



National Farmers' Federation

**Submission to the
Senate Rural and Regional Affairs and
Transport References Committee inquiry into
the industry structures and systems governing
the imposition of and disbursement of
marketing and research and development
(R&D) levies in the agricultural sector**

December 2014



Australian Chicken Growers' Council Ltd



Animal Medicines Australia



Australian Livestock Exporters' Council



COTTON AUSTRALIA



Goat Industry Council of Australia Inc.



NEW SOUTH WALES IRRIGATORS' COUNCIL



RICEGROWERS' ASSOCIATION OF AUSTRALIA INC.





The National Farmers' Federation (NFF) was established in 1979 and is the peak national body representing farmers, and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF.

Following a restructure of the organisation in 2009, a broader cross section of the agricultural sector has been enabled to become members of the NFF, including the breadth and the length of the supply chain.

While our members address state-based 'grass roots' or commodity specific issues, the NFF's focus is representing the interests of agriculture and progressing our national and international priorities.

The NFF has for 35 years consistently engaged in policy interaction with government regarding a range of issues of importance to the sector, including trade, education, environment, and innovation to name a few.

The NFF is committed to advancing Australian agriculture by developing and advocating for policies that support the profitability and productivity of Australian farmers.

Statistics on Australian Agriculture

Australian agriculture makes an important contribution to Australia's social, economic and environmental sustainability.

Social >

There are approximately 115,000 farm businesses in Australia, 99 percent of which are family owned and operated.

Each Australian farmer produces enough food to feed 600 people, 150 at home and 450 overseas. Australian farms produce around 93 percent of the total volume of food consumed in Australia.

Economic >

The agricultural sector, at farm-gate, contributes 2.4 percent to Australia's total Gross Domestic Product (GDP). The gross value of Australian farm production in 2012-13 was 47.9 billion – a 3 percent increase from the previous financial year.

Yet this is only part of the picture. When the vital value-adding processes that food and fibre go through once they leave the farm are added in, along with the value of all economic activities supporting farm production through farm inputs, agriculture's contribution to GDP averages out at around 12 percent (over \$155 billion).

Environmental >

Australian farmers are environmental stewards, owning, managing and caring for 52 percent of Australia's land mass.

Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 94 percent of Australian farmers actively undertaking natural resource management.

The NFF was a founding partner of the Landcare movement, which this year, celebrates its 20th anniversary.

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Executive Summary

Australian agriculture competes with other sectors of the national economy for human, land and capital resources; while making a significant contribution to export earnings of around \$38 billion per annum¹. As part of that cross-economy investment process, business or sector volatility is an important consideration.

There is a large amount of variability between agricultural commodities, but overall Australian agriculture has been, and remains to be, the most volatile sector of the Australian economy over the past four decades². The value of output from the agriculture sector has been almost two and a half times more volatile than the average for all the major sectors of the economy. Further, data indicates that the volatility of Australian agricultural businesses has been the second highest of any nation over the 40 year period. That is, Australian farm businesses have faced a more risky operating environment than has been the case anywhere in the world over the last 40 years. Despite this challenge, Australian farmers have consistently found productivity improvements greater than other sectors of the economy, increased their commitment to environmental stewardship and sought to meet changing community expectations. Much of this performance can be attributed directly to ongoing investment in research and development (R&D).

Accordingly, this evidence suggests that Government expectations around regular or normal business risk management practices may not be appropriate or as useful for the agriculture sector. Agricultural-specific R&D programs ensure that farmers have access to cutting edge innovations to help position their business given the production and price risk exposure.

Even though their operating environment is extremely volatile, Australian farmers are much more self-sufficient than their international competitors (with whom we compete on both an international and domestic level). At 0.2% of National GDP, Australian agriculture has the lowest level of support in the world³. Further, when compared to other Australian industries currently under scrutiny for Government Assistance, it's important to remember that agriculture receives up to less than half the level of assistance of these industries when considering the value of assistance as a percentage of industry output⁴.

The fact is, Australian farmers don't impose a burden on taxpayers. They underpin one of the very few sectors that creates real value for the economy. As the current Federal Government has rightly identified, agriculture is a key pillar of the Australian economy.

The original rationale for Government funding support for agricultural research and the establishment of the Rural Research and Development Corporations (RRDCs) is still valid. It is important to recognise that the Australian Government has a significant role in directing the investment made to achieve National policy outcomes, and that the Australian Government leverages the activities of the RRDCs and the relationship that the RRDCs have with their respective industries in a number of ways.

¹ http://data.daff.gov.au/data/warehouse/agcstd9abcc002/agcstd9abcc0022013/ACS_2013_1.0.0.pdf

² Including Risk in Enterprise Decisions in Australia's Riskiest Businesses, Mick Keogh AFI, Farm Policy Journal vol9. No.1 Autumn 2012.

³ <http://www.oecd.org/tad/agricultural-policies/monitoring-and-evaluation.htm>

⁴ http://www.pc.gov.au/data/assets/pdf_file/0016/123901/trade-assistance-review-2011-12.pdf

Over their 20 years of operation, the RRDCs have become established as key organisations within their respective industries. National Farmers' Federation (NFF) members have indicated that the Government and Industry partnership embodied in the operation of the RRDCs is strongly supported. There is strong recognition by industry that the RRDCs continue to address the areas of policy failure identified at the time of their establishment, that:

- The Agricultural sector is characterised by many industries with a large number of producers unable to capture sufficient benefits from R&D that they would fund as individuals, which potentially leads to underinvestment;
- The collection of compulsory levies avoids free-riding by some on R&D provided by others; and
- There are spill-over benefits to the wider community that are not captured by the immediate industry.

The policy issues which the RRDCs were established to address still exist. The industry is composed of a large number of individual businesses, with Australian Bureau of Statistics figures indicating that there are approximately 115,000 farm businesses in Australia, 99 percent of which are family owned and operated. Given the large number of farm enterprises which exist, the levy mechanism overcomes the market failures which result from the public goods delivered broadly to the community from the research investment by the RRDCs, and allows producers to collectively invest in research. The breadth of the investment undertaken by the RRDCs has generated significant value for both their industry and Government stakeholders and should continue.

1. Introduction

The NFF welcomes the opportunity to make a submission to the Senate Rural and Regional Affairs and Transport References Committee inquiry into the industry structures and systems governing the imposition of and disbursement of marketing and R&D levies in the agricultural sector.

While it is important to regularly review the arrangements for agricultural RD&E to ensure efficiencies in the system, the NFF would like to make clear that it is also important that the integrity of the RDC model is maintained.

Given the overarching mechanics of the model continue to deliver, the NFF would encourage the Committee to focus on where improvements can be made to the operation of the model, to ensure a greater level of return for levy-payers. While a greater level of accountability must be pursued, caution must be taken not to undermine a well-functioning system in response to a vocal minority.

