



Sugar Research Australia Limited (SRA)

SUBMISSION

To

The Senate Standing Committee on Rural and Regional
Affairs and Transport References

On

Rural Research and Development Legislation Amendment
Bill 2014

October 2014

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Glossary of acronyms and defined terms

ASMC	Australian Sugar Milling Council
Cth	Commonwealth
IOC	Industry Owned Company
R&D	Research and Development
RD&E	Research Development and Extension
RDC	Research and Development Corporation
SFA	Statutory Funding Agreement
SRA	Sugar Research Australia Limited

Executive Summary

1. Sugar Research Australia Limited (SRA) thanks the Rural and Regional Affairs and Transport References Committee for their invitation to provide a submission to their inquiry into the Rural Research and Development Legislation Amendment Bill 2014.
2. SRA's position with respect to the proposed legislative amendments covered under the Bill, is as follows:
 - SRA does not support the amendment of the *Sugar Research and Development Services Act 2013* or the establishment of a new legislative instrument to enable the Commonwealth Government to recover the cost of membership with international commodity organisations from the matching funding it contributes to relevant Research and Development Corporations (RDCs), including Industry Owned Companies (IOCs); and
 - SRA does support the amendment of legislation to remove the requirement for RDCs to table corporate documents and subsequent amendments to corporate documents.
3. SRA's concerns with respect to the Commonwealth off-setting the costs of membership fees for international commodity organisations are as follows:
 - in terms of the legislative change itself, SRA is concerned with the precedent set by mandating cost-recovery mechanisms for the Commonwealth in the *Sugar Research and Development Services Act 2013*;
 - in terms of the RDC funding model, SRA is concerned the Commonwealth Government is jeopardising the government-industry partnership model by funding their own membership with international commodity organisations out of government matching funds provided to RDCs; and
 - in terms of membership of international commodity organisations, SRA is concerned that it is the Commonwealth who will decide on the efficacy of membership, rather than the industry or RDC who are better positioned to determine the overall value that such membership may provide to the industry and RDC.
4. In order to address the above concerns, SRA recommends the following actions be considered by the Committee:
 - proposed legislative changes relating to the Commonwealth Government's cost-recovery of international commodity organisation membership fees be withdrawn;
 - the Commonwealth Government's cost-recovery mechanisms for international commodity organisation membership fees be included in the individual Statutory Funding Agreements (SFAs) between the Commonwealth and RDCs;
 - a requirement be made for the Minister for Agriculture, or the Department of Agriculture on the Minister's behalf, to seek RDC support for joining

and/or maintaining membership of international organisations (including government-to-government organisations), where membership fees are to be off-set against government matching funds paid to RDCs;

- a requirement be made to ensure RDCs and their respective industry representative bodies play a specific role in determining whether there is benefit in being a member of specific international organisations, including government-to-government organisations such as the International Sugar Organisation where membership fees are to be off-set against government matching funds paid to RDCs;
- RDCs be afforded the opportunity to determine if the outcomes to be gained from membership of international organisations are consistent with the respective RDC's Strategic Plan and the cost of membership is reasonable or affordable given the respective RDCs financial investment position;
- an allowance or provision be made for RDCs to participate or attend, where appropriate, meetings, workshops, conferences and seminars held by international organisations, where membership fees are off-set against government matching funds paid to RDCs;
- a requirement be made for reports to be provided to RDCs by government attendees at international commodity organisation meetings, workshops, conferences and seminars, if RDCs are not in attendance; and
- a requirement be made for the Commonwealth Government to undertake regular reviews, in consultation with RDCs and their respective industry representative bodies, to ensure the membership is of benefit to the industry.

Background

SRA

5. SRA is an IOC and the declared Industry Services Body for the Australian sugar industry under the *Sugar Research Development Services Act 2013* (Cth).
6. SRA is responsible for the direct provision of research, development and extension (RD&E) as well as the ongoing management and investment of funds received from industry levy payers and government, for the benefit of the sugarcane industry and for the wider public good. SRA is not a marketing or trading organisation.
7. SRA's main sources of funds, to support both SRA's core RD&E activities and RD&E investments, come from the statutory Sugarcane Levy paid by sugarcane growers and millers (approximately \$19.5 million in 2013/14), matching contributions (up to a cap) from the Commonwealth Government (approximately \$6.7 million in 2013/14) and investments from the Queensland Government (approximately \$4 million in 2013/14).
8. SRA's 2013/14-2017/18 Strategic Plan sets out the key focus areas for investment of these funds in RD&E in the Australian sugar industry. The Strategic Plan was developed in close consultation with our Levy Payers,

industry representative bodies and government and addresses the priorities of these key stakeholders.

