

Chapter 2

Issues

2.1 Issues identified with the proposed cost recovery amendments are explored in paragraphs 2.2–2.60. Submitters' views on the changes to reporting requirements and RDC meeting requirements are considered in paragraphs 2.61–2.77.

Concerns with the cost recovery proposal

2.2 The committee received evidence from representatives of industry and the RDC sector, and state governments. All were concerned with the proposal to require RDCs to repay the cost of Australia's membership of international commodities organisations and fisheries organisations. A number of reasons were given for this concern:

- First, it was argued that the proposed amendments would undermine the existing R&D partnership model between industry and the government [paragraphs 2.4—2.9].
- Second, submitters challenged the premise that the amendments would introduce a 'user pays' method of cost recovery [paragraphs 2.10—2.20].
- Third, it was debated whether membership of international commodities organisations and fisheries organisations benefits Australian industry [paragraphs 2.21—2.38].
- Fourth, submitters questioned whether the use of research and development funding to cover membership fees is in keeping with RDC funding agreements and statutory requirements [paragraphs 2.39—2.40].

2.3 Submitters also commented on the apparently disproportionate impact it is anticipated the proposed amendments would have on the Fisheries RDC [paragraphs 2.41—2.47]. Lastly, strong concerns were raised with the consultation process for the draft bill [paragraphs 2.48—2.50].

The R&D partnership model

2.4 It was put to the committee that the proposed amendments 'strike at the heart of the rural RDC model'.¹ The committee heard that the current RDC funding model is a 'partnership between industry and government'.² The view that RDC funding is a mutual, collaborative arrangement between government and industry was shared by

1 Mr Timothy Lester, Operations Manager, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 15.

2 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 15.

representatives of the RDC sector³ and industry.⁴ It was evident that the current partnership model has general support, with industry advising that the co-operative approach to research and development funding is 'world class'.⁵

2.5 However, the proposed amendments, it was argued, represent a fundamental shift in Australia's RDC funding arrangements. Speaking on behalf of Australia's 15 RDCs, the Council of Rural Research and Development Corporations contended that the proposed measures 'will change the nature of the co-investment model'. The council explained:

The capped matching model for government industry co-investment is at the heart of the primary industries RD&E investment arrangements. Any changes to this model will change the intent and weaken the model.⁶

2.6 Similarly, Grain Growers Ltd noted that the measures are 'not consistent with the key principles that support the relationship between the Australian grains industry...and the government'.⁷ The National Farmers' Federation (the NFF) submitted that the proposed amendments would instigate a 'slow dismantling' of the RDC partnership model,⁸ while Australia Pork Limited advised that the amendments would alter 'an agreed formula'.⁹ Sugar Research Australia Ltd viewed the amendments as 'jeopardising the government industry partnership model'.¹⁰

2.7 As these statements indicate, the proposed amendments were seen as arbitrary, unilateral government action rather than a funding decision taken in concert with industry.¹¹ These concerns are captured in the following advice from the Council of Rural Research and Development Corporations:

It looks like a minor change, but if we actually see what is happening, for a long time industry and government have been in partnership through the RDCs on basically equal footing. What is now happening is the government has said, 'Sorry, we're a bit short of cash, so we're going to use some of those funds because this appears to be an industry benefit.' In a sense, that is appropriate for government to do. Fundamentally, at the base here is a

3 See, for example, Dr Cheryl Kalisch Gordon, Manager, Trade and Market Access, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 31.

4 See, for example, National Farmers Federation, *Submission 11*, p. 7.

5 Winemakers Federation of Australia and Wine Grape Growers Association, *Submission 2*, p. 3.

6 Council of Rural Research and Development Corporations, *Submission 8*, p. 2.

7 Dr Kalisch Gordon, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 31.

8 National Farmers Federation, *Submission 11*, p. 7.

9 Mr Andrew Spencer, Chief Executive Officer, Australian Pork Limited, *Committee Hansard*, 11 November 2014, p. 18.

10 Sugar Research Australia, *Submission 4*, p. 4.

11 See, for example, Wine Grape Growers Australia and Winemakers' Federation of Australia, *Submission 2*, p. 3; Australian Horticultural Exporters Association, *Submission 13*, p. 2.

partnership between industry and government where one party is deciding to move unilaterally without consulting the others.¹²

2.8 Submitters' concerns were not limited to the text of the proposed amendments. It was recognised that, if passed, the amendments may have potentially far-reaching impact. The Winemakers Federation of Australia, the Wine Grape Growers Association, and the Australian Horticultural Exporters Association all submitted that the proposed amendments would create a 'loophole' for future unilateral government cost-shifting to industry.¹³ According to the Council of Rural Research and Development Corporations, the NFF and Australian Pork Limited, this loophole would create a precedent for future government action. The amendments, if passed, would create an uncertain future for industry and the RDC sector.¹⁴ As the Council of Rural Research and Development Corporations submitted:

Ultimately, it sets a precedent where government can come through and reallocate funding that has had a longstanding, sustainable arrangement with industry for the delivery of R&D...At the moment, through the arrangement, it is restricted to the fisheries, grains, cotton, sugar, and grape and wine. There is nothing other than 'well, it hasn't happened before' to say what other international organisations are out there that we may be a member of, that we may be looking for the government at some point to say, 'That one has industry benefit; maybe we can get some funding from somewhere to pay for it.' We do not have that detail.¹⁵

2.9 Fundamentally, there was concern that the proposed amendments would undermine trust in the RDC partnership model.¹⁶ In this vein, the Australian Horticultural Exporters Association sought assurances that the proposed amendments would not pave the way for future unilateral cost shifting.¹⁷ However, in response to these concerns, the Department confirmed that the proposed amendments would set a precedent for future transfers of costs from government to industry.¹⁸

12 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 15.

