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Apple & Pear Australia

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Mr Philip Weickhardt
Commissioner
Productivity Commission
Locked Bag 2
Collins Street East
Melbourne VIC 8003

Dear Commissioner

On behalf of the Australian apple and pear industry, I wish to make a brief response to the draft Productivity Commission report into rural R&D funding.

Our major concerns relate to the proposed reduction in funding for research in the apple and pear industry, the perception that when funding work at overseas institutions that the benefits will mainly flow overseas, the creation of a new Research and Development Corporation, and a lack of data that reduces ability of industries such as ours to do proper planning and analysis to ensure we have an efficiently managed industry.

Reduced funding
There are many possible consequences to a reduction of government funding support for rural research. It is our view that there is a high probability that overall funding for research will be significantly reduced because growers are most unlikely to increase their R&D levy to make up for the shortfall.

Growers in the apple and pear industry consider that the government's contribution is an essential element of the R&D levy system. It provides:

- the trust and confidence necessary to corral the industry into participating in the scheme;
- recognition to the public benefit outcomes that are inter-twined with any rural R&D;
- the leverage required to access scale that underpins research activities.

The withdrawal of government funding will impact on the viability of existing research programs being undertaken within the apple and pear industry. A number of programs are relatively costly but are highly leveraged to gain funding from other sources and potentially have a high return to both the industry and community.

For example, the apple and pear industry recently spent much time and effort to develop an integrated research and development program across multiple organisations in two countries to research orchard productivity, irrigation, pest and soils (the PIPS program).

This was possible because of the research funding base available to the industry from levy and matching funds. Without the matching funds, this project would have taken a much higher percentage of the total pool of funds available and it would have been more difficult to get industry approval for it.

If that had happened, APAL would have had to continue the old practice of calling for research projects, resulting in what previously existed, a portfolio of many small projects lacking in scale and scope. The overall program would be nowhere near as efficient as the PIPS program.

The apple and pear industry was able to use the PIPS program to leverage a $1 million investment into a $12 million program over five years. This provides scale, continuity of research effort, a strong focus on results and benefits to both growers and the community (more efficient use of resources etc) by looking at interactions between areas of research as well as within discipline and efficiency of management.

Implications for apple and pear levies

Growers currently contribute $1.879 million toward research into the apple and pear industry. Making the simple assumption that the government matches this amount (where in reality the government matches expenditure rather than income), a total of $3.757 million is available for R&D. However the Commission's proposal means that, to maintain the pool of research funds at $3.757 million, the industry would have to find almost one half million dollars extra by Year 5 and nearly a million dollars extra by Year 10.

Our assessments imply that the levy on fresh apples would have to increase from the current rate of 0.73 cents per kilogram to 0.97 cents per kilogram by year 10 in order to maintain the same levy based funding pool. Similarly the levy on fresh pears would have to increase by 0.26 cents per kilogram over the same period (Attachment 1).

However APAL does not believe that growers would be willing to increase their levies to this magnitude, if at all. Indeed in 2009, we sought grower approval to raise funds to pay increased Plant Health Australia fees. At that time APAL decided that growers would not willingly bear an additional 0.01 cents per kilogram on top of all of the levies imposed. So, to achieve the required increase in the PHA levy applied to fresh apples from 0.01 cents per kilogram to 0.02 cents per kilogram, APAL proposed that the R&D levy be reduced accordingly, from 0.73 cents per kilogram to 0.72 cents per kilogram.

This anecdote illustrates the difficulties we would have in persuading growers to increase levies to meet the R&D shortfall created by the government reducing its contribution. Their reluctance to meet the shortfall will arise out of both financial constraints and on "principle". In regard to the former, the Commission needs to be aware that many growers have faced difficult financial times in the past decade as a result of drought. In coming years imports are expected to make heavy inroads into the industry and the resulting downward pressure on retail prices will eventually mean reduced profitability levels for growers. The capacity of growers to fund R&D will, therefore, be considerably constrained.

Furthermore, participation by growers in the levy system is based on a number of "principles" which may be undermined if the government were to withdraw its equal share in the research effort. These "principles" include the recognition that growers in other countries have benefited from direct government assistance; that government investment reimburses the industry for the environmental and public health benefits generated by the research; and, that government involvement provides confidence in (risky) research.