The NFF is of the firm view that the current agriculture industry levy collection and investment arrangements are an extremely valuable joint effort between government and industry that must be maintained. The delivery of innovation is complex, and is not the responsibility of one single entity. The various organisations and agencies involved need to work together and coordinate their activities for the whole system to work. The NFF has not had direct experience with levy arrangements and processes to change levy contributions, and we note that the individual industries that work with RRDCs may vary in their response. In principle, if there are significant concerns from farm groups, the NFF supports changes to levy arrangements if this provides farmers with a greater level of accountability from their investment in RD&E.

2. An audit of reports, inquiries and reviews relevant to this inquiry

Australian agricultural R&D systems have undergone a number of comprehensive reviews in recent years. These processes have overwhelmingly identified the RRDC model as a key contributor to innovation and productivity growth within the agricultural sector, ultimately recognising that RD&E ensures the international competitiveness of Australian grown food and fibre.

Of particular relevance to this inquiry, the 2011 *Productivity Commission Inquiry into the rural RDCs*⁵ considered the large number of previous reviews into the RRDCs and agricultural research more broadly. This built on earlier work by the Productivity Commission, including the 2007 research report, *Public Support for Science and Innovation*⁶, which found that “the governance design of the rural R&D Corporation model is inherently sound. Levies that are decided by, and apply to all beneficiaries of the R&D, overcome free-riding and the resultant under-provision of rural research.”

Following the Productivity Commission Inquiry, the Australia Government response – the *2012 Rural Research and Development Policy Statement*⁷, acknowledged the strengths of the rural RD&E system. Given the ongoing stakeholder support, there were no large-scale changes to the system. However, there were a number of minor improvements to the transparency, coordination and efficiency within the RRDC model. These improvements were largely supported by the farm sector⁸.

In addition to exploring the structure of the RRDC model, reports regularly consider the return on investment in agricultural R&D. This assessment is not a simple task, given a range of factors such as spill over benefits and time lag between research and impact. However, results continue to reflect that expenditure in the system generates significant benefits. For example, the Council of RDCs (CRRDC) 2009 examination across the RRDC system⁹ found that returns were \$10.51 for every dollar invested, over a 25 year timescale, with benefits shared approximately equally by industry and the community. These findings were consistent with their earlier work in 2008¹⁰, which demonstrated \$11 returned for every dollar invested. Supporting these findings, recent analysis by ABARES¹¹ has also found that for every dollar spent in broadacre research, there was a \$12 return within ten years in productivity improvements. It is worthwhile noting these figures do not capture the entire range of social and environmental benefits derived from research projects.

⁵ http://www.pc.gov.au/_data/assets/pdf_file/0006/109995/rural-research.pdf

⁶ http://www.pc.gov.au/_data/assets/pdf_file/0016/37123/science.pdf

⁷ <http://www.agriculture.gov.au/SiteCollectionDocuments/ag-food/innovation2/rural-research-and-development/research-and-development-policy-statement.pdf>

⁸ <http://www.nff.org.au/read/2963/more-investment-needed-in-rural-drive.html>

⁹

<http://www.ruralrdc.com.au/WMS/Upload/Resources/CRRDCC%20evaluation%20report%202009%20final%20.pdf>

¹⁰

<http://www.ruralrdc.com.au/WMS/Upload/Resources/Evaluation/Rural%20RDC%20Eval%20Report%20low%20Res.pdf>

¹¹ <http://www.agriculture.gov.au/agriculture-food/innovation/rural-research-development-for-profit/fact-sheet>

Dairy case study:

In addition to the overarching studies on rural RD&E, there have been regular assessments at an individual commodity level. As highlighted by the Australian Dairy Industry Council (which includes NFF-member Australian Dairy Farmers), within their submission to this Inquiry, it is worth noting the 2011 report, commissioned by Dairy Australia (DA) and the then-Victorian Department of Primary Industries, [*The impact of innovation on the dairy industry over the last 30 years: Evaluating the contribution of industry and government investment in pre farm gate RD&E.*](#)

Key findings of this report were that major increases in on-farm production are estimated to have increased Victorian dairy farm profitability by around \$10 billion over the three decades from 1980 to 2010. Of this, nearly half can be attributed to on-farm RD&E, which is estimated to have increased farmers' profitability by around \$7.7 billion in net present value terms, whilst only costing approximately \$2.3 billion in net present value terms, representing an estimated cost: benefit ratio of \$3.30 economic benefit for each dollar invested in RD&E.

These increases were largely driven by increased pasture production and utilisation, increased supplementary feeding, and more efficient cows, all of which have been – and remain – key areas of focus for DA levy investment. This report reinforced the importance of RD&E investment, and noted that while much had already been achieved through dairy industry RD&E, there was still much more benefit to be derived from this research in years ahead. The report also found that improvements in RD&E had broader community benefits, particularly in the areas of natural resource management and nutrition.

In addition to reports focussed specifically on the RRDC model, many reports more broadly have investigated the productivity and profitability of Australian agriculture. These reports continue to recognise the importance of ongoing R&D investment and the RDC model within this context. As an example, earlier this year ABARES examined productivity growth in agriculture in its report, *Australian agricultural productivity growth: Past reforms and future opportunities*¹². The report noted that economic reforms having now largely run their course and that “future agricultural productivity growth will depend on the capacity of rural RD&E systems to supply innovations to a diverse sector.”

The Blueprint for Australian Agriculture, the cornerstone strategy for agricultural supply chain success, also highlights the importance of the RRDCs as vital to the success of Australia's food and fibre industries. Through the Blueprint process, almost 4,000 farmers, transporters, retailers, consultants, rural businesses, agribusinesses, educators, governments, rural communities, community groups, and consumers helped shape what they saw as a future model for success for Australian agriculture. The Blueprint for Australian Agriculture report¹³, articulates goals for Innovation and RD&E, including: Increase investment in R&D; improved access to new technologies; and improved uptake of best practice. Each of these goals sought by the farm sector rely on an increased, not reduced commitment by Government to the RRDC model.

¹²

http://data.daff.gov.au/data/warehouse/9aap/2014/apgpf9abp_20140220/AgProdGrthPstRfmFtrOppsv1.0.0.pdf

¹³ <http://www.nff.org.au/get/3841.pdf>

Given the above, the NFF would encourage the Committee to consider not only reports focussing specifically on the RRDC model, but the many reports with a broader focus that continue to highlight the importance of the levy system and matched government contributions to underpin future competitiveness of Australian agriculture.

The strength of the RRDC model is also recognised internationally, including most recently within the *2014 OECD Agricultural Policy Monitoring and Evaluation*¹⁴, with the finding that: “Australia should continue using its partnership arrangement through rural RDCs to foster innovation and the adoption of new technologies and practices, in order to improve total factor productivity growth”. Given the increasing globalisation of agriculture and the clear market exposure of Australia’s farm sector (Australia’s agriculture sector remains strongly market oriented; it receives no market price support, with domestic and international prices closely aligned¹⁵), the RRDC model must be considered in an international context. The RRDC model is the envy of many of our international competitors and should be recognised as such.

