



**Australian Government**

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**Cotton Research and  
Development Corporation**

**Response by the**

**Cotton Research & Development Corporation**

**to the**

**Agricultural Competitiveness Green Paper**

**December 2014**

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## EXECUTIVE SUMMARY

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The Cotton Research and Development Corporation (CRDC) acknowledges the leadership of the Hon. Barnaby Joyce MP, Minister for Agriculture, in establishing a future Australian Government policy direction for agriculture that seeks to drive better returns at the farm gate to ensure a sustainable and competitive Australian agriculture sector.

To achieve this policy, the Australia's agricultural sector will rely on the Australian Government to continue its co-investment with industry in rural research, development and extension (RD&E). In this regard **CRDC supports the importance of the Council of Rural RDCs recommendation for Government articulating a vision for agriculture that is ambitious, future-orientated and which recognises the importance of innovation through RD&E.**

This response to the Agricultural Competitiveness Green Paper provides a short overview of the Australian cotton industry and the CRDC before addressing the relevant RD&E policy ideas posed by the Task Force.

**We submit, as we did in our previous response, that the current RDC model is highly effective** at identifying, prioritising and funding RD&E, and we support opportunities for continuous operational improvement, greater collaboration and investment addressing national strategic rural R&D issues. With regard to the RD&E policy ideas we recommend:

- **That the best way Government can ensure the outcomes of RD&E meet its needs is for its representatives to actively engage with relevant industry sectors and RDCs in developing priorities, then designing and reviewing the specific initiatives being funded.**
- **That the Government endorse the concept of establishing a Council of Rural RDC led annual collaborative RD&E planning and co-investment framework, underpinned by the RDCs committing 5-10 per cent of existing funds to a virtual pool for relevant projects identified in collaboration with the Department of Agriculture and then implemented by the RDCs.**
- **That the best way Government can ensure operational improvements by RDCs is for its representatives to proactively resolve issues with the relevant individual RDCs, as opposed to burdening all RDCs with additional standardised compliance requirements or removing authority for decision making from the accountable governing board.**

The CRDC notes the **key risks to sustaining future RD&E capacity** it raised in its response to the White Paper Issues Paper have not been addressed in the policy ideas. CRDC reiterates its recommendations:

- **That the Task Force consider ways of allowing the rural RDCs to sustain RD&E capacity during prolonged drought periods (and other catastrophic events). Such methods might include disproportional matching funding, whereby the Government contributes a greater proportion during periods of reduced levy**

income, which industry repays in later high levy seasons, allowing rural RDCs to forward plan the use of existing reserves in periods of prolonged drought.

- That the Task Force consider the future for research provision in agriculture and how these needs may be met. Options may include ensuring continued funding for public agencies (such as CSIRO and universities), and ensuring a greater commitment to funding of state-based research agencies through the Agriculture Senior Officials Committee (formerly the Primary Industries Standing Committee) and providing the legislated capacity for the rural RDC model to evolve to undertake research provision.

## OVERVIEW OF THE COTTON INDUSTRY AND CRDC

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The Australian cotton industry is one of the success stories of Australian agriculture.

Australian cotton is the highest-yielding, finest, cleanest and greenest cotton in the world. On a global scale, Australia is not a large cotton producer — only around three percent of the global crop is grown within Australia, by some 1,300 cotton producers. However Australia is one of the largest exporters of cotton, with nearly 100 percent of the national crop exported, generating in excess of \$AUS2 billion in export revenue annually. The industry generates significant wealth and provides an economic foundation to many regional and remote rural economies, employing up to 14,000 people.

A major factor in the cotton industry's success is its culture of innovation, supported by and reinforcing a well-organised research and development framework, headed up by the CRDC. The CRDC focuses equally on achieving productive industry and public outcomes through close and collaborative relationships with rural industries and government. It provides an industry-driven, market-responsive approach to rural innovation, creating strong ownership by industry, which contributes funds and helps set priorities.

Like other RDCs, the CRDC is co-funded through an industry levy and matching Government contributions. In 2014-15, the CRDC will invest \$24 million in cotton R&D.

The CRDC portfolio is a balance between five key areas: farmers, industry, customers, people, and performance. It includes: R&D that seeks to 'protect and defend' the production base from pest threats; R&D focused on maintaining a positive rate of increase in productivity while ensuring resource use efficiency; enhancing product value through the supply chain; building a capable industry; and an element of research discovery that ambitiously seeks to transform the future competitive advantages of Australian cotton. The CRDC also invests in applied R&D that improves productivity, biosecurity, natural resource management and manages climate variability concurrently given the interrelationships between the issues.