But this is only part of the story. The Commission proposes a similar reduction in the government's contribution to the matching of voluntary contributions and industry – from growers or supply chain providers will have to make up that that shortfall also. For the apple and pear industry this is significant as half of the total pool of research funds are derived from matched voluntary contributions. Our estimates suggest that the industry would have to find an additional $2.17m/ year (on existing funding levels) and an additional $3.82M at the 0.25% GVP Government matching level. Given that the current level of levy income is about $1.8M/year, this would need to treble the current industry funding levels. Clearly this is not sustainable.

Funding overseas research
The Productivity Commission asserts that funding overseas institutions means that much of the benefit of the research will go overseas and less of the benefit accrue to Australia.

This is quite the opposite to what APAL has experienced with its funding of the PIPS program withthe New Zealand Institute of Plant and Food Research (PFR) one of the research partners. PFR has many scientists with expertise not available in Australia and it has contributed significantly to the funding of the program.

Therefore, the Australian apple and pear industry will benefit significantly from a flow of information from New Zealand, much more information than the New Zealanders will gain from Australian research.

Increasingly, as money for research tightens and the number of scientists in any one discipline declines, international collaboration will become the norm, and to reduce this happening will disadvantage the apple and pear industry, and we suspect many other rural industries as well.

Rural Research Australia
The Productivity Commission has recommended the establishment of a new RDC, Rural Research Australia, to undertake rural research of a public benefit nature. The apple and pear industry stresses that delineating rural research into that which has predominately farm-gate or supply chain benefit and that which has a wider community outcome is extremely difficult because of the interdependencies between agricultural production systems and the environment.

Nevertheless, the apple and pear industry welcomes the Productivity Commission's acknowledgement that the work previously undertaken by Land and Water Australia (LWA) was important and that the gap left by that organisation's demise must be refilled.

However, we are of the view that the research formerly undertaken by LWA must be funded by an additional contribution by the government from Consolidated Revenue and not from a reduction in the funding of existing RDCs. An overall increase (rather than a decrease) in government funding of R&D is warranted, particularly if the Australian agriculture sector is expected to improve its productivity and meet the challenges of food security and climate change/variability.

At the same time, the apple and pear industry does not support a new RDC being created to undertake the research formerly undertaken by LWA. This would add to administrative costs and potentially lead to duplication in research effort. Other organisations such as the RIRDC are well positioned to incorporate the research into their portfolio.

Finally the apple and pear industry does not support the transfer of any funding from Horticulture Australia. It is important that the members of HAL continue to determine research priorities. We acknowledge that in the past there have been some difficulties in securing agreement to undertake across industry and across agriculture research. These difficulties do not relate to a perception that the research outcomes will be predominately public benefit or of a broad rather than targeted nature. Instead it primarily relates to the diversity amongst the HAL members where, for example root vegetables, tree fruits and greenhouse production systems vie for what is in the best interests of their constituents.

That said, solutions are readily available to overcome these issues. Just as the Statutory Funding Agreement requires that 1.5% (increasing to 5% over the next few years) of HAL funds be directed to across industry projects, so too can funds be quarantined for projects which have a predominately public benefit. HAL could then commission projects of this nature or work with other RDCs to facilitate across agriculture based research.

Industry data

The apple and pear industry up until 2008 collected detailed industry data via ABS but in 2009, the cost of doing such, multiplied five-fold which became prohibitively expensive for the industry. This has left a real gap in data on the industry that could mean that the uptake of R&D by some growers has been impeded.

Industry data is essential if growers are to make commercially sound decisions and we would encourage the government to support the collection and analysis of productivity and profitability data as it does for Australia's broadacre industries.

Other issues

I want to mention just briefly a number of other issues about which we are concerned but I am sure will be covered in other submissions.

- Voluntary contributions have a valuable place in the funding mix to allow additional funding be invested by industries.
- The Productivity Commission's report only analyses the sector that is responsible for about one third of rural research and wants to reduce funding to that sector. There is no effort to consider the other two thirds of the funding of rural research and whether greater efficacies could be gained by restructuring aspects of that R&D effort. Indeed, the Commission acknowledges that the funding of the RDC model has been effective and efficient. Do we know that of the other R&D conducted outside of the RDC envelope?

I trust this submission will be afforded the serious consideration it deserves.