The agriculture sector has continued to express its ongoing support of the levy-based system through a myriad of reviews in recent years. Support for the overall rural RDC model must be maintained, and the NFF strongly encourages the Committee to reflect on the number of reviews that have been undertaken and various government and industry responses supporting the RRDC model. Coordination and collaboration is vital to the RRDC model to ensure real outcomes. We can always do better and it is important that if efficiencies can be found in the system that they are explored to find better value for levy payers and the broader Australian public.

RECOMMENDATION: Reports, inquiries and reviews undertaken both within Australia and internationally have continually recognised the strength of the RRDC model – this must be recognised by the Committee prior to considering any recommendations to improve the model.

¹⁴ <http://www.oecd.org/tad/agricultural-policies/monitoring-and-evaluation.htm>

¹⁵ <http://www.oecd.org/tad/agricultural-policies/monitoring-and-evaluation.htm>

3. The basis on which levies are imposed, collected and used

The NFF view is that effective use of agricultural levies and charges greatly assist farmers in all industries, allowing an aggregation of resources and stakeholders across the supply chain to work together to identify more productive and sustainable farming methods and to increase demand for their products. The majority of farmers view levies as an investment in their future, not a simple cost to their business.

Grains case study:

NFF member GrainGrowers recently surveyed their members' views on the grains levy, specifically if they would vote to have the levy: 'increased', 'remain the same' or 'decreased'. A majority of respondents (62%) voted for the levy rate to stay the same; whilst 5% of growers voted to increase the levy rate (600 members responded). Combined, this result indicates that 68%, or two thirds, of grain growers surveyed support the continuation of the levy rate.

The NFF supports the statement by the Department of Agriculture¹⁶ that: "An effective system of primary industry levies and charges can help businesses work together, pooling their effort and resources, to find solutions to priority issues." Importantly, levies are collected as both industry and successive governments have continued to see value in their use.

While the focus of this submission, and likely the broader Inquiry, will be on levies collected by the Australian Government, the NFF recognises that many levies are collected at a state government level for a variety of purposes. Many of these different levies are outlined in the submission to this inquiry by NFF member – the Australian Livestock & Property Agents Association Ltd¹⁷. The NFF would encourage the Committee to also consider these state-based levies within this Inquiry, with the aim of streamlining and removing any duplication that may add to the costs for individual farm businesses and supply chain partners (such as livestock agents).

RECOMMENDATION: The Committee should consider the range of agricultural levies paid by producers, including those collected by state jurisdictions.

Currently, levies are collected and distributed for a range of agricultural industries. The Australian Government Department of Agriculture collects these levies from a range of intermediaries and provides them to recipient bodies set out in legislation (this includes largely, but is not limited to, the RRDCs).

The purpose of the existing levy system is to support marketing and promotion, research and development, plant and animal health programs, and residue testing activities that benefit the specific industry. The NFF views that the existing architecture of the RRDC model is about right to deliver this important mix of functions. Any changes to the model for R&D would no doubt lead to a variety of perverse outcomes for Australia's critical biosecurity services.

¹⁶ <http://www.agriculture.gov.au/agriculture-food/levies>

¹⁷ <http://www.aph.gov.au/DocumentStore.ashx?id=3db67e3d-7451-4049-9c57-de4ce65a557b&subId=300882>

The NFF notes that Terms of Reference to this Inquiry¹⁸ largely focuses on R&D levies and is likely to focus on the RRDCs. However, given the broader range of functions supported by the levy system, the NFF encourages the Committee to further consider plant and animal health activities, biosecurity and residue testing. Such activities may be significantly affected by any changes to the agricultural levies system and if not carefully considered may have far reaching impacts for the competitiveness and sustainability of the entire Australian agricultural sector.

RECOMMENDATION: The Committee should consider the range of activities beyond research, development and marketing that rely on the agricultural levy system. Flexibility should be maintained to ensure investments such as RD&E, marketing and trade advocacy, biosecurity and residue testing continue where they benefit industry.

As a key guide for levy imposition, collection and use, the Australian Government *Levy Principles and Guidelines*¹⁹ details the current process for establishing and amending agricultural levies. The Principles (which have been in place since 1997), are as follows:

1. *The proposed levy must relate to a function for which there is a **market failure**.*
2. *A request for a levy must be supported by industry bodies representing, wherever possible, all existing and/or potential levy payers, the relevant levy beneficiaries and other interested parties. The initiator shall demonstrate that all reasonable attempts have been made to inform all relevant parties of the proposal and that they have had the opportunity to comment on the proposed levy. A levy may be initiated by the Government, in the public interest, in consultation with the industries involved.*
3. *The initiator of a levy proposal shall provide an assessment of the extent, the nature and source of any opposition to the levy, and shall provide an analysis of the opposing argument and reasons why the levy should be imposed despite the argument raised against the levy.*
4. *The initiator is responsible to provide, as follows:*
 - *an estimate of the amount of levy to be raised to fulfil its proposed function*
 - *a clear plan of how the levy will be utilised, including an assessment of how the plan will benefit the levy payers in an equitable manner*
 - *demonstrated acceptance of the plan by levy payers in a manner consistent with Levy Principle 2.*
5. *The initiator must be able to demonstrate that there is an agreement by a majority on the levy imposition/collection mechanism or that, despite objections, the proposed mechanism is equitable under the circumstances.*
6. *The levy imposition must be equitable between levy payers.*
7. *The imposition of the levy must be related to the inputs, outputs or units of value of production of the industry or some other equitable arrangements linked to the function causing the market failure.*
8. *The levy collection system must be efficient and practical. It must impose the lowest possible 'red tape' impact on business and must satisfy transparency and accountability requirements.*

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http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Agriculture_levies/Terms_of_Reference

¹⁹ <http://www.agriculture.gov.au/SiteCollectionDocuments/ag-food/levies/documentsandreports/levy-principles-guidelines.pdf>

9. *Unless new structures are proposed, the organisation/s that will manage expenditure of levy monies must be consulted prior to the introduction of the levy.*
10. *The body managing expenditure of levy monies must be accountable to levy payers and to the Commonwealth.*
11. *After a specified time period, levies must be reviewed against these Principles in the manner determined by the Government and the industry when the levy was first imposed.*

Amendments to existing levies:

12. *The proposed change must be supported by industry bodies or by levy payers or by the Government in the public interest. The initiator of the change must establish the case for change, and where an increase is involved, must estimate the additional amount which would be raised. The initiator must indicate how the increase would be spent and must demonstrate the benefit of this expenditure for levy players.*

The basis on which these Principles were founded are still relevant and the NFF supports the continuation of these Principles. The NFF is open to discussion on strengthening the Principles to modernise, or to improve transparency and efficiency in the collection and disbursement of levies.

An example where change may be warranted is the ongoing role of industry once a levy has been established. Often, prescribed industry bodies and recognised organisations commit an extensive amount of resources to establish a levy for the benefit of their industry, only to have ongoing functions of the levy determined between the Department of Agriculture and the RRDC, for example with the negotiation of Statutory Funding Agreements.