13 Wine Grape Growers Australia and Winemakers' Federation of Australia, *Submission 2*, p. 3; Australian Horticultural Exporters Association, *Submission 13*, p. 2.

14 Mr McKeon, National Farmers' Federation, *Committee Hansard*, 11 November 2014, p. 45; Mr Spencer, Australian Pork Limited, *Committee Hansard*, 11 November 2014, p. 18.

15 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 15.

16 Dr Kalisch Gordon, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 31; Sugar Research Australia, *Submission 4*, p. 7.

17 Australian Horticultural Exporters Association, *Submission 13*, p. 2.

18 Mr Koval, Department of Agriculture, *Committee Hansard*, 11 November 2014, p. 1.

A 'user-pays' cost recovery policy

2.10 Submitters also challenged the assumption underlying the bill that the proposed amendments would introduce a 'user pays' cost recovery system. As stated in the bill's explanatory memorandum:

From 2014–5, the government will recover the cost of the memberships from the matching funding it contributes to the relevant RDCs that coordinate research for the industry which benefits the most from the membership.¹⁹

2.11 This 'user pays' policy was questioned on two grounds.

Membership benefits may be unrelated to research and development

2.12 First, submitters disputed the assumption underlying the bill that it is solely through the research and development sector that industry derives benefit from Australia's membership in the regional and international organisations. It was argued that any potential membership benefits may be unrelated to R&D.

2.13 The Australian Grape and Wine Authority provided information about the objectives and purpose of the International Organisation of Vine and Wine (the OIV). The Authority explained that the OIV contributes to the international coordination of practices and standards. Notably, the committee was informed that membership benefits 'are broadly market access and industry development...rather than solely R&D related.'²⁰ Therefore, the Authority questioned the rationale for requiring research and development corporations to pay 100 percent of the membership fees. The Australian Grape and Wine Authority submitted:

The accounting treatment for this particular membership fee would be an apportionment between R&D and non-R&D for Commonwealth matching purposes. But it would be incorrect to offset the full amount from Commonwealth matching where a proportion of the fee was for non-R&D purposes.²¹

2.14 Grain Growers Ltd also noted the potential for membership benefits to be unrelated to research and development. Speaking in relation to the International Grains Council, Grain Growers Limited submitted that the 'proposed amendments do not consider the range of stakeholders that might benefit'. It was suggested that

19 Rural Research and Development Legislation Amendment Bill 2014, Explanatory Memorandum p. 3.

20 Mr Edwin Parker, Financial Controller, Australian Grape and Wine Authority, *Committee Hansard*, 11 November 2014, p. 40.

21 Mr Parker, Australian Grape and Wine Authority, *Committee Hansard*, 11 November 2014, p. 40.

potential beneficiaries may include other commodities, grain traders and exporters, and, indeed, the public.²²

2.15 The NFF made similar observations. The Federation submitted that membership of international commodities organisations may provide trade benefits that are separate to research and development considerations. Australia's participation was characterised as 'soft diplomacy'.²³ Accordingly, the NFF argued that it would be appropriate for the membership costs to be recovered from the Department of Foreign Affairs and Trade.²⁴ The relevance of trade is evident in the Department's description of the purpose of the International Grains Council:

The International Grains Council (IGC) and member countries oversees the implementation of the Grains Trade Convention, an important multilateral treaty to facilitate trade in wheat, coarse grains (corn, barley, sorghum and other grains), rice and oilseeds. Its aims are to strengthen international cooperation in the trade of grains; to promote expansion, openness and fairness in the grains sector, to contribute to grain market stability, to enhance world food security, and ultimately to secure a freer flow of trade in grains, including the elimination of trade barriers and unfair and discriminatory practices. It seeks to do this through information-sharing, analysis and consultation on grain market and policy development. In addition to accessing data, membership to the IGC facilitates the analysis and interpretation of trading patterns.²⁵

2.16 Other submitters also noted the link between the international commodities organisations and the fisheries organisations and the Department of Foreign Affairs and Trade. The Western Australian Fisheries Industry Council submitted that 'regional fishery organisations are by nature about diplomacy and not about Australian fisheries and aquaculture'.²⁶ The Council of Rural Research and Development Corporations also noted the link between the organisations and international relations, noting that Australia's membership in international commodities organisations is, in part, a 'diplomatic mission'.²⁷

Transparency, control and decision making

2.17 RDC and industry representatives also noted that under the proposed amendments RDCs would incur membership costs for regional and international

22 Dr Kalisch Gordon, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 31.

23 Mr David McKeon, Manager, Rural Affairs, National Farmers' Federation, *Committee Hansard*, 11 November 2014, p. 46.

24 National Farmers Federation, *Submission 11*, p. 6.

25 Department of Agriculture, answer to question on notice, 17 November 2014 (received 21 November 2014).

26 Western Australian Fishing Industry Council, *Submission 14*, p. 3.

27 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 15.

organisations but not obtain membership privileges.²⁸ As multiple submitters highlighted, it is the Australian government who is a member of the international commodities organisations and the regional fisheries organisations.²⁹ Consequently, the bill would require RDCs to meet the expense of Australia's ongoing membership to these organisations without extending to the RDCs the capacity to influence membership outcomes. The Department confirmed that membership, and the direct benefits and rights that membership entails, would remain with the Australian government.³⁰