International Sugar Organisation

9. The relevant international commodity organisation for the world sugar industries is the International Sugar Organisation (ISO).
10. ISO is an intergovernmental organisation created under the auspices of the *International Sugar Agreement 1992*. Australia is a ratified member under the Agreement, with the Commonwealth Government representing Australia's interests, carrying all voting rights and formal status.
11. SRA is not a member of ISO, nor are our industry representative bodies (namely CANEGROWERS and the Australian Sugar Milling Council (ASMC)), as ISO is a government-to-government organisation.
12. ISO's predominant focus is on providing economic research, market analysis and statistics that satisfy members' needs and provide opportunities for debate on matters impacting the world sugar market (including renewable energy markets).
13. ISO holds Council sessions twice a year, in May and November, in London. The intent of these sessions is to provide opportunity for policy issues to be debated between major sugar producing, consuming and trading countries at an intergovernmental level.
14. A representative from the Commonwealth's Department of Agriculture attends these sessions. SRA does not attend these sessions, nor is it provided with any detailed briefings from the Commonwealth on the outcome of these sessions but has received some copies of reports tabled at ISO.
15. In addition to these Council sessions, ISO holds annual conferences to increase knowledge and understanding of subjects and issues of importance to the world sugar market, and to provide opportunities for information exchange amongst the international representatives of sugarcane growers, processors, trade, governments and financial institutions. SRA does not attend these conferences.
16. Advice provided to SRA from our industry representative bodies indicates a small number of sugar industry participants generally attend the annual conference, which is held in London, but their attendance is largely due to the ISO conference coinciding with other world sugar market and industry activities, such as the World Association of Beet and Cane Growers.
17. ISO also monitors new developments in the sugar, sugar by-products, sweeteners, ethanol, cogeneration and related markets however the research to-date in these areas has been mainly market analysis, trade or policy focussed.

Response to Issues Identified in the Bill

a) Payment of membership fees to international commodity organisations

Legislative mechanism to recover membership fees

18. SRA has strong concerns with the precedent that will be set by amending legislation for the purpose of establishing a mechanism to allow specific costs or payments, such as international commodity organisation membership fees in this particular instance, to be off-set against Commonwealth Government matching funds provided to RDCs.
19. Specifically in relation to SRA, the proposal is to amend the *Sugar Research Development Services Act 2013* (Cth) and the SFA between SRA and the Commonwealth to require membership fees to ISO to be recovered from matching funds provided to SRA as the Industry Services Body.
20. SRA believes such a precedent poses significant risk to the sustainability of the RDC funding model.
21. The RDC model has been reviewed extensively in recent years, such as the Productivity Commission's review in 2010¹, and it has been widely acknowledged that the model is world-class, particularly in terms of the government-industry partnership principles upon which the model is based.
22. SRA contends that the Commonwealth Government is now jeopardising this model, and the trust it has established with the various industries under this model, by funding their own membership with international commodity organisations out of government matching funds provided to RDCs.
23. The overarching intent of the government-industry partnership model is to enable RDCs to invest research and development (R&D) monies received, from industry levy payments and Commonwealth Government matching funds, in RD&E and innovation to improve productivity, underpin competitiveness and profitability, and support the sustainability of primary production in Australia.
24. Under the model, the decision-making with respect to where the R&D monies should be invested rests with the RDCs, as part of their overall responsibilities as their respective industry's primary funding bodies for R&D.
25. The proposed amendment of legislation to mandate the Commonwealth Government's recovery of membership fees in international commodity organisations from matching funding provided to RDCs, impinges on the individual RDCs authority as their industry's primary R&D investment body. That is, by obligating expenditure on a particular service or product (in this case, membership fees), the ability of the RDCs to ensure R&D monies are invested appropriately to meet the RD&E needs and priorities of their respective industries is undermined.
26. SRA is of the opinion that if the proposed legislative amendments pertaining to the recoupment of international commodity organisation membership fees are

¹ Rural Research and Development Corporations Productivity Commission Inquiry Report No. 52, 10 February 2011.

passed, the precedent will be set for the Commonwealth to prescribe further expenses to be off-set against RDC matching funds.

27. In advice provided to SRA, our industry representative bodies have indicated they support SRA's opinion and have stated that they do not agree with the proposed amendment of legislation to allow for the Commonwealth Government to recoup ISO membership fees from matching funds provided to SRA, or the precedent that this would set.
28. In keeping with the government-industry partnership model, cost-recovery mechanisms could be provided for within the SFAs between the Commonwealth Government and individual RDCs. In this way, the membership and cost-recovery arrangements can be appropriately negotiated between the Commonwealth and RDCs, in consultation with their respective industry representative bodies.
29. SRA therefore recommends:
 - the proposed amendments under Schedule 1 in the Rural Research and Development Legislation Amendment Bill 2014 be withdrawn; and
 - cost-recovery mechanisms for international commodity organisation membership fees be negotiated and included in the RDCs respective SFAs.