The CRDC adds value to investment in research in the cotton industry and more broadly through:

- Promoting an outward and future looking culture
- Its commitment and focus on delivering strategic outcomes
- Fostering connections between all sectors of the industry including researchers and the end users of research – growers and supply chain participants
- Skills in strategic investment
- Its responsiveness to the R&D priorities of government and industry
- Collaborating with other investors and research providers on initiatives from projects to national program scales.

## RESPONSE TO THE RELEVANT GREEN PAPER POLICY IDEAS

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### Policy idea 20 – Strengthening the RD&E system

#### a. Updating the rural RD&E priorities to better align with community needs

CRDC shares the concern of the Council of Rural RDCs with the wording of this policy idea. We respect that the Government will determine its priorities and observe that there are better ways to influence the allocation of public RD&E funding rather than increasing or duplicating existing controls.

CRDC supports updating of the current Australian Government Rural Research Priorities as an important and useful process for Government to engage with industry and RDCs to build a shared understanding of the operating environment for agriculture, communicate a vision for the future and to define the strategic priorities required to achieve the vision. The opportunity to build upon the outcomes of the Agricultural Competitiveness White Paper is evident.

That said CRDC believes the existing Rural Research Priorities provide a sound high level strategic planning framework. We note:

- It encompasses the four proposed priority areas for RD&E investment of advanced technology, biosecurity, natural resource management and adoption of R&D. CRDC agrees that these are important areas that may benefit from new articulation.
- Each RDC is already required to develop “more targeted and detailed priorities” within sector specific 5-year R&D Plans that are developed in consultation with, and subject to the approval of, industry and Government.

Our experience is that the best way stakeholders can ensure the outcomes of RD&E meet their needs is to actively engage with RDCs in developing priorities then designing and reviewing the specific initiatives being funded. This is the case with the cotton industry where growers actively engage with CRDC in a collaborative advisory process organised through the industry representative body, Cotton Australia.

***CRDC recommends that the best way Government can ensure the outcomes of RD&E meet its needs is for its representatives to actively engage with relevant industry sectors and RDCs in developing priorities, then designing and reviewing the specific initiatives being funded.***

#### b. Establishing a new body, or tasking existing research bodies, to coordinate cross-sector research

CRDC supports the need for improved co-ordination of cross-sectoral research and observes that there is significant momentum for increased leadership by the RDCs that circumvents the need for structural change to the R&D system.

This momentum is a product of the Australian Government's \$100 million R&D for Profit program where the RDCs have been actively developing collaborative proposals to drive farm profit. By example this has included cross-sectoral proposals for:

- Future Farm (precision farming using new sensing, data analysis and automation)
- Smarter Irrigation (precision application, automation, scheduling and extension).

Importantly CRDC and other RDCs recognise the opportunity to establish a Council of Rural RDC led annual collaborative RD&E planning and co-investment framework as a legacy of the collaboration commenced through the R&D for Profit program. A feature of this process would be that it minimises unproductive competition, administrative and governance costs which commonly undermine the benefit of collaboration. This approach also leverages the RDCs strong connections with industry extension.

The effectiveness of a Council of Rural RDC led annual cross-sectoral collaboration could be strengthened by RDCs committing to re-allocate 5-10 percent of existing funds to a virtual pool for relevant projects identified in collaboration with the Department of Agriculture and then implemented by the RDCs.

***CRDC recommends that the Government endorse the concept of establishing a Council of Rural RDC led annual collaborative RD&E planning and co-investment framework, underpinned by the RDCs committing 5-10 per cent of existing funds to a virtual pool for relevant projects identified in collaboration with the Department of Agriculture and then implemented by the RDCs.***

#### **c. Enhancing access to the R&D Tax Incentive**

CRDC supports the Cotton Australia and Council of Rural RDCs responses to this policy idea that the Government broadly considers incentives for increased private investment in rural R&D that complement current levy arrangements.