2.18 It was clear that there is a strong view amongst industry and the RDC sector that the obligation to pay should come with the opportunity for greater influence. Industry and RDC representatives collectively recommended the bill be amended to provide RDCs and industry greater involvement with the international commodities organisations and the regional fisheries organisations. For example, on behalf of the RDC sector, the Council of Rural Research and Development Corporations recommended the bill be amended to ensure full consultation with the affected industries and relevant RDCs prior to the government making decisions regarding membership of other international bodies.³¹

2.19 Similar recommendations were also submitted by industry. For example, Grain Growers Limited recommended the following procedural changes for the Australian Government's participation in the International Grains Council (the IGC):

The Department of Agriculture IGC representative should report back to industry representative bodies on the following aspects:

- Rationale for the Australian Government commitment to the International Grains Council;
- Update on activities and progress of the International Grains Council on trade and market access issues; specifically, an update on activities and progress of the Grains Trade Convention forum and any decision to develop and sponsor grain-related projects in member countries, should be reported to industry at the conclusion of each of the two yearly meetings
- Reporting on any benefit derived from the participation in the International Grains Council with particular detail around benefit to the production sector, provided at the conclusion of each of the two yearly meetings.³²

28 See, for example, Mr Parker, Australian Grape and Wine Authority, *Committee Hansard*, 11 November 2014, p. 40.

29 See, for example, Mr John Harvey, Managing Director, Grains Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 36; Mr McKeon, National Farmers' Federation, *Committee Hansard*, 11 November 2014, p. 44.

30 Mr Koval, Department of Agriculture, *Committee Hansard*, 17 November 2014, p. 11.

31 Council Rural Research and Development Corporation, *Submission 8*, p. 3.

32 Grain Growers Ltd, *Submission 9*, p. 2.

2.20 These recommendations are consistent with the recommendations put forward by the NFF. Overall, the NFF did not support the proposal for RDCs to fund the Australian Government's membership in intergovernmental commodity and fisheries organisations. However, were the bill to pass, the NFF recommended measures to increase RDCs' and industry's participation in international and fisheries fora. Specifically, the NFF recommended:

- the bill be amended to require the Australian Government to closely consult with relevant industry commodity organisations and RDCs and reflect domestic industry views as part of engagement with the international intergovernmental commodity organisations; and
- the bill be amended to require the Australian Government to regularly report to relevant industry commodity organisations and RDCs on outcomes from engagement with international intergovernmental commodity organisations.³³

The value of membership: Is there a benefit?

2.21 Submitters debated the value of Australia's membership in regional fisheries organisations and international commodities organisations. While it was recognised that membership promotes market access, the overall merit to the research and development sector was questioned.

Market access and global competitiveness

2.22 Generally, it was recognised that membership of the organisations can facilitate market access. The Department submitted that membership helps solidify Australia's presence in international markets:

Many of these bodies undertake market analysis and market statistics and also do research and development in their own right in some cases. OIV, for example, do technical wine standards, which are incorporated into the European Union legislation. So, for us to have access to the European market, for example, if they change one of the wine standards, it is in our interests to make sure we are there at the standard-setting stage.³⁴

2.23 In summary, the Department advised that global competitiveness requires a global presence. In response to questioning, the Department provided the following example in relation to Australia's membership of the International Grains Council:

Australia has used its position in the IGC to promote our industry, in particular the export quality standards and systems that demonstrate Australia's capacity to be a reliable supplier of high-quality grain to world markets. Australia has hosted a meeting of the IGC in Australia to provide

33 National Farmers Federation, *Submission 11*, p. 9.

34 Mr Matthew Koval, Acting First Assistant Secretary, Agriculture Policy Division, Department of Agriculture, *Committee Hansard*, 11 November 2014, p. 2.

our trading partner governments with a first-hand experience of our production and export systems. At other times, Australia has provided expert industry speakers to IGC conferences to again promote our industry.³⁵

2.24 The Department further advised that in some cases membership is necessary for Australian industry to continue to operate in international markets. For example, the committee was informed that membership of regional fisheries organisations is a precondition of access to fisheries in international waters. If Australia were not a member of the regional fisheries organisations, industry would not have access to the fisheries.³⁶

2.25 Australian Pork Limited approved Australia's involvement with international commodities organisations:

The upside [of discontinuing membership] would be that we would save roughly \$10,000 a year, which is very little. The downside would be a small amount of isolation from what is going on internationally, not being able to have those connections to people around the world in understanding the next trends affecting our industry, including managing activist groups, including looking at health and nutrition of the product and how it fits into 21st-century human diet, including issues around feed grain sustainability. For all these big global issues we need to be at the table.³⁷

2.26 The Council of Rural Research and Development Corporation was satisfied that Australia benefits from membership in the international commodities organisations and the fisheries organisations. As the council stated, 'engagement in these forums is important. We are not trying to debate that point'.³⁸

2.27 The positive link between membership in international commodity organisations and the international export of Australian products and produce was even acknowledged by submitters who were, in general, sceptical of the overall value of membership. For example, Sugar Research Australia acknowledged there are benefits 'in terms of access to market and economic research'.³⁹

35 Department of Agriculture, answer to question on notice, 17 November 2014 (received 21 November 2014).

36 Mr Koval, Department of Agriculture, *Committee Hansard*, 11 November 2014, p. 3.

37 Mr Spencer, Australian Pork Limited, *Committee Hansard*, 11 November 2014, p. 23.

38 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 15.