Yours sincerely

Darral Ashton
Chairman

ATTACHMENT 1:

Impact of Reduced Government Contributions on Apples

Apples	Levy Type	Volume (MT)		Levy Rate cents/kg	Total R&D Levy $M		Proposed Govt Matching Rate	Proposed Govt Matched $M		TOTAL Matched R&D Funding $M
2009/2010	**Domestic**	184,712	67.6%	0.7300	1.348		1.00	1.348		2.697
	Export	2,697	1.0%	0.7300	0.020		1.00	0.020		0.039
	Juicing	58,635	21.5%	0.0650	0.038		1.00	0.038		0.076
	Processing	27,163	9.9%	0.1300	0.035		1.00	0.035		0.071
	TOTAL	**273,207**			**$1.442**	**50.0%**	**no change**	**$1.442**	**50.0%**	**$2.883**
Year 1	**Domestic**	184,712	67.6%	0.7490	1.383		0.95	1.314		2.698
	Export	2,697	1.0%	0.7490	0.020		0.95	0.019		0.039
	Juicing	58,635	21.5%	0.0667	0.039		0.95	0.037		0.076
	Processing	27,163	9.9%	0.1334	0.036		0.95	0.034		0.071
	TOTAL	**273,207**		**incr. 2.3%**	**$1.479**	**51.3%**	**decr. 5%**	**$1.405**	**48.7%**	**$2.884**
Year 5	**Domestic**	184,712	67.6%	0.8344	1.541		0.75	1.156		2.697
	Export	2,697	1.0%	0.8344	0.023		0.75	0.017		0.039
	Juicing	58,635	21.5%	0.0743	0.044		0.75	0.033		0.076
	Processing	27,163	9.9%	0.1486	0.040		0.75	0.030		0.071
	TOTAL	**273,207**		**incr. 14.3%**	**$1.648**	**57.2%**	**decr. 25%**	**$1.236**	**42.9%**	**$2.883**
Year 10	**Domestic**	184,712	67.6%	0.9732	1.798		0.50	0.899		2.697
	Export	2,697	1.0%	0.9732	0.026		0.50	0.013		0.039
	Juicing	58,635	21.5%	0.0867	0.051		0.50	0.025		0.076
	Processing	27,163	9.9%	0.1733	0.047		0.50	0.024		0.071
	TOTAL	**273,207**		**incr. 33.3%**	**$1.922**	**66.7%**	**decr. 50%**	**$0.961**	**33.3%**	**$2.883**

Impact of Reduced Government Contributions on Pears

Pears	Levy Type	Volume (MT)		Levy Rate cents/kg	Total R&D Levy $M		Proposed Govt Matching Rate	Proposed Govt Matched $M		TOTAL Matched R&D Funding $M
2009/2010	**Domestic**	50,331	59.5%	0.7750	0.390		1.00	0.390		0.780
	Export	3,633	4.3%	0.7750	0.028		1.00	0.028		0.056
	Juicing	29,883	35.3%	0.0600	0.018		1.00	0.018		0.036
	Processing	756	0.9%	0.1200	0.001		1.00	0.001		0.002
	TOTAL	**84,603**		**no change**	**$0.437**	**50.0%**	**no change**	**$0.437**	**50.0%**	**$0.874**
Year 1	**Domestic**	50,331	59.5%	0.7952	0.400		0.95	0.380		0.780
	Export	3,633	4.3%	0.7952	0.029		0.95	0.027		0.056
	Juicing	29,883	35.3%	0.0616	0.018		0.95	0.017		0.036
	Processing	756	0.9%	0.1231	0.001		0.95	0.001		0.002
	TOTAL	**84,603**		**incr. 2.3%**	**$0.448**	**51.3%**	**decr. 5%**	**$0.426**	**48.7%**	**$0.874**
Year 5	**Domestic**	50,331	59.5%	0.8858	0.446		0.75	0.334		0.780
	Export	3,633	4.3%	0.8858	0.032		0.75	0.024		0.056
	Juicing	29,883	35.3%	0.0686	0.020		0.75	0.015		0.036
	Processing	756	0.9%	0.1372	0.001		0.75	0.001		0.002
	TOTAL	**84,603**		**incr. 14.3%**	**$0.500**	**57.2%**	**decr. 25%**	**$0.375**	**42.9%**	**$0.874**
Year 10	**Domestic**	50,331	59.5%	1.0332	0.520		0.50	0.260		0.780
	Export	3,633	4.3%	1.0332	0.038		0.50	0.019		0.056
	Juicing	29,883	35.3%	0.0800	0.024		0.50	0.012		0.036
	Processing	756	0.9%	0.1600	0.001		0.50	0.001		0.002
	TOTAL	**84,603**		**incr. 33.3%**	**$0.583**	**66.7%**	**decr. 50%**	**$0.291**	**33.3%**	**$0.874**