#### **d. Promoting the development of extension services**

With respect to extension the CRDC believes there is a strong role for rural RDCs in extension. Delivering research outcomes to producers is a vital component of ensuring the success of R&D investment. In response to the withdrawal by state governments and a lack of drivers for private sector investment the CRDC embarked on a public-private partnership in extension in 2012. CottonInfo is a \$5 million per annum industry joint venture in extension that collaborates with, but is not reliant upon, the provision of services by state governments. Through this partnership a team of 25 people, including local industry extension officers and technical specialists, are effectively delivering research outcomes directly to cotton producers, agronomists and consultants. The CRDC believes this joint industry initiative provides an excellent model for extension that could be modified and adapted by other industries.

**e. Decentralising Government agricultural research functions (such as RDCs and agencies of the Department of Agriculture) to regional areas, as appropriate**

CRDC is regionally based in Narrabri, northwest NSW, centre of one of Australia's major cotton growing regions and home to the major cotton research facility, the Australian Cotton Research Institute (ACRI). Living and working within a cotton growing region promotes strong connections with what is a relatively concentrated rural industry. This involves every link in the industry from seed and chemical distributors, growers, consultants, researchers, contract pickers, transport and warehouse companies, ginners, classers and merchants. These strong connections promote effective relationships and valuable RD&E outcomes. For CRDC the disadvantages involve access to regional airlines, additional costs involved in travel and increasing challenges in recruiting skilled staff. Further, we rely upon Canberra based RDCs and the Council of Rural RDCs, who have more frequent engagement with the Australian Government, to assist CRDC in maintaining equally strong connections with our other major stakeholder.

CRDC respects that its stakeholders will have views regarding the appropriateness of the location of its business. These views would be sought and considered by the CRDC Board, as the accountable governing body, in any decision it made on relocation

**f. Regular five-yearly assessments of the RD&E system**

CRDC supports the policy idea for regular assessments of the RD&E system where such holistic assessments focus on the achievement of outcome focused performance metrics. CRDC notes the concerns raised by the Council of Rural RDCs regarding the potential for additional compliance burden.

**Policy idea 21 – Improving the rural RDCs**

**a. Administrative changes to the RDC model to increase transparency and reduce costs, including giving RDCs a targeted set of objectives**

CRDC is committed to continuous improvement but does not support the need for administrative changes to the RDC model noted in the policy idea to achieve the same. All RDCs are accountable under legislation and statutory funding agreements to report to stakeholders regarding these matters including the establishment of objectives. RDCs are also required to account to Senate Estimates and undertake regular external performance reviews. For information purposes a summary of the obligations that apply to CRDC as a statutory RDC, as distinct from an industry owned, is provided (Table 1).

CRDC and its industry stakeholder are concerned with the increasing cost of compliance activities at the expense of RD&E investment. The increasing compliance burden does not reflect the Australian Government policy directions for reducing red-tape costs, support workplace productivity improvement and for CRDC is disproportionate to risk management

appropriate to the entity's operations. Of additional concern is an apparent bureaucratic desire for standardisation that is for benefit of process rather than flexibly recognising differences between organisations to enable better outcomes. We note that homogeneity isn't a recognised characteristic of high performing organisations or innovation systems.

**Table 1 CRDC Accountability & Compliance Requirements**

***Public Governance, Performance and Accountability Act (2013)***

- RDCs must prepare annual performance statements, for inclusion in its annual report, that provide information about the entity's performance in achieving its purposes.
- RDCs must prepare annual reports and audited financial statements for each financial year and provide these to the responsible minister for presentation to parliament.
- RDCs must establish an audit committee.
- RDCs must establish and maintain appropriate systems of risk oversight and management and internal control.
- RDCs must keep the responsible minister informed of activities of the entity and of significant issues and decisions.

***Primary Industries Research and Development Act (1989)***

- RDCs must prepare five-year R&D plans for approval by the minister.
- RDCs must, each year, prepare an annual operating plan.
- RDCs must consult with relevant stakeholders when drafting these plans.
- RDCs must report to the parliament, the minister and its representative organisations on its R&D activities and the impact of these activities on the RDCs applicable primary industry.
- Annual reports must include particulars on R&D activities coordinated or funded and an assessment of the extent to which R&D plan objectives have been achieved.
- The minister must table the annual reports of any RDC's Selection Committee.
- Individual RDC statutory funding agreements are required to be agreed by 30 June 2015. The Department of Agriculture expects the agreements to contain similar requirements and provisions to the industry-owned RDCs' SFAs for the expenditure of levy and matching funding.

