SUBMISSION

Productivity Commission Draft Report: Rural Research and Development Corporations

November 2010

The National Association of Forest Industries (NAFI) welcomes the opportunity to comment on the Productivity Commission draft inquiry report into rural research and development (R&D), including current funding arrangements and the rural Research and Development Corporations (RDC) model.

In broad terms, NAFI supports the key recommendation from the report that:

> While there are some shortcomings in the current RDC model, it is highly unlikely that a completely different approach would deliver as good an outcome for the community.
>
> The case for retaining core elements of the RDC is therefore very strong (Productivity Commission inquiry report, page XXIV).

Importantly, the RDC model has provided a structure for direct interaction between primary producers (growers and processors), government and research providers in setting R&D priorities with greater potential for commercial uptake and adoption. However, the RDC model could be improved given shortcomings in the way in which industry input is sought and the degree of coordination across the various RDCs on cross-cutting issues.

Within the Primary Industries Ministerial Council (PIMC) framework, the various RDCs are developing ‘Research, Development and Extension’ (RD&E) strategies to deliver a more coordinated and collaborative approach to rural RD&E and cross-cutting issues. NAFI would endorse this process to continue.

With regard to the forest sector, we would also support ongoing work by Forest and Wood Products Australia (FWPA) to develop further the RD&E framework. This framework, through the proposed RD&E ‘forum’, could provide better higher level coordination between industry, government and researchers in setting R&D priorities and projects, particularly for key policy areas for the industry.

NAFI has been concerned that in the past the setting of priorities in the forest sector has been heavily influenced by the government agencies (e.g. state based forest agencies, government researchers) with insufficient input from industry. The forestry industries have been historically characterised by a high level of government ownership, particularly with respect to the sustainably managed native forest resource base, while at the same time experiencing a stagnant (i.e. constant) level of R&D investment over the past two decades.

NAFI acknowledges the role of the various advisory groups within the FWPA, but would like to see considerable effort put into improving the effectiveness and structure of these mechanisms. In particular, the key priority areas and policy needs for industry need to be translated into R&D projects for funding by FWPA, and delivered in a timely fashion that is relevant to industry. A closer engagement with industry at both strategic and operational levels would assist this process.

NAFI would also support the broad recommendation for the creation and funding of a new non-industry RDC – Rural Research Australia – as outlined in the draft report, to sponsor broader rural research that is likely to be under-provided by industry-specific RDCs. This new RDC is likely to be very relevant to the forest sector as part of the broader rural research agenda.

By their very nature, forests are complex biological systems and provide a number of public benefits (i.e. spillovers) that make them unique from some other land uses and production activities. These characteristics include the multi-functionality of forests beyond commercial wood benefits, including ecosystem services and functions such as carbon sequestration, provision of recreation opportunities, rehabilitation of degraded landscapes, soil and water conservation and enhanced biodiversity. Many of these benefits cannot be captured in a market system by the private investor and would tend to be under-funded solely through an industry levy system.

In addition, the forestry and wood processing industries can provide a broad range of climate change mitigation and adaptation benefits, including:

- the carbon stored in growing forests;
- the carbon stored in durable wood products and substitution for more emissions intensive materials such as steel and concrete; and
- the renewable energy produced from forestry biomass to replace emissions from fossil fuels (e.g. use of wood waste for green energy).

Given these characteristics, there can be sound arguments for addressing private investment barriers in R&D in the forest sector in recognition of their broader social and ecological benefits. The failure of the market system to provide the optimum level of R&D investment in such cases is generally well understood.

Furthermore, forestry is a relatively long term investment compared to many other investment choices, with private investment barriers including the high capital cost of establishment and relatively long waiting period for a return (i.e. time value of money). Private discount rates may also differ from social discount rates, particularly when spillover effects are taken into account, which may lead to under-investment in the sector.

There may also be strategic national and regional policy reasons for the development of forest based industries, including the security of supply of essential fibre and renewable building products, economic diversification and reducing our reliance on imported wood products that may have lower environmental standards. In this context, well targeted R&D to facilitate the competitiveness and growth of innovative and efficient forest industries can provide clear social benefits, through employment and value added processing in many rural areas with limited alternative land use and market opportunities.

The draft report contends that a ‘significant part of the Government’s funding contribution appears to have supported R&D that primary producers would have had sound financial reasons to fund themselves’. NAFI is concerned there appears to be little supporting evidence or empirical analysis for this conclusion contained in the document, while the report itself notes there is a general paucity of ex-post evaluation data. Given the reasons stated above, this is also likely to be less of an issue for the forest sector.

Finally, the real rate of productivity growth in Australia for forestry and agriculture is a significant economic policy issue. The long term competitiveness of rural industries will continue to rely on ongoing productivity growth and innovation across the supply chain. Without a significant partnership approach with government in productivity driven R&D, such as through the co-funded industry levy system, Australia risks under-investment in these sectors and a declining comparative advantage.

In this regard the broad recommendation to progressively reduce the cap on government co-funding for the commodity based RDCs to half its current level over the next 10 years appears extreme and would require additional evaluation on the longer term implications of such a proposal.

NAFI appreciates the opportunity to make a submission and would be happy to discuss these matters further if required and can be contacted on (02) 6285 3833.