Exporters view the Governments willingness to at least match levy funds they provide for R&D as a measure of the importance the Government attaches to the public's concerns about animal welfare. Any withdrawal of funding by the Government would not be made up by increased levy contributions as exporters would perceive that the public's demands for animal welfare improvements had receded or had become less of a concern for the Government.
- Livestock exporters have been strong supporters of the compulsory levy to fund R&D and other activities. However industry support for compulsory levies to fund R&D is very much contingent on the Government matching the industry contribution. If the Government were to reduce or cease funding live export research there would be little or no incentive for livestock exporting companies to fill the breach. Individual exporters would be unable to undertake the type of research undertaken in the live export research program and we are certain that our members would be unwilling to increase levies to maintain the same level of collective research. Livestock exporters have had to absorb increased costs associated with increased Government regulation over recent years. They are in no position to absorb the further impost of increased levies.

- A strength of the RDC system in addition to those highlighted in the Productivity Commission's draft report is the highly developed skill base which now exists to identify, contract, manage and review over $500 million p.a. of rural research. In this context the RDCs are an important national infrastructure built up over 20 years, which could be severely compromised by the halving of the Government contribution. It is wrong to assume that the investment in rural research will continue efficiently regardless of substantial change in policy affecting the institutions that manage the current programs

- The long time frame for the benefits of rural research investment to be delivered is well documented. There is great risk in the Productivity Commission view that private sector investment will increase if public sector investment declines, because if it does not, and there are no strong grounds to believe that it will, the future effects of under investment today will only become apparent in future decades. By then it will be too late to reverse the decline in the international competitiveness of the Australian rural sector.

- Livestock exporting companies fund a significant amount of there own R&D. This research often complements that funded by the livestock export program, as the case study below well illustrates. From an individual company perspective the total amount they spend on R&D privately and through levy payments is likely to be the optimal amount commercially. They are unlikely to increase this amount to make up for a reduction in Government funding.

Case study: R&D on shipboard ventilation – Wellard Rural Exports

The submission to the Productivity Commission by LiveCorp in June 2010 provided details of an important R&D project undertaken by the livestock export R&D program – the development of a heat stress risk management model. This model is utilized by AQIS to assess the potential risk of unacceptable levels of mortality, as a result of heat stress, on a proposed shipment of livestock. A critical input to the model is the ventilation capacity of the vessel that is to transport the livestock.

Wellard Rural Exports operates, through a Singapore based subsidiary Oceanic Livestock Pty Ltd, a number of vessels transporting livestock to markets in Asia and the Middle East. After the introduction of the heat stress risk management model they undertook a significant body of R&D to improve the ventilation systems on vessels already operating and vessels under construction:

- a project to improve the ventilation system in a recently commissioned vessel that involved wind tunnel testing to improve air flow from the ventilation system. Modifications resulted in a 30% improvement in the ventilation capacity (as measured by the pen air turnover (PAT)) of the vessel. Cost 95,000 Euros.

- a project to improve the ventilation on two vessels that were under construction aimed to improve PAT and reduce noise associated with the ventilation system. Changes were made to the design of the vessel to achieve the improvements to meet higher standards than originally set for the vessels. Cost 65,000 Euros.
- Wellard are funding a number of projects to achieve further improvements in the ventilation systems in their current and future vessels. These include measures to improve natural ventilation, measures to improve the speed of air flow over livestock pens, the use of high pressure water misting systems, and the development of a new generation of fans. Cost 240,000 Euros.

Recommendation for the establishment of Rural Research Australia

ALEC opposes the recommended establishment of RRA for the following reasons:

- ALEC agrees that there is tension created by demands on RDCs from levy payers for R&D producing industry benefits, and demands from Government for R&D producing public benefits. However the concept that rural R&D can be separated into industry benefit producing R&D to be undertaken by RDCs, and public benefit producing R&D to be undertaken by RRA is fatally flawed. Industry and public benefits are inseparable outcomes of rural R&D and must remain so if the R&D outcomes are to be taken up by industry and the public benefits realised. Industry would have no incentive to take up R&D producing only public benefits, so such benefits would never be realised.
- The PIERD act contains an objects clause (which is also reflected in the Statutory Funding Agreements for the industry owned corporations) that specifies that industry levy funds collected must be spent for the benefit of the levy payers AND the Australian community. The RDCs have consistently delivered substantial public benefits together with Industry specific outcomes. The establishment of RRA would undermine the whole basis for the success of the RDC model – R&D that delivers inseparably linked industry and public benefits.
- There is high risk that the Commission's proposed establishment of RRA could lead to significant industry disengagement from non-industry specific rural R&D. This would deprive RRA of the strong stakeholder links that are a strength of the RDC model, ensuring the

relevance and speeding the adoption of the outcomes of its R&D. It would also leave it a “political orphan” likely to suffer the same fate as Land & Water Australia at some future date.

- The Productivity Commission recommendation to establish RRA cuts across the existing PIMC RD&E Framework and the substantial progress it has made to improve collaboration, cooperation and co-investment between the various rural sectors and Government. It is an established vehicle that has already demonstrated substantial progress, particularly in the area of co-operation on cross-sectoral public good R&D, strategic oversight of rural R&D, and longer term planning of national rural research capability. The Framework also provides a forum for open dialogue between R&D investors and providers.