



Australian Government

**Preliminary response to the Productivity Commission report
on the rural Research and Development Corporations**

15 June 2011

In February 2010, the Australian Government asked the Productivity Commission to examine the effectiveness of the rural Research and Development Corporation (RDC) model, including the appropriateness of current funding levels and arrangements for improving productivity through research and development (R&D), and whether there are any impediments to effective and efficient functioning of the model.

The commission consulted extensively with participants throughout the inquiry, by holding public hearings and informal meetings, and releasing an issues paper and a draft report, which drew a total of 295 submissions. Stakeholder submissions were overwhelmingly supportive of the RDC model. The commission provided its final inquiry report to the government in February 2011.

While noting several areas of possible improvement in the RDC model, the commission recognises in its report that the matching funding arrangements, the high level of industry engagement and the strong support from all sectors for the RDC model make it unique among R&D funding models around the world. The commission also indicates that the strengths of the model include the close links with industry and the 'systems integrating' role that the RDCs play in terms of collaborating with other research funders and influencing research priorities and framework reform.

However, the commission suggests that levy payers and other industry stakeholders should take on greater responsibility for funding industry-focused research through the RDC model, as it argues that much of the government's current investment is being used to fund projects that producers would have sound financial reasons to fully fund themselves. The commission therefore recommends a gradual reduction in the cap on the government's dollar for dollar matching of eligible industry R&D levy contributions, from 0.5 per cent of an industry's gross value of production (GVP) to 0.25 per cent. The commission also recommends the introduction of a 20 cents in the dollar matching contribution for industry levy contributions above the reduced GVP cap, to provide a further incentive for producers to increase their contributions.

The Australian Government will not adopt the commission's recommendation to halve the cap on government matching contributions to the RDCs in conjunction with the introduction of a new subsidy above the cap. While it is clear that some aspects of the RDC model could be improved, strong support for the model overall was evident throughout the commission's inquiry. The government's matching contributions are a key pillar of the model, and there is a risk that reducing the government contributions would undermine the model's strength and would potentially jeopardise the government-industry partnership that underpins the model.

R&D is vital to the ongoing productivity and competitiveness of Australia's rural industries, and in turn the health and resilience of Australia's rural and regional communities. Rural R&D that contributes to increased productivity through more sustainable use of natural resources results in significant private and public benefits.

While the government is committed to maintaining the cap on matching funding, it acknowledges that improvements can be made to the RDC model. The government will now develop a final response to the report. Stakeholders will be provided with a further opportunity to engage with the government while this occurs.

The National Strategic Rural R&D Investment Plan prepared by the Rural R&D Council is the result of considerable deliberation, data analysis and stakeholder consultation over a two year period. The investment plan outlines a rationale for balancing Australian Government investment in rural R&D and identifies major themes against which investment should be determined.

Receiving stakeholder feedback on both of these documents will assist the government to respond to the Productivity Commission's report and assess whether any changes are required to broader policy settings affecting rural R&D.

Information on how to access the Productivity Commission's report and the Rural R&D Council's investment plan can be found on the Department of Agriculture, Fisheries and Forestry's website, www.daff.gov.au/pcreview.