***Statutory Funding Agreements (SFA)***

- RDCs must establish accounting systems, processes and controls to adequately manage funds and contributions.
- RDCs must meet at six-monthly intervals with the Department of Agriculture.
- RDCs must report annually on their compliance with the SFA.
- RDCs must report to the Department of Agriculture on matters that materially impact their ability to meet their objectives or comply with the SFA.
- RDCs must undertake periodic independent performance reviews.
- The SFAs set out expected content of strategic plans, annual operating plans and annual reports.
- RDCs must consult with the Department of Agriculture and industry in the preparation of their strategic and annual operating plans.
- RDCs must seek the Department of Agriculture's approval of their strategic plans and consultation plans (where a consultation plan is required).

**Table 1 CRDC Accountability & Compliance Requirements, Continued.**

***Whole of Australian Government Policy***

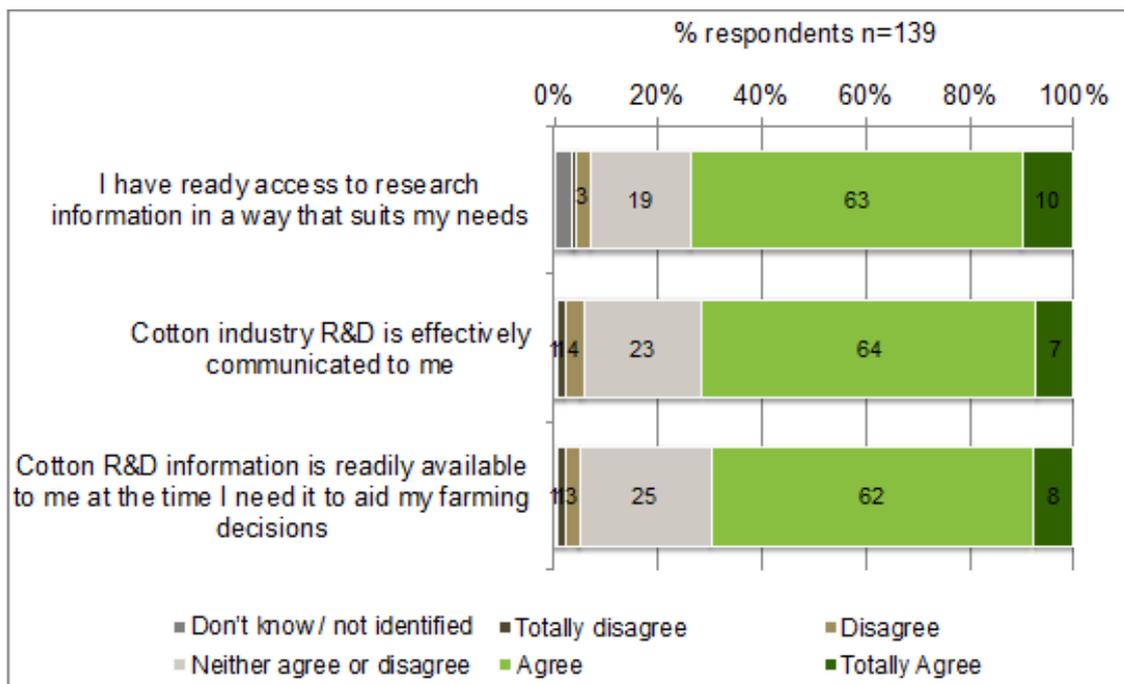
- Australian Government Protective Security Policy Framework
- Commonwealth Risk Management Policy
- Commonwealth Fraud Control Guidelines
- Commonwealth Official International Travel Policy
- Australian Government Foreign Exchange Risk Management Guidelines
- Australian Government Investment of Surplus Money Circular
- Australian Government Property Ownership Framework
- Australian Government Cost Recovery Policy Circular
- National Code of Practice for Construction Guidelines
- Australian Government Public Sector Workplace Bargaining Policy
- Senate Procedural Order of Continuing Effect (website publication of indexed list of relevant files i.e. research project files)
- National Competitive Neutrality Policy.

Similarly CRDC is concerned for changes to RDC board authority that removes decision making capacity with respect to its accountable, but independent governance role. Such changes undermine the role of the board and the effectiveness of the RDC model where operational independence, from government and industry, was recognised as a critical factor in ensuring the balance of investments and activities.

CRDC regularly communicates and collaborates with the other RDCs on policies, practices and technologies to enhance governance, administration and communication. The most significant example being an investigation of collaboration opportunities undertaken with GRDC that identified advantages in R&D program collaboration and discounted any benefits of merged functions.

