Productivity Commission Review
Submission by New Rural Industries Australia

Background to New Rural Industries Australia (NRIA)

New Rural Industries Australia is an alliance of new and emerging rural industries that have come together to create a collective environment for the development and capacity building of such new and innovative Australian rural industries through cooperation, coordination and education. Industries covered by NRIA are interesting, innovative and vibrant.

The concept of NRIA arose from a New Industries Leaders' Summit held in Canberra in March 2009. Participants unanimously agreed on the need for an industry association/alliance representing new and emerging Australian agricultural industries.

Participants recognised that the diverse new and emerging agricultural industries have growing economic significance in Australia and there is a need to maximise these economic benefits.

A recent ABARE report profiled 29 new and emerging plant and animal industries and estimated their gross value of production at $940 million and their export revenue at $465 million, or 6 per cent of total farm export revenue in 2006-07. [1]

NRIA members' business interests cover broad ranges of products and enterprises – some examples include diverse livestock e.g. crocodiles, goats, kangaroos, and dairy sheep to diverse crops such as olives, wildflowers, native foods, native grasses and tea tree. Their interests are located across all states and territories and often cover several enterprises. NRIA members also range from boutique part-time rural businesses to rapidly expanding medium sized small to medium size enterprises.

[1] RIRDC Publication No. 09/004 *Emerging Animal and Plant Industries – their value to Australia (Second edition)*, 2009

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NRIA will create an environment for the development and building of the capacity of these new, innovative, Australian rural industries as well as providing a positive support base for new industries.

New Rural Industries and Their Place in Australia

NRIA's view is that new rural industries are fundamental to Australia's capacity to adapt to serious climate, environmental and economic challenges. We also believe that these new industries will, if properly resourced, ensure that Australia maintains and creates vibrant economies in rural and regional Australia.

Resilience of communities and agricultural productivity in the face of future challenges will require innovation and adaptation – two key attributes of new and emerging rural industries.

Effective R&D underpins these new and emerging industries. Recent cuts to R&D funding have been a backwards step that should be reversed. New and emerging rural industries backed by significantly increased R&D funding will be critical to the future stability and strength of Australia's rural and regional resources and assets that are in fact critical to the resilience, strength and adaptability of the nation.

R&D – A Critical Factor in the Development and Success of new Rural Industries

New and emerging industries by their nature need public investment in R&D perhaps to a greater extent than established industries. Any of the industries currently involved with NRIA will testify that the learning curve is steep and that targeted R&D provides rapid advances. In many cases without publicly supported R&D the industries would not develop.

Overall the return on public R&D investment for new rural industries has been independently calculated as dramatically positive, with internal rates of return ranging commonly from 15-60%, and at times over 90%. This alone should justify an increase in investment in this vital area of the Australian agricultural economy.

As these industries begin to find their place there is inevitably a need to generate further investment in the industries and in support services. While there is an appetite to invest in new ventures and to extend support services this is tempered by the need for technical and market information to underpin such investment.

Private investment is highly unlikely to satisfy the need for R&D in these industries but based on past experience the private sector will take publicly funded R&D outcomes to commercial fruition.

From the public perspective R&D investment in these industries can be seen as highly likely to generate multiple direct returns on investment and further substantial positive social and public good outcomes.

Two examples are worth noting. Firstly, effective R&D efforts can provide much needed alternatives for established rural businesses trying to diversify away from traditional practices and enterprises as they look to adapt to changing conditions. Secondly, such R&D provides information that attracts new entrants into rural activities and regions. Many well-supported part time farmers have come to these industries encouraged by information gained from this R&D. These entrants bring new skills and valuable support networks to emerging rural industries. They are resilient participants generally keen to contribute regional wellbeing and consequently to the nation's future while developing their rural interests. In turn they create increased regional demand for goods and services.

The Role of the Rural Industries Research and Development Corporation - Now and In the Future

The Research and Development Corporation (RDC) with the most experience and success in the area of new and emerging industries is the Rural Industries Research and Development Corporation (RIRDC). RIRDC has a long and distinguished record of dealing with and nurturing new and emerging rural industries. In addition RIRDC has unique expertise in cross-industry and cross-sector project and program management. This is vital for the efficient application of public R&D funds. So is the effective integration of the private and public resources invested in this area and RIRDC has developed purpose-built systems to manage this integration in the uniquely dynamic area of new and emerging rural industries.

RIRDC is highly respected by its participant industries for its industry partnership approach and also its leadership in gaining remarkable returns from targeted R&D expenditure. RIRDC's particular cross-sectoral skills are demonstrated by its coordination of collective activities across industries that have resulted in the formation of both Bioenergy Australia and NRIA.