Importantly, the Principles outline factors such as efficiency and practicality of the levy collection system (Principle 8). The NFF supports this principle and considers any recommendations to enforce regular polls of all levy payers inconsistent with this principle. Factors such as these must be considered in the context of individual commodities and the ability of the RRDCs and peak bodies to efficiently and effectively gauge the views of the majority of levy payers.

RECOMMENDATION: The Committee support the continuation of the Levies Principles and Guidelines as a guiding structure for the imposition, collection and use of levies. Further, the Committee consider modernising the Levies Principles and Guidelines given potential improvements in consultation mechanisms driven by evolving telecommunications infrastructure.

Beyond the transparency and accountability measures afforded in the Levies Principles and Guidelines, the legislative mechanisms governing the operation of the RRDCs provide a number of checks and balances for industry and taxpayers.

Governance, transparency and accountability requirements of the statutory RRDCs are outlined in the *Primary Industries Research and Development Act (PIRD Act)*. Industry Owned Companies have industry specific legislation setting the boundaries of the organisation and company constitutions that reflect the requirements of the industry specific legislation and the *Corporations Act 2001*.

The PIRD Act and industry specific legislation recognise a role for an industry recognised organisation or prescribed industry body to provide a level of oversight of levy expenditure, though this varies between RRDCs. These Acts, together with Statutory Funding Agreements (SFAs) between the RRDC and the Department of Agriculture set the governance and accountability requirements of each RRDC. Recent changes to the PIRD Act have brought statutory bodies into line with the requirement to negotiate a SFA with the Department of Agriculture. It should be noted that the provisions of the SFA vary between RRDCs.

Wool case study:

Regarding the appropriateness of Statutory Funding Agreements (SFAs), NFF member, WoolProducers Australia outlined in their submission that the SFA is strongly oriented towards compliance to government but lacks sufficient stipulation in regards to accountability to, and recognition of the needs of the growers that the RD&E and marketing is intended to serve.

This lack of codified industry engagement has led to WoolProducers recommending:

- A legislated relationship be created between an adequately resourced and independent peak industry body, WoolProducers Australia and the industry RD&E and marketing body, Australian Wool Innovation, to ensure policy and RD&E and marketing body activity unity and collaboration in the Australian wool industry.

Further:

- A robust review, specific and targeted take place into the consultation mechanisms of Australian Wool Innovation with growers, specifically focussing on the mechanisms surrounding the Industry Consultative Committee (ICC) and State Farming Organisation consultation, and that this review be separate from the standard three-yearly review.

In lieu of this:

- Section 15 of the SFA be adjusted to include codified, specific and prescribed arrangements according to good governance principles for consultation with industry bodies via *the ICC*. These arrangements to be made in agreement with industry bodies according to mutual requirements.
- Section 15 of the SFA be adjusted to include codified arrangements to meet and consult with *SFO representatives* according to good governance principles. These arrangements to be made in agreement with SFOs according to mutual requirements.

Given the variety of models within which the RRDCs operate, the Committee may wish to take stock of the various reporting requirements and consider whether a level of consistency would improve industry and Government confidence in the system. For example, the recent *Rural R&D Legislation Amendment Bill 2014*, brings to question the reporting requirements of various RRDCs, such as the requirements for Parliamentary tabling of annual reports.

Beyond these specific requirements, the partially public-funded nature of RRDCs ensures that scrutiny is also provided through Parliamentary processes such as Senate Estimates and Ministerial oversight of strategic governance documents. Such mechanisms should continue given Government contribution to the model.

RECOMMENDATION: The Committee should take stock of the various reporting requirements of RRDCs and consider whether a greater level of consistency is appropriate. The Committee should consider whether industry (as the greater financial contributor in the partnership) should have a formal contribution to the formulation of the base templates for Statutory Funding Agreements, given that the SFAs are being consistently applied across the RRDC model. A requirement for the Department of Agriculture to consult with the industry when reviewing the SFA template could facilitate this.

Consistent with the Principles, the RRDCs continue to address the areas of market failure. Features of the agriculture sector that contribute to market failure include:

- a large number of small businesses without the scale to undertake significant research and development of marketing activities in their own right;
- the lack of incentive and capacity for individual businesses to invest in marketing and R&D on their own;
- the ‘free rider’ effect;
- the spill-over benefits of rural R&D that are captured by the broader community.

These factors combined result in market failure. In the absence of intervention, this situation would result in severe under investment in these functions which would have a detrimental impact on the rural sector and the Australian economy more broadly.

While the Australian Government commits significant funds to businesses for research through measures such as the R&D tax incentive²⁰, these are largely unsuitable for farm businesses. Again, supporting the need for the RRDC model to facilitate this co-investment.

In concert with their work on research and development to deliver returns to industry, the RRDCs undertake significant research that deliver public good outcomes. A range of research is undertaken across areas such as the management of native vegetation, soils and water resources, reducing environmental impacts and understanding health benefits from food. These areas of research relate to issues where the benefits that would accrue to producers would not be sufficient to warrant investment. Investment areas such as natural resource management are particularly important, given that farmers manage the majority of Australia’s land mass and deliver a wide range of ecosystem services for the benefit of the entire community.

Areas of additional value delivered by the RRDCs include: facilitating a strategic view of the challenges and opportunities which face agricultural industries; brokering research in technical areas where individual members of industry have limited skills; and navigating a complex operational environment where there are multiple research institutions, agencies and partners. The unique function of the RRDCs, along with the combination of skills and resources they possess, do not exist elsewhere in Industry or Government. The loss of these organisations

²⁰ <https://www.ato.gov.au/Business/Research-and-development-tax-incentive/In-detail/Fact-sheets--ATO/Research-and-development-tax-incentive---refundable-and-non-refundable-tax-offsets/>

would be a significant blow to the agricultural industries, potentially undermining the international competitiveness of the majority of businesses within the sector.

Industry groups have generally found the RRDCs responsive to the strategic challenges which face industry and the broader community. The development of strategic corporate documents, including strategic research plans and annual operational plans by the RRDCs ensure that programs of research are undertaken that align with the interests of Government and industry, and that they account for changes in the operating environments of the various industries. There is also the flexibility within the RRDCs to respond to rapidly emerging operational challenges for industries, such as changes in agricultural spray drift regulations. Programs directly administered through Government tend not to have the continuity and the level of industry support as those administered by the RRDCs

There is an expectation that each RRDC will invest in a mix of priorities. There is a role for the RRDCs to invest in research to underpin current operations within an industry, such as managing pests and diseases, but also to undertake aspirational and risky research that will position the industry for future decades. Whilst other agencies may profess to undertake this research, the approach of working in partnership with industry to understand the challenges, map a research and development strategy for industry, and develop an integrated research investment program to address the research and development needs are functions unique to the RRDCs.

Whilst it is possible for the private sector to capture returns where it can secure intellectual property and re-invest the returns to fund research, the Australian market for crop varieties, chemicals and other technologies is relatively small by international standards. In this situation the cost and complexity of Australian regulation may act as a barrier to increased private investment in agricultural research and the transfer of technologies developed internationally.