39 Sugar Research Australia, *Submission 4*, p. 8.

Membership benefits for the research and development sector

2.28 However, while the relevance to international trade was acknowledged, some submitters questioned whether membership directly benefits the R and D sector independent of any benefits to industry.

2.29 The Grains Research and Development Corporation submitted that it was not in a position to comment on the supposed value of membership, as it had insufficient information about Australia's involvement with the International Grains Council. The corporation's comments highlighted the current gap between the international commodities organisations and Australia's research and development corporations.

2.30 Representatives of the sugar industry and the sugar RDC sector were highly sceptical of the value of Australia's membership in the International Sugar Organisation. Sugar Research Australia advised that 'to date, there has been nothing that has truly benefited the Australian sugar industry out of [the] membership'.⁴⁰ Sugar Research Australia also reported that, as the RDC is not a member of the international commodities organisation, it was not in a position to quantify any membership benefits.⁴¹ The Australian Sugar Alliance noted that the industry has unsuccessfully lobbied the Australian Government to discontinue its membership, and has not voted in support of the proposition that industry levies should be used to fund Australia's membership of the International Sugar Organisation.⁴²

2.31 The Western Australian Fisheries Industry Council challenged the market access rationale for membership as given by the Department. The council reported that while a member of six regional fisheries organisations, Australia only accesses fisheries in two regions.⁴³

Long-term value for money?

2.32 While not challenging the importance of continuing membership in the organisations, the Council Rural Research and Development Corporation questioned whether the proposed amendments might have unintended consequences. The council advised that current analysis demonstrates there is a \$12 productivity gain for every dollar invested in research and development.⁴⁴ The NFF cited similar figures,⁴⁵ while

40 Ms Leigh Clement, Manager, Planning and Reporting, Sugar Research Australia, *Committee Hansard*, 11 November 2014, p. 24.

41 Mr Neil Fisher, Chief Executive Officer, Sugar Research Australia, *Committee Hansard*, 11 November 2014, p. 24.

42 Australian Sugar Industry Alliance, *Submission 6*, p. 2.

43 Western Australian Fishing Industry Council, *Submission 14*, p. 2.

44 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 15.

45 National Farmers' Federation, *Submission 11*, p. 8.

research undertaken by the Productivity Commission that suggests rates of return of approximately 24 per cent were also noted.⁴⁶

2.33 It was implied that the diversion of funds from research and development to membership fees could have a value impact beyond the headline membership cost. There was a view across state government, industry and RDC submissions that directing funding away from research and development undermines industry productivity. The Hon Dr John McVeigh MP, Queensland Minister for Agriculture, Fisheries and Forestry, highlighted concerns that reduced funding 'has the potential to stifle not only in innovation, but also the ability to meet growing market needs'.⁴⁷

2.34 The Australian Horticultural Exporters Association expressed this concern in the following terms:

The future of the agriculture industry depends upon Research and Development. Without sufficient research, innovation is stifled, disabling industry to maintain competitiveness; develop varieties and overcome market issues that are necessary to meet global needs.⁴⁸

2.35 The Western Australian Fisheries Industry Council provided an example of the economic benefits obtained through research and development programs. It was put to the committee that the proposed cost recovery amendments would have measurable consequences for industry productivity and products:

The long-term consequences of the de-escalation of focus on and funding for R D and E cannot be overstated. For 2013–14 the FRDC had to terminate the industry tactical research fund that has allowed industry to invest in R D and E that makes meaningful changes to their profits and productivity.

A good example of R D and E investment has been the science that resulted in the WA crab industry developing an innovative crab cake product...To date about 1,000,000 crab cakes have been produced – increasing the profitability of the fishery.

WAFIC predicts a decrease in R D and E will inevitably limit the reach of supporting marketing initiatives that fall out of such programs. At some point, whether sooner or later, this will impact both domestic and overseas markets for fishing and marine related products.⁴⁹

2.36 It was further suggested that a decrease in Commonwealth R&D funding, by way of requiring membership repayments, could result in diminished funding from the private sector. The Western Australian Fisheries Industry Council speculated that the

46 New South Wales Department of Primary Industries, *Submission 11*, p. 1.

47 The Hon. Dr John McVeigh MP, Queensland Minister for Agriculture, Fisheries and Forestry, *Submission 10*, p. 1.

48 Australian Horticultural Exporters Association, *Submission 13*, p. 2.

49 Western Australian Fishing Industry Council, *Submission 14*, p. 2.

bill could be seen by the private sector as the government reducing its commitment to R&D. Consequently, the council submitted that it would be likely that industry would correspondingly reduce its voluntary contributions to R&D activities.⁵⁰ A similar prediction was made by the New South Wales Department of Primary Industries.⁵¹

Ongoing evaluation of membership benefits

2.37 There was consensus among industry representatives and RDC representatives that government should work with RDCs and industry representatives to determine whether there is merit in continuing membership of the relevant international commodities organisations and the regional fisheries organisations. In relation to the International Grains Council, Grain Growers Ltd submitted:

I think whether this particular membership is or is not beneficial should be decided as part of the R D and E or industry processes of working out what happens to scarce funds that are contributed to industry functions.⁵²

2.38 It was further submitted that legislation should allow for 'critique, review and consideration' of membership benefits.⁵³ The NFF recommended the bill be amended to 'require the Australian Government to consult with relevant industry commodity organisations and RDCs as to their support for membership to international inter-governmental commodity organisations.'⁵⁴ As a related measure, the NFF also submitted that the bill be amended to introduce a time limit of five years on the membership repayment requirements.⁵⁵

Can research and development funds be used for membership fees?

