

Response to the Productivity Commission

Draft Report: Rural Research and Development Corporations September 2010

November 2010

Background

Queensland Farmers' Federation (QFF) is the peak body representing and uniting sixteen rural and regional industry organisations who work on behalf of primary producers in Queensland. QFF was pleased with the opportunity in March to informally discuss with the Commissioners some of the issues to be addressed in this Inquiry, and then provide a detailed submission with six key recommendations for consideration by the Inquiry.

We therefore wish to record our disappointment with the Draft Report and Recommendations. It is our assessment that it falls short of addressing some important issues that are integral to the performance of the Australian rural RD&E industry and its contribution to the overall **'productivity, profitability, sustainability and global competitiveness of Australia's primary industries'**. It is the view of QFF and its members that the eight terms of reference defined for this Inquiry are sufficiently broad to provide scope for investigation of issues beyond the rural Research and Development Corporations (RDCs), and we urge the Productivity Commission to do so in the remaining five months of the Inquiry.

As explained in the QFF June 2010 submission, our members collectively believe that all stakeholders need to accept the challenge of doubling food, fibre and foliage production in the next forty years in a carbon (greenhouse gases) and water constrained world. We further believe that this challenge requires a significant turnaround in rural industries productivity growth which has been slowing in recent time. QFF considers there to be strong evidence that the rural RD&E effort needed to meet the social, market and environmental challenges of the future are underfunded.

Having said that, we do appreciate some of the rationale in the Draft Report discussions about rural RD&E funding and the importance of modifying the RDC element of the industry. This Inquiry covers the important matter of public funding of research for primary industries and the development and delivery of relevant scientific and technical knowhow so that primary industries can perform to and beyond community expectations. QFF acknowledges that we live in an ever changing world and therefore there are always opportunities to improve the way our nation goes about its research and innovation business. If that means changing the RDC 'model' then let's review the evidence and be comfortable that changes will improve the performance of the rural research industry in Australia. It is with this in mind we submit the following comments and suggestions on the Draft Report.

Draft Recommendations

To address the matters under consideration, this submission follows the findings and recommendations in the Draft Report in sequence.

1. Australian rural RD&E spend

QFF concurs with Draft Findings 5.1 and 5.2 that it is inappropriate to set "targets" for overall rural RD&E expenditures and that governments must be guided by "public funding principles".

We acknowledge the PC's assessment of where it can best provide advice on "policy settings to achieve the greatest benefit for all members of the Australian community" and its assessment that the RDC arrangements require the greatest scrutiny because there are four parallel reviews also being conducted (p.89). But QFF cautions that these "public sector reviews" can miss a critical ingredient with their tendency to analyse the minutia of issues with scant attention to overarching drivers.

In this case QFF suggests that there are trends and issues impacting the rural RD&E industry and Australia's rural industries that should be included in this Inquiry as they may provide guidance as to what is needed to meet future challenges. Restricting ourselves to just a review of the rural RDCs may prove to be an important lost opportunity for restructuring the research and development industry that services rural and regional Australia.

Like others, QFF contends that improving commodity production systems is important but only one of many elements in the mix of things needed to be done to ensure the future sustainability of Australia's rural industries. While the PC and others note the importance of the cross-sector and spillover issues dictating research effort, we would add that human resource issues (attraction and retention of a skilled and capable regional workforce), economy-wide science and technology capacity (ensuring sufficient new entrants into these important fields), and developing a society-wide "culture" of understanding as to what is needed to safely supply quality foods and fibres (the production economy as compared to the service economy) are all under played at present. It is QFF's view that focusing this Inquiry on just the rural RDCs issues will leave the whole sector floundering well below full potential if the bigger drivers of rural prosperity are dealt out of the equation.

It may be that there is no "market failure" here for the public sector to be involved with, but until we explicitly investigate the cause and effect of such important issues as the aging of the farm population, the declining enrollments in rural education and training courses, and a lack of appropriate regional infrastructure to service rural industries, you won't know. We appreciate the brief discussion on these and associated matters in the Draft Report (p. 120 – 4), but we believe it is for this Inquiry to investigate these matters more deeply and make recommendations on options to address their impacts.

2. Public Funding Principles

QFF agrees with Draft Recommendation 5.1 and encourages widespread use of these principles which embed the public good concept that government involvement must be driven by the need to induce "socially valuable R&D that would not otherwise be undertaken". We also note the slightly changed wording of the aim of such public investment is to "**enhance the productivity, competitiveness and social and environmental performance of the rural sector**" and accept these four overarching goals as the guiding rules for public rural RD&E. We note however, that virtually any research activity could be structured to appear to meet any or all of those objectives.