It is also possible that the private sector could increase its involvement in undertaking and 'extending' research to farmers. However, variability in seasonal income, consolidation of farm enterprises and specialisation in farm businesses can act as significant hurdles to farm consultants seeking to establish a private business in the sector. In developing strategies to encourage private investment and participation in Australian agricultural research, the nature and structure of the Australian agricultural industries needs to be considered, and care taken when applying assumptions that the experiences of Europe or the United States of America reflect the Australian market.

4. Competing pressures for finite R&D funds

The positive returns demonstrated through economic evaluations of the research undertaken by RRDCs and research institutions have been discussed and debated in a number of forums. No doubt the vast majority of submissions to this Inquiry will again reiterate the positive returns from R&D investment. The challenge going forward will be whether there is sufficient R&D investment linked to Australian farming systems to continue to drive international competitiveness.

Despite common misconceptions, Government support of programs that deliver benefits for Australian farms represents an insignificant amount of farm income (around 2%). By comparison, according to the Organisation for Economic Cooperation and Development (OECD), support provided to Korea represents 52% of farm incomes, Japan is 54%, the European Union is 19%, Canada is 14%, and the United States is 8%²¹.

Australian farmers are among the most self-sufficient in the world, and the funding partnership provided through the RRDCs between industry and government is critical in driving innovation and maintaining competitiveness in a distorted international marketplace.

RECOMMENDATION: The Committee consider the international context of Australian agriculture, including the extent to which the Australian Government invests in and supports the competitiveness of the Australian agriculture sector.

Agricultural productivity growth is closely linked to innovation and RD&E. Australian public R&D directly accounted for nearly a third of the productivity growth experienced in Australia's broadacre farming sector between 1952–53 and 2006–07²². Between 1977–78 and 2009–10 broadacre productivity growth averaging 1.2 percent a year helped maintain farm profitability in the face of generally worsening terms of trade (i.e. output prices relative to input prices)²³.

Apart from a spike in investment in 2001, Australia has had little growth in real R&D investment since the mid-1970s²⁴. The NFF notes that this can be attributed to both the Australian Government and various state government withdrawals from activities such as R&D and extension. There can be a time lag of several decades for the impact of R&D investment to show up in agricultural productivity. ABARES has identified a downturn in total factor productivity growth in the mid-1990s, and this slowdown has likely been caused by a combination of adverse seasonal conditions and stagnant public R&D expenditure since the late 1970s²⁵. This stagnation is cause for serious concern.

Without increased investment in R&D, the associated limitations of productivity growth will no doubt impact on the profitability and international competitiveness of Australian farm

²¹ OCED, *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2014*

²² Sheng, Y., Gray, E., Mullen, J., & Davidson, A. (2011). *Public investment in agricultural R&D and extension: an analysis of the static and dynamic effects on Australian broadacre productivity*. ABARES.

²³ Gray, E., Sheng, Y., Oss-Emer, M., & Davidson, A. (2012). Agricultural productivity: trends and policies for growth. *Agricultural Commodities*, 2(1), 166-179

²⁴ Sheng, Y., Mullen, J., & Zhao, S. (2011). *A turning point in agricultural productivity: consideration of the causes*. Canberra: ABARES research report 11.4 for the Grains Research and Development Corporation.

²⁵ Sheng, Y., Mullen, J., & Zhao, S. (2011). *A turning point in agricultural productivity: consideration of the causes*. Canberra: ABARES research report 11.4 for the Grains Research and Development Corporation.

businesses. The challenge is ensuring that the RRDCs are delivering the research outcomes that farmers need now, and into the future.

This balance of immediate research needs, and research with long-term horizons can become strained with increasing pressure on available funds, as research bodies are pursued to demonstrate returns. This needs to be monitored carefully, and a balance of short and long-term research must be pursued, given the future needs of Australian farmers will not only be for incremental changes to their farming systems, but also step-changes in farming systems approaches.

RECOMMENDATION: The Committee consider the limitations of Australian farm business profitability that have occurred due to a stagnation of research investment.

The current system of funding for RRDCs is supported by the NFF as a sensible investment by both farmers and the Australian Government. The use of industry levies and government matching funding promotes a partnership approach, and provides an incentive for the agricultural industries to invest in a variety of important functions.

In addition to their core business of providing research, development and marketing activities, RRDCs are a point of coordination for the industry, and are often relied on by Governments to provide technical information and support about their industry in a range of forums.

RRDCs overcome the diffuse nature of the agriculture sector, and provide an easy point of coordination with Government on issues such as market access, trade, biosecurity, and food safety.

The RRDCs have also played a major role in shaping Australia's national and international policy position on key issues. An example of this is the recent negotiations of bilateral trade agreements with Korea, Japan and China, which were underpinned by sound analysis by the RRDCs. Without such support, agriculture would likely not benefit to such an extent from these negotiations.

In addition to the value returned to Australians from the investment in R&D, the Australian government leverages rural R&D undertaken by the RRDCs in other ways. The research, development and extension funding managed by the RRDCs is also accessed and leveraged by other Federal Government Departments. For example, the work of the Australian Centre for International Agricultural Research (ACIAR) leverages the research and human capacity supported by the RRDCs to assist in delivering the International development aid obligations made by the Australian Government. The education and extension programs offered by ACIAR also leverage the capacity and resources developed through the historical investment in R&D by the RRDCs. It is important to note that the leveraging of Australian research on agricultural productivity in this way encourages the spill-over benefits of Australian research to the international community. That being said, it is important that such efforts are aligned closely with the economic interests of Australia and produce benefits for Australian farmers. Australian Government investment should facilitate, and not crowd-out, the development of private markets for the transfer of knowledge and agricultural education by Australian businesses. We need to look for greater opportunities for collaboration between the R&D efforts of our domestic industries, and the Government investment in international agricultural R&D. This can facilitate the flow of benefits to both Australia and the developing nations that require our support.

The number one strength of Australia's rural R&D system is the partnership it has built between industry and researchers, and the benefits this has brought giving scientists feedback on farmer preferences. This has delivered advantages to Australian agriculture through the development of practical tools and technologies that meet the needs of Australian farmers. In the longer term, Australia must consider the resources and human capital required to continue to deliver these benefits – but also to take the step up and meet the future challenges described.

Maintaining core Australian research capability, and the role of RRDCs in supporting this is one area which illustrates the poor coordination and lack of clarity around responsibilities which exists in the broader Australian R&D system. A number of NFF members have expressed concerns at the dwindling science expertise available to support their industry, in areas including soil science, plant pathology, and agronomy. As investors in research, working on behalf of industry and Government, the RRDCs have an interest in ensuring that there is an appropriate research capacity which can be accessed.

Anecdotal evidence suggests that because of the limited tenure and employment contracts provided to researchers, there has been a move by RRDCs to enter into contracts which support the salaries of key individuals to ensure they remain in employment. This is magnified by funding pressures of universities and public research institutions such as CSIRO. The decline in State investment in rural research and development and substitution of funding by the RRDCs has been documented on numerous occasions²⁶²⁷.