2.39 In chapter 1, the Committee notes that consequential amendments would be needed to existing RDC funding agreements to ensure the agreements do not refer to requirements and provisions under the RDC enabling legislation that would be repealed were the bill passed. Submitters to this inquiry identified further potential inconsistency between the RDC enabling legislation, as would be amended if the bill were passed, and existing funding agreements. Successive RDCs advised that their enabling legislation contains clear and precise rules governing how RDCs allocate their funding. The rules are reiterated in the funding agreements between the RDCs and the Commonwealth and the RDCs' annual operations plans.⁵⁶ As the Council of

50 Western Australian Fishing Industry Council, *Submission 14*, p. 2.

51 New South Wales Department of Primary Industries, *Submission 11*, p. 1.

52 Dr Kalisch Gordon, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 32.

53 Dr Kalisch Gordon, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 33.

54 National Farmers Federation, *Submission 11*, p. 9.

55 National Farmers Federation, *Submission 11*, p. 10.

56 See, for example, Dr Kalisch Gordon, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, pp 31–32; Australian Horticultural Exporters Association, *Submission 13*, p. 1.

Rural Research and Development Corporations explained, RDCs questioned whether the rules allow for funding to be used to pay for membership dues:

The PIRD and other Acts are also explicit in intention regarding the funding and administration of defined research and development for primary industries, as opposed to a generalised notion of delivering industry benefits...[U]nless this is explicitly for the purposes of primary industries research and development, by definition it must fall outside the Act. If the purpose of participation is not related to research and development the government should identify a more appropriate funding source. If involvement does align with the Act, the amendments are unwarranted.⁵⁷

2.40 The committee was advised that under the existing rules, funding proposals go through a rigorous screening process. It was noted that the proposed measures would isolate the membership fees from this process.⁵⁸

A disproportionate impact on the Fisheries RDC?

2.41 Of the four RDCs that would be responsible for covering the cost of Australia's membership of international commodities organisations and regional fisheries organisations, the Fisheries RDC would bear the greatest expense. The Department advised that the Fisheries RDC would be responsible for membership fees, across six fisheries organisations, totalling \$965,000. This figure can be compared with the projected costs to the other three RDCs that would be responsible for membership fees outlined in the following table.

57 Council of Rural Research and Development Corporations, *Submission 8*, p. 2.

58 Mr Spencer, Australian Pork Limited, *Committee Hansard*, 11 November 2014, p. 20.

Figure 2: Comparison of projected membership fees⁵⁹

RDC	Organisations	Anticipated membership fees	Approximate 2014-15 budget
Australian Grape and Wine Authority	International Organisation of Vine and Wine	\$110,000	\$34 million
Cotton Research and Development Corporation	International Cotton Advisory Committee	\$95,000	\$20.4 million
Fisheries Research and Development Corporation	The Commission for the Conservation of Southern Bluefin Tuna, the Indian Ocean Tuna Commission, the Western and Central Pacific Fisheries Commission, the South Pacific Regional Fisheries Management Organisation, the Southern Indian Ocean Fisheries Agreement and the Network of Aquaculture Centres in Asia Pacific.	\$965,000	\$27.4 million
Grains Research and Development Corporation	International Grains Council	\$150,000	\$187 million
Sugar Research Australia	International Sugar Organisation	\$160,000	\$32 million

2.42 Evidence before the committee demonstrates that the cost to the Fisheries RDC will be approximately nine times higher than the individual projected costs to the Australian Grape and Wine Authority, the Cotton Research and Development Corporation, and the Grains Research and Development Corporation. On notice, the Department advised that, based on 2013-14 figures, the proposed amendments would result in an estimated 3.6 per cent reduction of the FRDC's income.⁶⁰

2.43 The Council Rural Research and Development Corporation submitted that this cost disparity would result in the Fisheries RDC 'bearing the brunt' of the proposed changes to the RDC funding arrangements.⁶¹ The Western Australian Fisheries Industry Council (WAFIC) particularly noted its concerns with the proposed cost-

59 Mr Koval, Department of Agriculture, *Committee Hansard*, 11 November 2014, pp 3—4.

60 Department of Agriculture, answer to question on notice, 11 November 2014 (received 18 November 2014).

61 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 13.

recovery amendments, arguing that the reduced FRDC funding would have 'serious flow on effects to RD&E activities within the commercial fishing sector'.⁶²

2.44 The committee received evidence from the FRDC of its view of the anticipated impact on FRDC expenditure. The FRDC predicted a total loss of more than \$2.5 million in fishing and agriculture R&D for the 2014–15 financial year. This anticipated loss took account of reduced government contributions and predicted reductions in private sector funding. The FRDC further advised that the leverage that the FRDC could offer industry R&D investments would in future be reduced by eight per cent. This would translate into the tactical research fund being suspended for the 2014–15 financial year, and reductions to the Annual Competitive Round, and the tactical research sub-programmes and industry partnership agreements.⁶³

2.45 This anticipated reduction in services and expenditure can be compared with the likely financial consequences of the proposed amendments for the Australian Grape and Wine Authority, the Cotton Research and Development Corporation, and the Grains Research and Development Corporation. The likely consequences would be less pronounced. The Australian Grape and Wine Authority advised that the anticipated \$115,000 membership fee is 'a big amount of money'. However, the Authority does not anticipate significant impacts for its current projects. Rather, the committee was advised that the Authority would reduce spending across all areas of current expenditure:

In our case, I think we would probably salami slice. Rather than have an impact on a larger project, it would be a matter of trimming back here and there.⁶⁴

2.46 Sugar Research Australia (SRA) advised that the anticipated repayment cost of \$160,000 per annum is 'not insignificant in the context of SRA's total RD&E investment budget'.⁶⁵ However, SRA did not further elaborate.