CRDC also actively seeks feedback from our stakeholders, growers, researchers and industry organisations to assist with organisational improvement. By example CRDC's Cotton Growing Practices Survey Report 2013, captured some useful measures of perceptions of cotton production and R&D. Importantly, 91 percent of the survey respondents considered RD&E as driving continuous improvements in the Australian cotton industry. In addition, 70–73 percent of respondents indicated that cotton industry R&D is effectively communicated with information available in a timely manner to aid farming decisions (Figure 1).

**Figure 1 Effectiveness of Cotton R&D Communication (CRDC Survey Report 2013)**



In summary, CRDC’s strong view is that the best way Government can ensure RDCs meet their expectations, and those of industry, is to proactively resolve issues with the relevant individual RDCs rather than burdening all RDCs with additional standardised compliance requirements or removing authority for decision making from the accountable governing board.

***CRDC recommends that the best way Government can ensure operational improvements by RDCs is for its representatives to proactively resolve issues with the relevant individual RDCs, as opposed to burdening all RDCs with additional standardised compliance requirements or removing authority for decision making from the accountable governing board.***

**b. Increasing the flexibility of levy arrangements**

CRDC notes the position of Cotton Australia in its submission with regards to the agricultural levies system. In cotton, the levies system for R&D is highly efficient, well governed and strongly supported by growers.

CRDC highlighted in its response to the White Paper Issues Paper that the RDC model, however, does not have an effective way of managing reduced RD&E funding due to lower levy collections in periods of intense and sustained drought, or in response to other catastrophic events such as floods or major pest damage. While CRDC manages its reserves to ensure the industry is able to sustain R&D, these extreme circumstances have major impacts on production – and thus R&D. Given the likelihood of increased climate variability and more frequent droughts in the future, the issue of reduced revenue is critically important.

An administrative complication is that RDCs that have reserves may be allowed to access them in the immediate forward years, but the current whole of government budgeting process is not conducive to approving use of reserves via loss applications for future years, adding an additional administrative cost, creating uncertainty, and taking away the board's ability to govern – all at a time when resources are already stretched.

***CRDC reiterates the recommendation that the Task Force consider ways of allowing the rural RDCs to sustain RD&E capacity during prolonged drought periods (and other catastrophic events). Such methods might include disproportional matching funding, whereby the Government contributes a greater proportion during periods of reduced levy income, which industry repays in later high levy seasons, allowing rural RDCs to forward plan the use of existing reserves in periods of prolonged drought.***

## **ADDITIONAL KEY CONSIDERATION**

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### **Access to research provision**

CRDC raised the implications of continual decline in public sector research provision for agriculture as a concern in its response to the White Paper Issues Paper. We identified that where there is market failure (such as biosecurity); the withdrawal of state agencies presents a significant strategic risk for Australian agriculture, given the dependence on state-based researchers for managing incursions and working on long-term solutions.

We also identified that a reduction in the capacity or quality of public sector research provision would drive the CRDC towards commercial and international providers. While this has advantages in some R&D situations, allowing us access to innovation and new ideas in international R&D, in others it sees us losing our status as world leaders and potentially disclosing some of the reasons for the Australian cotton industry's competitive advantage.

Ultimately, a key question facing the CRDC is will it be able to access the research provision services it needs into the future in a cost effective manner. One possibility for future exploration is making the RDC model more flexible to allow RDCs to undertake research themselves, as well as funding research, akin to how the model was recently changed to give statutory RDCs the freedom to carry out marketing functions. This may align advantageously with a circumstance where industry RD&E is reliant upon greater involvement of agribusiness and private investment in RD&E.

***CRDC reiterates its recommendation that the Task Force consider the future for research provision in agriculture and how these needs may be met. Options may include ensuring continued funding for public agencies (such as CSIRO and universities), and ensuring a greater commitment to funding of state-based research agencies through the Agriculture Senior Officials Committee (formerly the Primary Industries Standing Committee) and providing the legislated capacity for the rural RDC model to evolve to undertake research provision.***

## **CONCLUSION**

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CRDC thank the Task Force for the opportunity to provide this response and welcome any questions. We hope that we have provided helpful insights and examples that are of assistance to the Government in establishing the policy direction for Australian agriculture, including rural research and development (R&D), in the coming decades.

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