Given that drought and variability in world markets alters the value of agricultural production, it is also important that the RRDCs have the capacity to develop and manage financial reserves. These reserves allow long term commitments to be made to research programs, which is a vital component of successful rural research and development programs. The funding model, including the Government matching contribution, is a key element which has contributed to the success and broad industry support for the operation of the RRDCs.

RECOMMENDATION: The Committee explore the additional “institutional value” provided to the RRDCs, which support government policy decision making and implementation.

²⁶ http://www.daff.gov.au/data/assets/pdf_file/0020/1435331/rd-retrospective-report.pdf

²⁷ http://www.daff.gov.au/data/assets/pdf_file/0007/1463992/rd-abare-report.pdf

5. Levy payer's ability to influence areas of levy investment

There are a range of different mechanisms for levy payers to provide input to levy investment, including participation by farmers and peak industry bodies in priority setting for research agendas. These differ across commodities for a variety of reasons, and individual commodity groups and RRDCs will be best placed to outline their respective engagement structures.

For example, within some commodities the Prescribed Industry Bodies (PIB's) and Representative Organisations (RO's) who represent levy paying farmers have an involved role outlined in industry specific legislation, while others have a high-level generic role as outlined by the PIRD Act.

Due to the different approach within each industry, the Committee must be careful not to recommend any changes to address the structural issues of a single commodity, which may result in unintended negative consequences for other commodities.

Rice case study:

As outlined in NFF-member Ricegrowers Australia (RGA) submission to this Inquiry, investment priorities and decisions for Rice RD&E are determined by the RIRDC Rice R&D Committee, as informed by the five year plan, which is also reviewed and set by the committee. The Rice R&D Committee is comprised of the following representatives:

- Six appointed grower delegates, including the Chair
- One delegate from each of Ricegrowers Limited (SunRice) and the Rice Marketing Board for NSW
- Two independent technical experts
- The RIRDC rice program manager
- RGA Executive Director in the capacity of committee secretary

The Chairman of the Rice R&D Committee or his delegate reports regularly to growers at a number of industry events, including the annual rice field day, industry R&D workshop, RGA Annual General Meeting and RGA branch meetings held across the region in February and June of each year. These are opportunities for growers to not only hear about how the industry has prioritised RD&E expenditure, but to provide feedback on grower priorities that help inform the committee's expenditure decisions. Regular contact between growers and the rice industry's network of extension officers also provides growers and their retail agronomists with regular opportunities to directly feed the latest R&D priorities into the system.

In 2011, growers were also asked to approve a permanent levy rate of up to \$3/tonne (previously a temporary rate scheduled to revert to \$2/tonne). Opinion on this levy measure was canvassed across all RGA branches in June 2011 and received unanimous support.

RECOMMENDATION: The Committee consider the importance of various approaches given the different characteristics of each commodity sector.

6. Levy payer's opportunity to approve/re-approve imposition of levies

As outlined earlier in this submission, the broad parameters for industry to amend existing levies are set out (Principle 12) within the Australian Government *Levy Principles and Guidelines*²⁸.

Ultimately, once industry has followed the process set out in the *Levy Principles and Guidelines*, the decision on the imposition of a levy or changes in levy rates is made by the Australian Parliament. This robust process ensures bipartisan support for the levy beyond any term of Government and ensures industry support is sufficient to warrant Government support.

Pork case study:

In December 2011, NFF member Australian Pork Limited (APL) submitted an application to the then Department of Agriculture, Fisheries and Forestry, that presented the case for an increase in the Pig Slaughter Marketing levy. A comprehensive independent cost benefit analysis was completed to support the case for the increase; estimating the additional amount that would be raised; indicating how the funds would be spent; and demonstrating how this expenditure would benefit levy players. APL had also conducted extensive consultations with producers, as required under the *Australian Government's Levy Principles and Guidelines*.

As part of the process, industry consultation took place from May 2011 to October 2011. APL regularly provided information on the proposed levy rate change to all levy paying pork producers, whether APL members or not, through pork media channels, state farming organisation networks and APL's external communication stream. During this time, APL placed stories in the rural media, information on the APL website and in APL publications, attended state farming organisation meetings and also distributed correspondence, including newsletters, updates and flyers, and requested producers feedback and comments. Pig producers were also directly contacted by phone, letter, email or facsimile as well as face to face at regional meetings.

Following these consultations, a ballot (Pork levy ballots are production weighted, in accordance with the Strategic Funding Agreement) was conducted which resulted in a vote of 73 percent for, and 27 percent against the then proposed Marketing levy increase. The weighted production value of these votes was \$6.6 million for and \$2.4 million against, in terms of levy paid. There were no informal votes.

There may be opportunities to provide a greater say for levy payers regarding the re-approval of levies. However, these opportunities must be balanced against the costs of such processes

²⁸ <http://www.agriculture.gov.au/SiteCollectionDocuments/ag-food/levies/documentsandreports/levy-principles-guidelines.pdf>

diverting funds away from R&D activities and the regulatory impost caused by such a process, noting some commodities have existing robust processes. This will particularly be the case for smaller industries (such as rice), where the economics of adhering to accountability measures that involve formal, universal polling processes is prohibitive, when the industry has alternative ways of demonstrating support for the current arrangements.

The impost of blanket accountability rules to address identified issues within a particular commodity group would not be appropriate. However, a possible opportunity for improving the current system may be the development of accountability guidelines that RRDCs are recommended to follow, but allows a tailored approach recognising unique circumstances.

NFF member the Ricegrowers' Association of Australia has suggested that this approach could reflect the 'if not, why not' reporting requirement that applies to ASX listed companies. That is, if the guidelines are not followed to the letter, industries would be required to explain why, and what alternative accountability arrangements are in place. If a satisfactory explanation is provided, no action from government would be needed. This would give individual industries the flexibility to manage their accountability to levy payers in a way that suits their circumstances, but does not allow them to deviate unreasonably from important accountability principles. Ultimately, it must be recognised that the Minister for Agriculture has approval of the process and the outcome.

RECOMMENDATION: The Committee consider the various needs of individual commodities in consideration of any changes to levy payers' ability to influence the imposition of levies. Further consultation would be required with RRDCs and levy payers before progressing any standard practice across the board.

7. The transformation of R&D and marketing into increased returns at the farm gate, including the effectiveness of extension systems

R&D generates new knowledge and technologies, but extension services play a crucial role in communicating these in a useful form. Rapid development in information dissemination targeted at rural producers and land managers is occurring across an increasingly diverse array of information channels. The traditional public extension channel for disseminating information to land managers is in decline, as state governments continue to withdraw services, and the private market has not yet fully developed to fill this gap. Federal investment into Natural Resource Management organisations don't deliver the farming information required and RRDCs are each taking a slightly different approach as they explore how they can assist with the uptake of R&D.