2.47 The Grains Research and Development Corporation noted that the amendments would result in a 'small but significant' reduction in the Australian Government's contribution to grains R, D and E.⁶⁶ However, even in response to direct questioning,⁶⁷ the corporation did not provide details of the likely effect of the small but significant reduction for the corporation's R, D and E activities. The committee did

62 Western Australian Fishing Industry Council, *Submission 14*, p. 3.

63 Fisheries Research and Development Corporation, answer to question on notice (11 November 2014), received 18 November 2014.

64 Mr Parker, Australian Grape and Wine Authority, *Committee Hansard*, 11 November 2014, p. 41.

65 Sugar Research Australia, *Submission 4*, p. 9.

66 Grains Research and Development Corporation, *Submission 7*, p. 2.

67 Senator Glenn Sterle, Deputy Chair, Rural Affairs and Transport Legislation Committee, *Committee Hansard*, 11 November 2014, p. 34.

not receive evidence directly from the Cotton Research and Development Corporation.

Concerns with the consultation process for the draft bill

2.48 There was unanimous disapproval among industry and RDC representatives for the consultation process on the draft bill. In response to the committee's questioning, the Department advised that on the afternoon of 16 September 2014 select organisations were notified that an exposure draft bill would be released 'very shortly'. The RDCs subsequently received the exposure draft on Wednesday 17 September,⁶⁸ and were required to provide comments by midday Thursday 18 September.⁶⁹ It was initially proposed that the RDCs would have until the close of business 18 September, however this timeframe was truncated to comply with the Office of Parliamentary Counsel's drafting requirements.⁷⁰ The RDCs were advised not to forward the draft bill to third parties. RDCs were only authorised to provide the draft bill to their staff, board and legal advisers.⁷¹ Notably, this requirement prevented RDCs from consulting their members. The consultation process also excluded industry representatives.⁷²

2.49 Submitters identified several flaws with the consultation process. First, the timeframe of the day and a half was considered insufficient to properly review the proposal or collate feedback to provide the Department.⁷³ Second, submitters questioned the Department's instructions to not consult members. As Ms Alicia Garden, Chief Executive Officer, Grain Growers Ltd argued, this limited the feedback that RDCs could provide and runs counter to the purpose and practices of Australia's research and development network:

We are a representative organisation and if we cannot consult our membership we cannot represent the appropriate view.⁷⁴

68 Department of Agriculture, answer to question on notice, 11 November 2014 (received 18 November 2014).

69 Fisheries Research and Development Corporation, answer to question on notice (11 November 2014), received 18 November 2014; Attachment A, email from Department of Agriculture to RDCs, 17 September 2014.

70 Fisheries Research and Development Corporation, answer to question on notice (11 November 2014), received 18 November 2014; Attachment A, email from Department of Agriculture to RDCs, 17 September 2014.

71 Department of Agriculture, answer to question on notice, 11 November 2014 (received 18 November 2014).

72 Department of Agriculture, answer to question on notice, 11 November 2014 (received 18 November 2014).

73 See, for example, Ms Alicia Garden, Chief Executive Officer, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 38; Dr Kalisch Gordon, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 38; Mr Parker, Australian Grape and Wine Authority, *Committee Hansard*, 11 November 2014, p. 42.

74 Ms Garden, Grain Growers Ltd, *Committee Hansard*, 11 November 2014, p. 39.

2.50 Third, submitters questioned the purpose of the minimal consultation process. The NFF, which was not included in the consultation on the draft bill, criticised the limited range of organisations who received the exposure draft for comment. Overall, the NFF submitted that the consultation process was grossly insufficient and could not accurately be labelled as a 'consultation':

We have been largely disappointed in the approach by the department. Any discussion about consultation is absolute poppycock—it is absolute rubbish to suggest that they have consulted through this process.⁷⁵

2.51 Submitters also noted that the consultation process did not result in substantive policy or legislative change. The Council of Rural Research and Development Corporations advised that input was fairly minor and 'in terms of the broader decision-making...we did not have an influence'.⁷⁶ As Australian Pork Limited commented, the consultation was not a particularly robust or perfect process.⁷⁷

Committee view

2.52 The committee acknowledges the concern within the R&D sector that the proposed cost recovery measures signal a departure from the established R&D partnership model. Research and development funding has operated on the basis of a long-standing, established model. Any changes to that model, no matter how minor, have the potential to be seen as a precursor to broader funding changes.

2.53 However, the measures need to be viewed in context. The research and development sector is being asked to contribute a proportion of Australia's costs of its participation in international and regional organisations from which Australian industries derive a direct benefit. While cognisant of the sector's concerns, the committee sees that there is a direct correlation between the objects of the international commodities organisations and regional development organisations and Australia's network of primary industry research and development corporations. Both exist to promote best practice in primary industries. Both operate to promote sustainable, optimal use of resources. There was consensus among submitters to the inquiry that membership promotes Australian products to the international community and facilitates market access. Marketing and market access is an express objective of the research and development framework established under the *Primary Industries Research and Development Act 1989* and related research and development legislation.