Unfortunately there has been a steady decline in research and development investment in new and emerging industries over the last several years. This is as a result of annual budget reductions and increased costs for administration and management. For example, a recent reduction of $3 million per annum to

RIRDC's budget has resulted in significant reductions to R&D support for new and emerging industries. This comes at a time when there is an unprecedented increased requirement for research and development in new and emerging rural industries in order to respond to climate change, drought and competitive markets – all major factors putting pressure on agriculture to be more innovative, nimble, adaptive and diversified.

Surely given the previously mentioned remarkable returns from this R&D, the public response should be quite the reverse – increased R&D funding in these areas because of these likely returns. Such investment is far from any situation of diminishing returns on investment that might occur in established industries.

The original concept of the Research and Development Corporations was to be at arm's length from government departments to enable them to operate in a less bureaucratic structure and to focus on the core business of research and development. In recent times those practices that RDCs were to be freed from have crept incrementally into the administrative procedures and policies. This in turn constrains flexibility and diverts energy and resources away from the core business of research and development.

To compound this, transaction costs and administrative processes have been dramatically increased through the initiation of the Department of Agriculture, Forestry and Fisheries' (DAFF) own research programs, where RDCs have to apply for funds. Given that specialised RDCs are in place to deliver on R&D management, efficiency and effectiveness would dictate that these R&D funds should be provided to RDCs in a manner that does not increase management costs, administrative processes and generally allows RDCs to focus on their core business.

The reduction in investment over the last several years has severely hampered R&D for new and emerging rural industries. This reduction along with the funding models which are biased towards traditional and more mature industries, has reduced the capacity of the Rural Industries Research and Development Corporation (RIRDC) to support new and emerging industries. To re-iterate, NRIA has the view that investment in new and emerging industries - to support wider community benefits as well as diversification and adaptation to climate change and other pressures - is for the benefit of all Australians. Investments in these public good aspects are key to Australia's future stability, food and biosecurity objectives and fostering regional development.

The funding reductions appear to be a short term money saving policy on the part of government. NRIA has the view that the consequences of such short term savings will over time cost far more to government through future publicly funded financial bailouts and structural adjustment programs. This in part will be due to private investment being driven away because of the lack of supporting technical, scientific and economic knowledge for investment in new rural industries. This will also have a direct detrimental impact on the resilience and economic, social and environmental well being of rural communities.

While currently RIRDC has a policy of matching voluntary contributions from its existing government appropriation, there is clearly limited capacity to do this, especially with the recent budget reductions. A partial solution to investment funding would be to extend the provision for voluntary contributions raised by new rural industries to be matched by government funds; similar to the provisions applying to products covered by Horticulture Australia and the Fisheries RDC.

However it is the case at early stages of industry development, voluntary contributions are limited. Effective R&D funding for industries at this stage relies on government appropriation. This is a key and growing function of RIRDC and also needs increasing support.

The requirement to match voluntary contributions has reduced RIRDC's ability to fund the development of new industries from RIRDC's government appropriation.

A Way Forward- the NRIA Perspective

The challenges associated with the complexity and costs of moving into new and emerging industries cannot be overstated. The viability of rural communities will depend on their future resilience and adaptability to global and national pressures. It is therefore imperative that future investments in R&D associated with new and emerging industries be increased. NRIA is of the view that these investments are not only crucial to new industries but represent the best option for ensuring positive broader public benefit for rural communities.

There is increasing expectation of Australians to have access to a variety of high quality Australian produced goods. Increased investments in R&D will ensure Australia continues to position itself with innovative and adaptive technologies thereby ensuring ongoing global competitive advantages as well as ensuring the resilience of our regional rural communities.

R&D investment is crucial to providing for a planned and systematic approach to diversification thus enabling adaptation to the changing environment. This investment now will contribute to strengthening Australia's economy and has increased societal benefits for regional communities. Investment now in new rural industries will prepare Australia for both predicted and unforeseen changes rather than be in a situation where a catastrophic event forces change for which we are little prepared.

NRIA considers it essential that RIRDC investment models continue to specifically target the broader public good when deciding on R&D investments. Criteria for these decisions should include the potential for spinoff benefits to other industries, the environment and contribution to the resilience of rural communities.

Specific investment should be considered in cross-industry research which has environmental benefits such as efficient water and energy use, improvement to land conservation measures and improvements to community health by providing products with minimal chemical residue. Another key factor should be the role that this investment will play in underpinning diversification and adaptation to climate change with a consequent contribution to food security.

In summary we contend that Australia can either take positive action with regard to facilitating adaptability and facing climatic change by immediate and substantial increases in support for R&D for new, innovative and emerging industries or continue to under-resource this critical area and suffer consequent substantial social and economic losses in the foreseeable future.

In fact we don't believe that there is any rational choice but positive action and we strongly urge the Productivity Commission to support increases in publicly funded R&D for new and emerging rural industries through the effective public instrument that is RIRDC.

Paul Miller
Chairman