International commodity organisation membership

30. SRA does not have an issue with payment for membership of international commodity organisations per se however SRA does have concerns with being mandated to pay for membership to an organisation when SRA is not the member, such as the case in the government-to-government based ISO, nor is SRA the decision-maker with respect to membership.
31. The legislative changes proposed in the Bill have little or no regard to the views of the RDCs, on the cost and benefit of membership of international organisations and the role that RDCs will play in membership (i.e. whether the RDC will play an active role and be invited to attend meetings alongside government representatives).
32. The primary concerns of SRA relate specifically to:
 - lack of due regard being given to SRA and our industry representative bodies' opinions on the merits of membership with ISO; and
 - membership decisions being made without the context of SRA's investment criteria or the total funds (both levy monies and government funding) available for the purpose of investing in and delivering beneficial RD&E.
33. Whilst SRA appreciates there is some benefit to the Australian sugar industry in the Commonwealth Government's membership with ISO, the benefits are mostly in terms of access to market and economic research rather than in-depth sugarcane breeding, farming practice or technological related R&D.

34. As the Industry Services Body for the Australian sugar industry, SRA is charged with responsibility for determining where best to invest levy and government monies, in consultation with our Levy Payers, industry representative bodies and government (both the Commonwealth and Queensland Governments).
35. These investment decisions are based on ensuring SRA invests in RD&E that addresses industry and government priorities and will deliver valued outcomes to the Australian sugar industry, as well as broader positive impacts on the Australian community.
36. In short, SRA must ensure that its RD&E investments provide the best possible value for the limited funds available to it through levy payments and government contributions.
37. The membership fees with ISO (approximately \$160,000 per annum) are not insignificant in the context of SRA's total RD&E investment budget.
38. Any expenditure that is not a direct investment in RD&E, such as membership fees with ISO, is still required to demonstrate clear benefit to the sugar industry and, more importantly, that it would not have been better spent elsewhere.
39. In advice provided to SRA, our industry representative bodies have stated that they do not support the reduction in RD&E activities that would result from SRA paying for the Commonwealth Government's membership of ISO.
40. As such, SRA is of a strong opinion that both the RDCs and their respective industry representative bodies should be the primary decision-makers when it comes to deciding on whether to become a member, or continue membership, of an international commodity organisation.
41. SRA therefore recommends that any prescribed mechanism (be it via a legislative instrument or a SFA requirement) includes:
 - a requirement for the Minister for Agriculture, or the Department of Agriculture on the Minister's behalf, to seek RDC support for joining and/or maintaining membership of international organisations (including government-to-government organisations), where membership fees are to be off-set against government matching funds paid to RDCs;
 - a requirement for the RDCs to seek advice from their respective industry representative bodies with respect to industry support for joining and/or maintaining membership of international organisations, where membership fees are to be off-set against government matching funds paid to RDCs;
 - a requirement to ensure RDCs and their respective industry representative bodies play a specific role in determining whether there is benefit in being a member of specific international organisations, including government-to-government organisations such as the International Sugar Organisation; and
 - RDCs be provided the opportunity to determine if the outcomes to be gained from membership of international organisations are consistent with the respective RDC's Strategic Plan and the cost of membership is

reasonable or affordable given the respective RDCs financial position.

42. SRA also contends that if RDCs are to be required to pay for the Commonwealth Government's membership of international organisations, then the RDCs should be afforded the opportunity to attend meetings or conferences held by the international organisations, where appropriate.
43. In SRA's case, although it is recognised that ISO is an intergovernmental organisation, ISO itself encourages representatives and advisers from industry to attend alongside government member delegations. In some cases, for example, Mauritius and South Africa, industry representatives are mandated to represent their country at ISO meetings alongside Government representatives.
44. Furthermore, SRA does not believe the proposed legislative amendments relating to membership of international commodity organisations impose appropriate levels of accountability and reporting requirements on the Commonwealth Government, in their role as the ISO member.
45. SRA therefore recommends that any prescribed cost-recovery mechanism for membership of international commodity organisations includes the following:
 - an allowance or provision for RDCs to participate or attend, where appropriate, meetings, workshops, conferences or seminars held by international organisations;
 - a requirement for reports to be provided to RDCs by Commonwealth Government attendees at international commodity organisation meetings, workshops, conferences or seminars, if RDCs are not in attendance; and
 - a requirement be made for the Commonwealth Government to undertake regular reviews, in consultation with RDCs and their respective industry representative bodies, to ensure membership of the international commodity organisation is of benefit to the industry.

b) Removal of requirements for RDCs to table corporate documents

46. SRA supports the proposed amendment to the *Sugar Research and Development Services Act 2013* to remove the tabling requirements for the Statutory Funding Agreement (SFA) between the Commonwealth and SRA, and variations to the SFA.