QFF notes that the PC is not convinced that "additionality" occurs across the RDC program and has concluded that "the level of additional research activity induced by the very significant Australian Government funding contribution has probably been quite modest". (p.94). Likewise the Commission suspects there remains an element of "legacy public funding regimes" and an "entitlement mentality" and "too much emphasis on attempting to preserve existing industry structures", but fails to specify where such unhelpful attitudes are impeding progressive RD&E activities. While resistance to change is part of the human condition, we see no evidence that any part of primary industries is any more or less innovative than the rest of society. But we concur that if public funds are being used to foster stagnant or regressive behaviour than it should cease immediately.

3. Rural RD&E Industry Performance

QFF notes the detail provided in the Draft Report of rural research in Australia, its evolution, current structure and *raison d'être* (p. 9 – 64), plus the assessment of the general performance of the unique to Australia co-investment RDC 'model' (p. 65 – 85). However, QFF is not convinced of the concluding summation of those three chapters that "much of the RDCs' current research program would most likely still proceed with less or even no government funding" (p.83). QFF is of

the view that this is more an intuition that Canberra officials want to believe, rather than a sound conclusion of what might happen should governments elect to follow subsequent advice in the Draft Report, namely “the Commission is strongly of the view that the current level of government support for the industry-specific RDCs is too high”. (p. 162/3).

While we appreciate that these types of conclusions emanate from economic assessments of data like those contained in Tables 2.3 and 7.2, these are only partial and selective assessments and really only useful in an *ex-post* sense. Further, these assessments tend to focus heavily on traditional benefit/cost assessments rather than the more inclusive triple and quadruple bottom line tools used for project planning and assessment in modern businesses. QFF and others believe that this Inquiry should focus less on what has gone before, and more on what is needed for the future. QFF suggests that using the traditional SWOT (Strengths, Weaknesses, Opportunities and Threats) analytic framework is limiting and that alternatives such as the SOAR (Strengths, Opportunities, Aspirations and Results) framework would achieve the “expansive thinking” that will provide more complete guidance for research investment and structures into the future.

For instance, it is clear that one of the reasons that Canberra officials want to see less government money in industry-specific RDCs is because that has been “conventional wisdom” since 1989 when parliament considered the enabling legislation. As the Commission noted commonwealth funding was “seed money” and the expectation was that once the RDCs made progress with results and there was widespread adoption of their works, industry would see “the value in the research” and increase their levies beyond the matching caps (p. 162). QFF suggests the reason this has only happened to a limited extent is because of the ever changing “research needs” since then, and this will always be the case. The issues challenging rural industries today are very different from what they were in 1989. However, the co-investment model remains as relevant today as then, because it enables the critical mass of research dollars to meet new challenges in private-public sector partnerships that are needed in the Australian context.

However, it is clear that there is a need for more comprehensive data on the complete rural RD&E industry. **QFF therefore agrees with Draft Recommendation 5.2 and 5.3 in principle**, but questions whether DAFF is the appropriate agency for RD&E data definition and collection (ABS would seem more appropriate to us). As we observed in our first submission, the rural RD&E industry is not a good promoter of its own performance and achievements. Therefore, if these two recommendations help the rural research industry better promote itself then this will be to the benefit of all stakeholders. The community expects “socially desirable outcomes” from rural RD&E activities and we need factual evidence that this is occurring.

QFF acknowledges the effort the PC has made to unravel the “complex money-go-round” (p.102 – 3) and deal with the “paucity of reliable data on what is happening” in the rural RD&E industry (p. 110 – 5). QFF would expect the implementation of these two recommendations will help lift the professionalism of all players in the RD&E industry and add a level of transparency that will provide better guidance for all stakeholders. We also agree with the PC caution that there are shortcomings inherent in public coordination of diverse activities, especially the risk of becoming too prescriptive at the expense of market responsiveness (p.112). We will have more to say about this in section 6 below.

The Commission has requested additional information on the precise form of new RD&E data. While our comments above about the SOAR framework are more general, we refer to Section 5 of the QFF June submission where we discussed triple bottom line accounting and the recent Simpson and Dargusch paper “Classifying public benefit in Australian agricultural research” (2010). The summary matrix for classifying research types and value (Table 5) seems a particularly useful tool for all stakeholders in research activities. However, we caution that for public sector research in particular, it is sometimes QFF experience that a fixation on measurement and results can become an end in itself and distract from the research activity.

4. Reconfiguration of the RDC Model and its funding

QFF rejects the proposed modifications to the RDC model as detailed in Draft Recommendations 6.1 and 7.1. Our principle reason is that the PC arguments for decreasing the Australian Government contribution to RDCs by 50% over a 5 to 10 year transition and establishing a new government funded Rural Research Australia (RRA) are unconvincing. We are particularly concerned that such a recommendation can send the wrong signal to all of the community without offering a strong signal for future purposeful activity.