2.54 However, it is also clear that these linkages are underdeveloped. It is of concern to the committee that there is minimal industry involvement, and even less

75 Mr McKeon, National Farmers' Federation, *Committee Hansard*, 11 November 2014, p. 47.

76 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 13.

77 Mr Spencer, Australian Pork Limited, *Committee Hansard*, 11 November 2014, p. 18.

R&D sector involvement, with international commodity organisations and the regional fisheries organisations.

2.55 In this regard, the committee was alarmed at evidence that the R&D and primary industry sectors are largely unfamiliar with the benefits derived from membership. The committee recommends Government, through the Department of Agriculture, consult with industry and the research and development sector prior to attending organisational meetings and provide the research and development and primary industry sectors a detailed synopsis of meeting discussions and outcomes. The committee also urges the Government to explore whether it would be appropriate for industry and research and development sector attendance at meetings.

2.56 The bill would require RDCs to collectively incur costs of approximately \$7 million over four years. While the RDCs would incur these costs, the committee is conscious that the costs would be offset by the Government's 2014-15 budget commitment to increase research and development funding by \$100 million over four years. The committee acknowledges concerns that the cost recovery measures would put pressure on R&D programs and service delivery. However, with one exception, the evidence before the committee does not bear this out. The amendments would likely have a measurable impact on the Fisheries RDC. The committee therefore recommends the Government track this issue with the Fisheries RDC. The committee will also monitor the impact of the cost recovery requirements on the Fisheries RDC and other affected RDCs, and may seek separate, additional briefings from the Department.

2.57 Throughout the inquiry, RDC representatives questioned whether payment of membership fees is within the scope of the RDC enabling legislation and funding agreements. While the proposed amendments would introduce a new use for research and development funding, the committee is satisfied that there are linkages between Australia's membership in international commodities organisations and regional fisheries organisations and the research and development sector. However, the committee brings these concerns to the Government's attention, and recommends the Government consider whether amendments are required to existing funding agreements to clarify that the funding may in part be used to cover the membership dues.

2.58 The committee expresses its strong concern with the consultation process for the draft bill. It is clear to the committee that there is a perception among industry and the RDC sector that the Government is pulling away from its commitment to research and development. In part, the committee attributes this misapprehension to the inadequate consultation process for this bill. It would have been appropriate for officers of the Department to have been available to the RDC sector and relevant industry representatives to properly hear their concerns. One and a half days on an exposure draft bill does not provide sufficient time for meaningful review and feedback. The committee hopes that this inquiry process will help allay some of the sector's concerns.

Recommendation 1

2.59 The committee recommends the Senate pass Schedule 1 of the bill in its current form.

Recommendation 2

2.60 The committee recommends the Department of Agriculture liaise with RDCs prior to attending meetings of the relevant international commodities organisation and regional fisheries organisations and report back to the RDCs on meeting outcomes and the benefits derived from ongoing membership.

Recommendation 3

2.61 The committee recommends the Government monitor the impact of the cost recovery requirement on the capacity of the Fisheries RDC to continue to support research and development within the fisheries industry.

Proposed 'red tape' reductions

2.62 Schedule 2 of the bill would introduce what the Department described as 'measures to reduce red tape'.⁷⁸ If passed, the bill would remove the requirement for the Minister to organise an annual coordination meeting of Australia's five statutory RDCs. The bill would also remove existing requirements for RDCs to table corporate documents in Parliament.

Proposal to repeal requirements for annual coordination meetings

2.63 The Department advised that the RDC landscape has significantly changed since the requirement for an annual statutory RDC meeting was first introduced. With only five of the 15 RDCs currently operating as statutory RDCs, the requirement fails to fulfil the coordination purpose for which was introduced:

Currently the requirement for a coordination meeting only applies to the statutory RDCs—which is five of the 15 bodies—so it is a little bit pointless to have that coordination meeting.⁷⁹

2.64 The Council of Rural Research and Development Corporations advised that the council now manages the coordination function:

We would suggest that the council provides a better forum now anyway than just the five chairs of the statutory authorities getting together. We have all of the chairs come together. We also provide a structure under which the chief executives can meet, the business managers can meet, the R&D managers can meet. So there are a whole lot of structures that sit

78 Mr Michal Ryan, Director, Productivity Section, Research and Innovation Branch, Agriculture Policy Division, Department of Agriculture, *Committee Hansard*, 11 November 2014, p. 4.

79 Mr Ryan, Department of Agriculture, *Committee Hansard*, 11 November 2014, p. 4.

underneath that that go across all 15. But there is also one on one. There is a whole lot of engagement between all of them.⁸⁰

2.65 Evidence before the committee indicates there is general support for this approach. No RDC raised concerns with the proposal. One industry representative, the NFF, sought clarification on what other coordination mechanisms exist. However, overall, the NFF supported the removal of the requirement for the annual coordination meeting:

The NFF supports the removal of the requirement on the Minister of Agriculture to organise an annual coordination meeting with the chairs of the statutory RDCs. The NFF recognises that only a small proportion of RDCs are statutory bodies and there will be a reduction in regulatory burden from this amendment.⁸¹

Proposal to repeal requirements to table RDC corporate documents in Parliament

2.66 Part 1, Schedule 2 of the bill would remove existing requirements for the Australian Livestock Export Corporation Ltd, Dairy Australia Ltd, Forest and Wood Products Australia Ltd, and Sugar Australia Ltd to table various corporate documents in Parliament. These documents would include annual reports, funding agreements, variations to funding agreements, and compliance reports. The Department explained that the requirement to provide these documents to Parliament is considered an unnecessary regulatory burden.⁸² The Department also advised that '[t]he Australian Bureau of Agriculture and Resource Economics and Sciences has estimated that the cost of publishing the annual reports for tabling to be \$5700.'⁸³ However, the committee was not provided a breakdown of this estimated cost or a clear indication of whether this figure is per RDC or an average of all agencies within the agriculture portfolio.