Whether in relation to land and soil research, water management, productivity oriented research or other high public good research, there is a need to continuously develop the extension/technology transfer function and closely link this function to research performance.

State and Territory Governments have historically underpinned the funding and delivery of on-farm extension services in Australian agriculture, but this has been changing over a number of decades²⁹. Private agronomists, input suppliers, grower groups and RDCs have become increasingly important sources of extension services over time. On-farm extension is in a state of flux and how it will look and function in the future is uncertain³⁰.

The effectiveness of an extension model is dependent on the operating environment of the business.³¹ The demographics of the population being serviced, the nature of information and the technical proficiency of the sector and its service providers all comes into play in determining the likelihood of whether extension of R&D is successful, "Efficient delivery of extension services to the different sub-sectors will clearly require different approaches"³².

The benefits of RD&E are only realised when individuals choose to adopt new technologies and management practices. This capacity to adopt new innovations will be important as increasingly sophisticated farm technologies are developed. Education policy and funding will thus have a bearing on how agriculture can benefit from RD&E. In other parts of the value chain, the capacity to drive innovation appears to be linked to different factors, including access to capital and the cost of getting new products to market.

The trend to move away from publically funded models of extension to communicate the outcomes of research has been questioned by some quarters, and it is not clear if there has been an evaluation undertaken of how current models of extension have performed compared to the publically funded models relied upon to deliver outcomes in the past. Under private models of extension, farmers who are new to the industry or who may have limited financial resources, including young farmers, may find it difficult to pay for 'the best advice'. It is also

²⁹ Sheng, Y., Gray, E., Mullen, J., & Davidson, A. (2011). *Public investment in agricultural R&D and extension: an analysis of the static and dynamic effects on Australian broadacre productivity*. ABARES.

³⁰ http://www.academia.edu/8290103/The_Many_Turnings_of_Agricultural_Extension_in_Australia

³¹ Mick Keogh *Optimum Extension models depend on the environment*, November 3 2014
http://www.farminstitute.org.au/blog/Ag_Forum/post/optimum-extension-models-depend-on-the-environment/

³² Mick Keogh *Optimum Extension models depend on the environment*, November 3 2014
http://www.farminstitute.org.au/blog/Ag_Forum/post/optimum-extension-models-depend-on-the-environment/

unclear as to how effectively the outcomes of Government programs and regulation on public good issues, such as chemical use and management of on-farm biodiversity, are picked up and communicated through private extension services. The move to private extension may also reduce the feedback loop to researchers, which has always been a vital link for researchers to understand industry and target the outcomes of future research.

The NFF is of the view that an appropriate balance needs to be struck between expenditure on R&D and extension to ensure research efforts are adequately considered and applied where appropriate by farm businesses. Further to this point, a review of extension and adoption components of all agricultural R&D should be undertaken at a national level.

A national review of agricultural extension would consider work undertaken to date on how farmers receive information, and consider the multitude of approaches that currently exist. Rather than funding old models, the review should consider how to facilitate the development of extension models for certain regions or industries and the role of public/private partnerships in establishing extension models that meet the needs of farmers. Successful models of technology and communication should be taken as case studies, and a focus on facilitating establishment of models where gaps exist should facilitate the entrance of private providers, rather than crowd them out.

RECOMMENDATION: The Committee consider whether a cross-jurisdictional review of agricultural extension is warranted, given the evolving extension landscape.

These factors driving change within the extension system are constantly evolving, and while some RRDCs are actively working to improve the way farmers receive information, more can be done to deliver a coordinated approach. The answer will not be the Australian Government or RRDCs fully filling the gaps left from state withdrawals. However, the Australian Government, in collaboration with the RRDCs can play a much stronger role in helping facilitate the development of private extension services for the benefit of farmers.

Emerging opportunities, such as E-extension, need to be further considered across all commodities as the digital economy plays an increasingly important role in information dissemination. However, this will need to be considered in the context of farmers' access to adequate telecommunications infrastructure.

RECOMMENDATION: The Committee consider whether improved coordination of RRDCs extension efforts would lead to better services for farmers.

8. Collaboration on research to benefit multiple industry and research sectors

The need for greater coordination and collaboration in research and development across industry and regional programs has been discussed in a number of forums, and the NFF has been supportive of a number of the cross RRDC initiatives that have been undertaken. The Managing Climate Variability Research Program (MCVP)³³ is an example of this.

Improvements may come through reducing duplication, improving information sharing, and better use of the knowledge and resources of different providers. It is important that the mix of public and private benefits from investment in R&D are taken into account, and that implicit benefits to society are acknowledged.

Research areas which set out to address cross-industry issues may be characterised by individual industries being unable to capture the benefits from the R&D. Although the commodity structure of RRDCs provides specific benefits and the ability for a core focus on specific commodity issues, the broader cross-sectoral industry issues do not always fit neatly within the framework. This has the potential to result in underinvestment and free-riding.

These issues have continually been raised since the abolition of Land & Water Australia³⁴ in 2009. Any prospects of the Rural Industries RDC taking a greater role in coordinating cross-sectoral R&D will be limited, given recent cuts to its already tight budget³⁵.

While previous discussions of establishing a new cross-sectoral body must be given due consideration, the costs and complexity of establishing a body must be weighed against the potential benefits. The Productivity Commission's recommendation to establish Rural Research Australia recognises and seeks to address an obvious gap in an area of research investment which has significant benefits for the Australian public, as well as Australian farmers. However, the lessons that come from Land & Water Australia's operation and its closure need to be recognised in seeking to fill this gap.

Significant challenges lie in maintaining investment in research with public good outcomes during periods where the Government is seeking to make budgetary savings. Mechanisms need to be put in place to ensure the budget for public good research increases over time to keep track with inflation and increasing information demands, as well as ensuring that the investment program has longevity. The NFF also observes that strong links must also exist with other agricultural research programs and industry, to ensure that where possible there is a focus on 'win-win' outcomes to ensure the research undertaken does not 'sit on the shelf' but is acted upon.

The current programme – Rural research and development for profit³⁶, provides a significant incentive for the RRDCs to invest collaboratively. To be eligible for grant funding, RRDCs must partner with one or more researchers, research agencies, RRDCs, funding bodies, businesses, producer groups, or not-for-profit organisations. This funding programme

³³ <http://www.managingclimate.gov.au/>

³⁴ <http://lwa.gov.au/>

³⁵ <http://www.theland.com.au/news/agriculture/agribusiness/general-news/rirdc-in-emergency-talks/2698661.aspx?storypage=0>

³⁶ <http://www.agriculture.gov.au/agriculture-food/innovation/rural-research-development-for-profit>

provides a unique opportunity to consider how RRDCs collaborate in response to incentives, and whether further structural changes are required in the long-term to drive a greater level of collaboration.

While establishment of a cross-sectoral body may be premature at this stage, the NFF encourages considerations of other mechanisms to encourage greater collaboration. For example, with all RRDCs now obligated to have a Statutory Funding Agreement (SFA) with the Australian Government, there may be an opportunity to drive greater collaboration through this process. One option may be to canvas industries views on building a clause into SFAs for RRDCs to invest a small proportion of their budget into cross-sectoral projects. While it then may be beneficial to allow the RRDCs flexibility in the specific projects they choose, this type of mechanism may achieve the desired result without the expensive administrative overheads of a new entity.