Three key factors need further investigation to clarify what may transpire over the next ten years.

- a. Given the co-investment RDC model “has important strengths”, has “remarkably strong support”, and only “some shortcomings as currently configured”, one must question why the recommendation to halve the public contribution to such a successful program, particularly if Draft Recommendations 5.1 to 5.3 are fully implemented between now and 2016. Further, QFF sees the implementation of those public funding principles, plus the conditional funding recommendations (with some modification of Recommendations 8.1 to 8.7), and the proposed Levy Arrangement reforms going a long way to improving rural RD&E performance and boosting public confidence in the rural RDC system. As noted in (3) above, QFF believes that the ever changing research challenges facing rural industries requires a robust private-public sector partnership across industries and issues and that expectations in 1989 that “research payback” (industry adoption of research outcomes) would eventually replace government “seed money” is no longer relevant to the new and rapidly changing research needs of farm operators.
- b. The logic for the 50% wind-back of government contribution to RDCs rests on three assertions that are unproven; namely that the government money is not buying additional research but rather subsidising what growers would have funded anyway; that RDCs conduct too much “small, short-term, low risk, research projects”; and that at least some RDCs waste research effort trying to “preserve existing industry structures”. There is also the assumption that primary producers would fund gaps as they emerged with the withdrawal of government funding. This may well be the case in some circumstances, but it is a high risk strategy that could have the unintended consequences of leaving some research capacity at below critical mass, or the diversion of producers’ money away from other necessary industry activities especially those representational and advocacy activities specifically excluded from the rural RD&E industry.
- c. While the 2008 budgetary driven closure of the cross-sector research institute, Land and Water Australia is a sad reflection of the short sightedness of government processes, we fail to see how “resurrecting” the concept in a new form in any way satisfactorily addresses the issue of unfunded cross-sector research and innovation. Surely such a government institute would be forever a “soft target” for public sector financial managers and/or their political masters. Likewise the discussion of alternative options for the public funding of these residual rural research issues, namely with the CSIRO, the universities or a new CRC is too limited in our view. For instance, we are unsure why any of these three options (with appropriate structures for the research requirements) would “lessen interaction with primary producers”, have “fewer reality checks” and “slower uptake of research outputs”.

QFF agrees that while the RDC model “is not problem free”, it has “delivered significant benefits” and “there is much to like about the RDC model”, this Inquiry is about the future and therefore it is worthwhile to validate the capacity of the model to deliver against new challenges (p. 126). However, QFF is of the view that the remaining discussion in Chapter 6 of the Draft Report is more focused on the traditional tensions (divergent needs of the funders) that would exist in any co-funded regime than offering new options to face future challenges. For instance the Commission suggests that the only option for significantly increasing the amount of broader research conducted by industry RDCs is “a heavier hand of government” (p. 131). QFF says that is not the only option. An obvious alternative would be wise industry leadership that sees value in wider research for narrow interests, or a professional expert panel (board of directors) acting

professionally. QFF's recent experience suggests that structuring research institutes with professional boards can achieve a healthy mix of broad and industry specific research. Likewise, many joint venture operations in the commercial world successfully manage the natural tensions of often disparate partners.

QFF is of the view that this apparent clash of wills between demands of levy payers and the government's need to induce additional (public good) research may be more imaginary than real. In section (3) above and in QFF's June 2010 submission we drew attention to the ever changing rural research needs for all players, including farmers, agribusiness and the community at large. If the recommendations for generic design requirements for all R&D programs (Productivity Commission 2007) and the specific rural ones recommended in this Draft Report (except 6.1 and 7.1) were implemented, QFF sees this solving most of the shortcomings perceived in the current system. QFF and others believe that for rural industries, genuine private-public co-investment research systems embodying competent management of agreed guidelines can operate to deliver outcomes above and beyond community expectations.

One final observation is that "silo thinking" and "ring fencing" may be useful public administration techniques that help manage public services, but they tend to be limiting techniques when it comes to the complexities of the RD&E industry. QFF sees the challenges facing farmers, agribusinesses and the rural RD&E industry require what Edward de Bono calls "expansive thinking". In our view, what levy payers and the public require of Australia's food, fibre and foliage industries are not as different as the Draft Report suggests and we most certainly disagree with the observation that "industry-specific RDCs are never likely to be a particularly effective vehicle for facilitating research that is primarily of benefit to non-levy payers – or even research where the benefits are spread across a wide range of levy paying industries" (p. 146).

