



Australian Government



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Land & Water Australia

Rural Industries Research and Development Corporation

Sugar Research and Development Corporation

Grape and Wine Research and Development Corporation

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Opinion Piece

By Terry Enright

Australian consumers enjoy a range of high-quality, safe, domestically produced food and fibres. These benefits are largely gained from the constant innovation and productivity gains of Australian farmers, underpinned by research and development funded by the producers themselves and the Australian Government.

Last week's [*subs: Tuesday 27 March*] Productivity Commission report into science and innovation questioned the level of government funding for this R&D. However, any move to reduce government contributions will have wide-reaching implications for rural industry - and the broader community.

The co-investment model of rural R&D through Rural Research and Development Corporations (RDCs) is based on industry levies and government funding and last year was worth around \$460 million – split evenly between Government and agri-businesses.

There are 15 RDCs that have responsibility for investing the industry and government contributions in a variety of projects across virtually every area of agriculture in Australia.

It is a good system that works well. In fact, the Productivity Commission's report said there are grounds for significant public funding for rural R&D where there are spillover benefits to the community.

The Commission also said that the funding formula for rural RDCs provides public contribution rates per dollar of industry R&D that are between three and ten times that for eligible R&D in the manufacturing, mining and services sectors.

It said for this to be supportable there should be commensurately higher public benefit, or spillover, rates than that produced by other industries from R&D public funding.

We believe this is the case with all of Australia's 15 RDCs.

In fact, economic researchers ACIL Tasman carried out a review of cost-benefit analysis of 134 RDC projects undertaken between 2000 and 2007 and found that while the RDCs had invested around \$1 billion in these projects, this had generated net benefits of \$5.5 billion to industry and at least \$3 billion in wider social benefits.

These social benefits include improved water use efficiency, food safety, safer use of pesticides, advances in environmental and natural resource management and animal welfare.

The incentive for investment in agricultural R&D is the ability of producers to capture sufficient benefits to justify the investment. Compulsory levies are successful in reducing free riders - producers who may benefit from research but who do not contribute to the cost.





But the ability of commodity producers to capture sufficient benefits from R&D investments is a matter of considerable debate and is by no means as certain as the Productivity Commission's report appears to assume.

The RDC model was set up in 1989 to ensure there is sufficient investment by industry in agriculture, a sector of the economy where the family farm appears to be still the most efficient economic unit of production.

Ensuring there is enough rural R&D investment has been a significant factor in Australian producers achieving among the highest productivity growth in the world for many years.

However, Australian farmers are overwhelmingly small businesses and they simply do not have the capacity to invest in R&D that delivers broad social benefits to the extent that they currently do, without public contributions.