The NFF notes that there has been discussion regarding the potential to consolidate the administrative operations of the RRDCs, based on the assumption that this would reduce costs and generate efficiencies. Any proposed changes to the operation of the RRDCs must be carefully considered in partnership with industry, and in the context of how the change will generate improvements in the effectiveness of the RRDCs and delivery of outcomes from their investment.

Regarding collaboration beyond the RRDC network, the RRDCs are major partners in the National Primary Industries RD&E Framework³⁷. This framework includes the RRDCs, the Australian Government, State and Territory Governments, Universities, and CSIRO, with the aim of encouraging greater collaboration and promoting continuous improvement in the investment of RD&E resources nationally. While the NFF encourages continual work towards these goals, the NFF also encourages research providers and funders to consider how to move beyond co-ordinating existing R&D and move towards a greater level of joint-investment in cross-sectoral issues.

Overall, structures that increase collaboration of RRDCs should be considered. However, such processes should look to improve the overall outcomes from the system, rather than simply cost-shifting within the current system, or placing additional administrative burden on the system. Any changes should also consider how to leverage a greater level of investment in agricultural RD&E, through leveraging existing structures for the benefit of Australian farmers, broader agricultural supply chains and research investors.

RECOMMENDATION: The Committee analyse the level of collaboration driven through the \$100 million Rural Research and Development for Profit programme before considering any recommended changes going forward.

RECOMMENDATION: The Committee consider how to leverage a greater level of collaboration, including through attracting additional investment in agricultural RD&E and exploring the use of collaboration clauses in Statutory Funding Agreements.

³⁷ <http://www.agriculture.gov.au/agriculture-food/innovation/national-primary-industries>

9. Industry governance arrangements, consultation and reporting frameworks

As canvassed throughout this submission, the RRDCs have a variety of governance, consultation and reporting frameworks to deliver accountability to levy payers and the Australian Government. These differ across each commodity, taking into account the characteristics and needs of each industry. The NFF would encourage the Committee to continue considering the various needs of the various commodities, rather than pursue mandatory and consistent requirements across the sector. While this may address concerns in some commodities, it is likely to create new ones in other industries.

We must continue to improve the evaluation of RD&E – both to inform future investments and to demonstrate the benefits of the model. Measurement and evaluation should contribute to the efficient allocation of resources, but it is important that decision-makers understand the potential trade-offs in different RD&E investment strategies. Extension may provide greater short-run profits which are more readily identifiable.

The NFF supports greater transparency in the expectations of public funding for rural research and development. At present, the Rural Research and Development Priorities and the National Research Priorities are applied across the investment portfolios managed by the RRDCs. Whilst these priorities exist and have been agreed upon, there has been a lack of clarity in government expectations, which has created uncertainty in industry as to what the Government is looking for from its investment partnership through the RRDCs.

Due to the long term nature of research and the lead time in delivering research outcomes, it is important that there is continuity in the principles underpinning government investment in rural research. It is also important that mechanisms for measuring performance against these principles are transparent and robust. For this reason, Ministerial involvement in priority setting should be avoided as this is likely to lead to a focus on the shorter term and reactive priority setting.

Following the collection of levies, the Department of Agriculture also reports on the distribution and expenditure of levies through such mechanisms as reports to levy stakeholders³⁸. While there is significant effort put into such publications, many industry levy payers are not aware of these resources, and the NFF would encourage the Department of Agriculture to consider improved promotion of useful information.

Further, due to the varying collection points of levies, the NFF understands that some RRDCs are not able to clearly identify, or engage with, their levy payers (While some such as Australian Pork Limited have models such as PigPass). It may be worthwhile considering opportunities to improve identification and engagement with all levy payers by the Australian Government, but particularly RRDCs, where they do not have robust existing structures in place.

RECOMMENDATION: The Committee should consider the ability of the Department of Agriculture and RRDCs to identify and engage with levy payers. The development of levy payer databases could underpin a range of engagement strategies going forward, particularly with the aim of improving accountability to levy payers in the investment of their levy contribution.

³⁸ <http://www.agriculture.gov.au/SiteCollectionDocuments/ag-food/levies/documentsandreports/report-to-stakeholders-2013-14.pdf>

A number of models of operation for RRDCs exist, and these vary between different industries. The industries involved are best placed to provide a review of the effectiveness of the various models of RRDC operation. However, there are some overarching observations that need to be made with regard to the strengths and weaknesses of the RRDC model. As a consequence of the operation of the RRDCs outside of the Government's Industry portfolio, there is the likelihood of poor coordination and policy consistency with other aspects of Government policy and programs on innovation. This may limit the effectiveness and coordination of these programs with rural research and development in Australia, and a significant opportunity exists for Australia to develop a more strategic and integrated approach to research related to food and fibre production and the broader agricultural 'value chain'. The development of a coordinated approach between the Department of Industry and the Department of Agriculture would be one option to strengthen the policy approach to rural innovation and supporting programs.

Within this context, it would be worthwhile to the Committee to consider the value of the Department of Agriculture undertaking a concerted effort to improve engagement with the existing Prescribed Industry Bodies (PIB's) and Representative Organisations (RO's) who represent levy paying farmers. Despite requests, the Department regularly engages the RDCs at the expense of the farming groups and does not make a concerted effort to engage with industry on a regular basis regarding rural R&D (with the exception of Australian Pork Limited, who have a dual function of RRDC and industry representative body). An improved conversation between the Department and the groups actually representing levy payers is likely to lead to the identification of areas where the efficiency and effectiveness of RDCs can be improved, without undermining the integrity of the model.

RECOMMENDATION: Beyond considering the various characteristics and associated requirements for each commodity, there would be value in the Committee considering a formal consultation mechanism between the Department of Agriculture and peak farming bodies on a regular basis to assess performance of the RRDC model and consider improvements.

10. Conclusion

Significant challenges exist for Australian agriculture. Delivering better quality and more competitively priced food and fibre with improved environmental and animal welfare outcomes, whilst responding to climate variability and climate change, dealing with emerging biosecurity threats and adapting to energy and resource scarcity mean that there will be greater demands for innovation in agriculture. The capacity for rural RD&E to make a significant contribution to these challenges, which have far reaching implications for all Australians, is clear.

The NFF's view is that Australia has the broad architecture for public and industry investment in rural R&D about right, with only minor improvements required. However, as public focus on extension continues to decline, further work is required to ensure effective extension pathways are in place.

The challenge is to make sure the agricultural innovation system works; the research effort is maintained; and the system can deliver the innovation required and encourage further investment – it will be important that there is not reduced funding to what is recognised as an effective program. The NFF looks forward to the outcomes from this inquiry, including a greater level of accountability for levy payers and a more effective and efficient rural RD&E system.