As QFF noted in its June 2010 submission, while the shift towards research collaboration and institutional consolidation creates an uneasy tension across research objectives, there is evidence that having strategic guidelines and priorities like the new national research priorities (NRPs) tends to diffuse those competitive tensions. Indeed, having third parties like the Australian Academy of Sciences interpret these into a framework for rural industries and the Council of Rural Research and Development Corporations (CRRDC) set rural research priorities against them, goes a long way to ensuring both public and industry requirements are openly negotiated in an agreed framework that works for all Australians.

5. Government Funding of RDCs and RRA

QFF is not convinced by the discussions in Chapter 7 that there are disparities in the way government contributes to rural research as compared to other parts of the Australian economy or society. This is because the analysis is more an economic assessment than holistic one and seems based on a predetermined assessment that "the current arrangements involve very large subsidies for research that rural producers would often have sound financial reasons to fund themselves" (p. 169).

In the absence of any other information, QFF sees such a statement as a good reason for the government to vacate the field. But as discussed above, if this Inquiry examines the rural RD&E industry in its entirety, sound reasons will emerge for the Australian taxpayer to remain involved.

QFF therefore rejects Draft Recommendation 7.1 and argues strongly that the RDC structure can be improved by implementing many of the other recommendations in the Draft Report and that the RDCs can deliver "public good" research in a much more effective way than the proposed Rural Research Australia (RRA).

By way of conclusion to this section, QFF questions the PC's interpretation of the Tasmanian government's suggestion for triple-bottom-line guidelines for directing funding allocations across

RDCs (p. 175). As QFF has already submitted and reiterated above, triple or quadruple-bottom-line tools are becoming best practice standards in business and project management and should not be dismissed as “picking winners” or rewarding “favoured issues” (p. 175). QFF contends that if these principles are embedded in public sector funding guidelines then RDCs can deliver at least as good a mix of research activities than any “non-industry specific” entity.

6. Guiding Principles for future RDC programs

QFF supports Draft Recommendations 8.1 to 8.7 (with one exception), and suggests that such “conditional public funding” principles should have evolved and been in place earlier than this. The fact that in 2010 we are only now defining what rural RD&E should look like suggests that government officials do not have the right tools to guide and administer public research. QFF hopes that these recommendations (along with many others) will address this shortcoming.

Draft Recommendation 8.1 details ten conditions for the RDCs to meet, and five guiding principles for the Australian Government. Taken together and along with Draft Recommendations 5.1 to 5.3 which embed the principles that public funding creates obligations for industry RDCs (to the public) including the delivery of “additional socially-valuable R&D that would not otherwise occur”, these will be a great help to all stakeholders.

However, QFF questions the wisdom of being too prescriptive, especially with the third condition that government funds are not to be used for “any marketing, industry representation or agri-political activities” (p.179). When taken with Draft Recommendation 8.3 this means funds have to be separated if marketing or industry representation activities are to be undertaken (use only the industry money for such activities) – agri-political activities are excluded in all instances. QFF suggests this restriction is unnecessary when the other Draft Recommendations are implemented because skills based boards including government directors will be able to provide the guidance needed to fulfill obligations and governance requirements. As the Commission notes, it is proposing broad principles rather than prescriptive requirements and QFF supports this approach (p.204).

7. Levy Arrangements

QFF supports Draft Recommendations 9.1 to 9.4 and the Draft Findings 9.1 and 9.2. QFF does not have the expertise to comment on the conduct of levy management and is confident that specific industry groupings and industry levy payers are capable of deciding what suits their requirements in this regard. As always we would caution about being overly prescriptive or complex with guidelines for the industry - government interface, and suggest that Draft Recommendation 9.5 (about further review) is probably redundant when the other draft recommendations are implemented.

8. Further Review

Before finalising this Inquiry, QFF asks that the Commission aim to capture in the Final Report definitive understanding of the make up of Australia’s rural RD&E industry so that “outsiders” will find it to be the guiding reference book for that sector. An important element of that will be to avoid internal inconsistencies in the text and generalisations that may not be supported by fact. For instance, discussions of research additionality and industry benefits from research are not helped by this statement – “for broader rural research – especially in the environmental area – primary producers may have limited direct financial incentives to adopt new practices that would be of considerable benefit to the wider community” (p. 139). This is at odds with a later observation that “rural producers often have a strong incentive to fund R&D that improves environmental outcomes” (p. 161). Australian farmers currently seek best farm practices not just because it might add to the bottom line of their business, but for many other reasons including those captured by the quadruple bottom line concept.

Before any further extensive public review it will be important to resolve the rural RD&E industry data issues identified in the Draft Report, especially since “the capacity to better integrate decision making across the framework is significantly hampered by the lack of robust data on how much is being spent on rural R&D, who is providing the funding and where it is being spent” (p. 101). Resolve this issue and we will all have a common base of knowledge on which to review performance and future directions.

QFF is available to discuss and resolve these issues in the remaining months of this Inquiry.

EOD 11 November 2010