

26 November 2010

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Inquiry into Rural Research and Development Corporations  
Productivity Commission  
Locked Bag 2  
Collins St. East  
MELBOURNE VIC 8003

Dear Sir/ Madam,

**Subject: Australian Pork Limited (APL) – Second Submission to the Productivity Commission (PC) Inquiry into the Rural Research and Development Corporations (RDC's)**

This letter represents APL's response to the PC draft report (the Report) issued on the 23rd September, 2010 for the inquiry into the Rural RDC's. APL also supports the general principles contained within the submission from the Council of Rural Research & Development Corporations (CRRDC) and expands on some particular issues within this letter.

APL agrees with the majority of the draft recommendations within the Report, specifically those relevant to:

- Stronger guidance from government on the objectives and targets of public funding into rural R&D
- The implementation of mechanisms to track and measure rural R&D spend
- Development and implementation of principles attached to public funding from Government as a key funder/ stakeholder
- Lessening Ministerial involvement in priority setting and planning processes of the RDC's
- Acceptance of RDC's holding industry representative body status at least until a further review
- Allowance for a Government director on RDC boards
- A requirement for all RDC's to participate in regular project evaluation processes
- A requirement for all RDC's to conduct regular independent performance reviews
- Streamlining and facilitating levy changes where conditions show industry and Government support

There are two specific recommendation areas that we believe if implemented would work against greater returns to the public from rural R&D activities and these have been more fully explained below.

1. The Establishment of Rural Research Australia
2. The Government Funding Cuts to Rural RDC's

Since many of APL's arguments relating to these two recommendations are interrelated, the general discussion pertaining to both of them is contained together below.

***A. The Original Principles around the Implementation of the RDC Model have not changed***

More than twenty years ago, the original rural Research and Development Model was conceived. The underlying principle was that producer levies would be matched dollar for dollar by Government to fund rural R&D that would not otherwise have been undertaken, whilst at the same time generating strong and incremental public good outcomes as spillovers. We believe that this principle remains true today. In our view, there is no reason to believe that the situation that existed when the original RDC model was implemented has changed. By extension of this logic, if the matching funding were withdrawn (or partly withdrawn) the extra R&D and incremental public good outcomes that flow with it would cease. It is the view of APL that this outcome would be at significant risk of being realised; however illogical it may seem when looking at the strong benefits to levy payers being generated through RDC managed rural R&D investments. This outcome would be at a significant cost to the community, far outweighing any cost savings that may be realised by reducing Government contributions.

***B. Rural R&D has generated excellent returns on investment for private and public interests***

As measured by the RDC instigated evaluation process - administered through the CRRDC - returns from rural RDC activities are very strong. Admittedly whilst the methodology focuses on returns to the various relevant industries (as limited by a lack of any other viable methodology), we believe there are very valid arguments in favour of the position that the community gains substantial parallel value from these activities. Anecdotal evidence in many areas of community interest (for example, food security, environmental protection, ethical production, food safety, climate change) indicates a valuable contribution to the so called public good from rural R&D activities of the RDC's. Moreover, we believe that there is ample anecdotal evidence to suggest that these public good outcomes from rural R&D are of a significant value making the returns to taxpayers competitive over other Government expenditure options.

***C. The Public and Private Benefits of Rural R&D are Inseparably Linked***

The importance of rural industries working closely with the community at large should not be understated as a core success factor. Interactions between rural industries and the community exist through their status as consumers, their status as members of the employee base or supply chain stakeholders, their status as benefactors of a healthy environment. They both share common end objectives being the generation of consumer value with flow on effects to community value. We believe that there are very few if any privately motivated rural R&D efforts that do not spillover public good benefits and likewise there would be very few rural R&D activities targeted at public good that would not be of interest to some or all rural industries. Public and private good are thus to a lesser or

greater extent inseparable, which means a body with the express remit of public good generation is inherently inefficient and potentially working at odds with other RDC efforts.

***D. Valuable Generic Research with application across the RDC's suffers from a type of "Market Failure" amongst RDC's***

Some types of rural R&D are not industry specific and thus from an individual RDC perspective may not satisfy the return on investment criteria for direct investment – examples are basic rural research or generic R&D into the “cross sectoral” areas such as soils, weeds, water, climate change, biosecurity, animal welfare. This may have, in APL's view, resulted in an underinvestment by RDC's in some cases in areas of “across industry” research & development. However some of this work is already carried out by CSIRO and Universities and without looking at the total Rural R&D investments in these areas it is difficult to determine whether there has been under investment. It should be noted that there have been some collaborative ventures across RDC's that have been very successful and resulted in strong public and private good outcomes.

***E. The Establishment of Rural Research Australia does not provide an adequate Solution to this "Market Failure"***

Whilst acknowledging that the present RDC model results potentially in an underinvestment in the “across industry” initiatives, we do not believe that a new body with a pure public good brief such as the proposed Rural Research Australia would result in an improvement in this area. By the very nature of the public and private benefits of rural R&D being inseparably linked, we believe that the absence of the crucial private industry motivator in the RRA model will result in two outcomes:

- A significant compromise in any public good generated in comparison to what could have been generated with the industry driver for R&D selection, implementation and extension; and
- Through a lack of co-ordination with industry, in-built inefficiency in the system in terms of:
  - Generating unrecognised industry benefits due to the isolated public good perspective;
  - A compromised model for extension of outcomes to industry again through the limited public good brief.

On top of this, the fact that many RDC's presently exist with substantial capability and experience in the management of rural R&D projects would seem to make the establishment of a new entity unnecessary.

***F. Other Models can deliver better Solutions to this "Market Failure"***

Successful “across industry” rural R&D initiatives need collaboration between the various industry interests to ensure that their objectives are relevant and their outcomes can be transferred to or used by the relevant industries. Only then will the public benefit spillovers consequent to them be maximised. The problem is that this has not occurred in the past due to this “RDC market failure” described earlier. The PC may want to consider whether a small additional motivator for the RDC's to work together in overcoming this “market failure” could be useful. For example, if the Government moved to mandate that a certain proportion of the RDC R&D expenditure should be directed at one or more of these “across industry” domains, the public benefit flowing could match taxpayer expectations to a greater extent. The model for delivery of this research or cross sectoral initiatives could be an extension of the original Climate Change Research Strategy for Primary Industries

(CCRSPI) model hosted through Land and Water Australia (LWA). By hosting through an existing RDC, advantage can be taken of the capabilities, processes and systems already in place. Governance can be managed through Steering Committees made up of representatives of the major contributors. The host RDC can be chosen on the basis of capacity and relevance.

APL thus submits that the establishment of a “public good” driven new RDC such as Rural Research Australia would not be the optimal way to address what may have been an area of under-delivery by the RDC model. A better way to address the issue is through some minor fine tuning of the motivators for the RDC’s to form collaborative networks and carry out generically interesting rural R&D within the present systems and resource base.

APL also submits that any reduction in the matching funding would have the absolutely opposite consequence to that intended of reducing the amount of rural R&D and the spillovers that flow from it to the community, at a substantial net cost to the community.

Yours sincerely

Andrew Spencer  
CEO  
Australian Pork Limited