2.67 Answers to questions on notice elaborate on the rationale for the proposed amendments. The amendments, it was argued, will promote consistency without compromising transparency:

The proposal to remove tabling requirements for some documents for some RDCs reflects the fact that the most of the industry-owned RDCs are not required to table these documents and there are no concerns regarding availability or transparency with those documents. The amendments in the

80 Mr Lester, Council Rural Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 17.

81 National Farmers Federation, *Submission 11*, p. 7.

82 Mr Ryan, Department of Agriculture, *Committee Hansard*, 11 November 2014, p. 8.

83 Department of Agriculture, answer to question on notice, 11 November 2014 (received 18 November 2014).

Bill will improve consistency in requirements across the industry-owned RDCs.⁸⁴

2.68 As noted, consistency was promoted as a key reason for the removal of the tabling requirements. Currently the requirements for tabling corporate documents vary greatly across the 15 RDCs. The Department advised that this mishmash approach to corporate governance is the combined result of a myriad of individual decisions rather than deliberate choice:

Each of the industry-owned corporations has its own act which governs it. There has been no consistent approach with regard to this. In some there is a requirement to table and in some there is not.⁸⁵

2.69 Evidence provided by the Department confirms that RDCs would still be required to make corporate documents publicly available. However, the evidence does not contain further details about what precisely would be required.⁸⁶ The committee has noted, in chapter 1 of this report, that current funding agreements between the Commonwealth and the RDCs impose requirements on RDCs to provide copies of these documents to the Minister.

2.70 The Grains Research and Development Corporation noted that corporate documents are currently publicly available to the shareholders and stakeholders. The RDC advised that this would continue regardless of the proposed legislative amendments. Sugar Research Australia explained its current practice of publishing annual reports on its website and sending annual reports to members who request a hardcopy. Sugar Research Australia advised it costs the organisation approximately \$6000 to print 500 copies of its annual report.⁸⁷ Notably, both RDCs advised they would agree to continue to table annual reports in Parliament.⁸⁸

Committee view

2.71 The committee endorses the proposal to remove the requirement for the Minister to organise an annual coordination meeting between the five statutory RDCs. The object of coordination within the RDC sector is far better achieved by the coordination services provided by the Council of Rural Research and Development Corporations.

84 Department of Agriculture, answer to question on notice, 11 November 2014 (received 18 November 2014).

85 Mr Ryan, Department of Agriculture, *Committee Hansard*, 11 November 2014, p. 4.

86 Department of Agriculture, answer to question on notice, 11 November 2014 (received 18 November 2014).

87 Ms Clement, Sugar Research Australia, *Committee Hansard*, 11 November 2014, p. 28.

88 Mr Fisher, Sugar Research Australia, *Committee Hansard*, 11 November 2014, p. 29; Mr Harvey, Grains Research and Development Corporation, *Committee Hansard*, 11 November 2014, p. 32.

2.72 However, the committee does not support the proposal to discontinue existing requirements for RDCs to table corporate documents in Parliament. Corporate documents provide the opportunity to examine the operation of agencies that benefit from Commonwealth funding. Annual reports, funding agreements, compliance reports and variations to funding agreements are key accountability documents and are fundamental to Parliamentary oversight of the government's allocation of Commonwealth resources. Tabling the documents in Parliament acknowledges the Parliament's responsibility, and authority, to scrutinise government action and the actions that third parties take on government's behalf.

2.73 The committee is required under standing order 25 to report on the annual reports of departments and agencies within its portfolio area. A review of the committee's reports on annual reports over the past five years indicates that the committee has routinely monitored the annual reports of the four RDCs that, if the bill were passed, would no longer be required to present documents to Parliament. If passed, the bill would substantially undermine the committee's oversight role in relation to the RDC sector.

2.74 The committee does not share the view that the proposed Part 1, Schedule 2 amendments are necessary to promote regulatory consistency. Consistency would be achieved by imposing tabling requirements on the remaining 11 RDCs rather than removing the requirements from the four RDCs that are the subject of this bill. Consistency is required. However, what is required is consistency that promotes, rather than undermines, accountability.

2.75 Contrary to the arguments put forward, the evidence before the committee does not establish that there is substantial regulatory burden, or financial cost, associated with the tabling of corporate documents in Parliament. The amendments would result in only minor financial savings for the RDCs. If passed, the proposed amendments would substantially compromise fiscal accountability for minimal fiscal gain.

2.76 Part 1 of Schedule 2 of the bill should be amended to require all 15 RDCs to table corporate documents in Parliament.

Recommendation 4

2.77 The committee recommends the Senate pass Part 2 (Item 9), Schedule 2 of the bill, which would remove the requirement for an annual coordination meeting of statutory RDCs.

Recommendation 5

2.78 The committee recommends the Government amend Part 1, Schedule 2 of the bill to require all RDCs to table corporate documents in Parliament.

**Senator the Hon Bill Heffernan
Chair**