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Primary Industries and Energy Research and
Development Amendment Bill 2001

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I N F O R M A T I O N A N D R E S E A R C H S E R V I C E S

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No. 115 2000–01

Primary Industries and Energy Research and Development
Amendment Bill 2001

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29 March 2001

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Primary Industries and Energy Research and Development Amendment Bill 2001

Date Introduced: 1 March 2001

House: House of Representatives

Portfolio: Agriculture, Fisheries and Forestry

Commencement: 1 July 2001

Purpose

To amend the *Primary Industries and Energy Research and Development Act 1989* in order to increase the Commonwealth's contribution to the Forest and Wood Products Research and Development Corporation so that it matches industry's research and development levy contributions, up to 0.5 per cent of gross value of production.

Background

Research in the Forest and Wood Products Industry

The Forest and Wood Products Research and Development Corporation (the Corporation) is a statutory authority set up under the *Primary Industries and Energy Research and Development Act 1989* (PIERD Act) It was established on 1 January 1994 and is funded jointly by the Commonwealth Government and the forest and wood products industry. Unlike most other rural research and development corporations, the Forest and Wood Products Research and Development Corporation has been funded on the basis of \$1 from the Commonwealth for every \$2 from the industry. The explanation given during the debates on the Bill which introduced this provision in 1993 was that:

[the] basis of the changed funding arrangements for the Forest and Wood Products Research and Development Corporation arises from the structure of the industry – half the industry has a primary industry focus, while the other half has a manufacturing orientation. Commonwealth funding is intended to match the rural half of the industry contribution, consistent with arrangements for research and development in other rural industries.¹

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In 1999-2000 levy payers contributed \$4.18 million and the Commonwealth \$1.567 million to fund the Forest and Wood Products Research and Development Corporation.² However, the Commonwealth made additional direct payments to support the Wood and Paper Industry Strategy (WAPIS) and National Heritage Trust projects which were administered by the Corporation.³ The Commonwealth's total contribution therefore amounted to about 50 per cent of the Corporation's total annual income in 1999-2000.⁴ In 2000-01 the Commonwealth's contribution will be less because WAPIS, which was a four year project, concluded in June 2000.⁵

The role of the Corporation, which has a full time staff of six, is to identify research priorities, and to commission, administer and evaluate research in a broad range of areas, including wood production, extraction, processing, economics and marketing.⁶ The Corporation does not undertake research and development itself. Instead, it provides support through research providers such as private companies, industry associations, universities, the National Timber Development Council, CSIRO and State Forestry research and development agencies.⁷

The Minister for Forestry and Conservation, Hon Wilson Tuckey, announced the Government's decision to fund the Forest and Wood Products Research and Development Corporation on a \$1 for \$1 basis on 5 September 2000.⁸ He said that, in dollar terms, this represents an increase of around \$1.6 million a year. In his second reading speech, Mr Tuckey said that the arbitrary separation of the forest and wood products sector into primary production and manufacturing components is inconsistent with a modern 'whole-of-chain' approach to rural industries.⁹ He described 'whole-of-chain' planning in primary industries as including sustainable resource use, production, storage, transport, marketing and use.

The Government's announcement of increased funding followed a report to the Department of Agriculture, Fisheries and Forestry in February 2000 by Jaakko Pöyry Consulting which found that there is a need to review how forest industry research is undertaken and by whom. The report stated that:

At present, research is undertaken at various levels including Federal and State government, industry association and in universities. The key direction and feedback mechanisms do not appear to be well co-ordinated and this leads to inefficient use of scarce research funding.¹⁰

The report also warned that the Federal Government had given the industry a "bad signal" on innovation in May 1999 when it rejected funding for a new Co-operative Research Centre (CRC) for Fibre and Paper.¹¹ The report said that:

This CRC aimed at establishing an internationally competitive research and training centre in Australia directed at reversing the trade deficit in pulp and paper products. It would have brought together all the major paper-making companies in Australia, major pulpwood supplie[r]s as well as CSIRO and universities.¹²

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Imports and Exports of Forest Products

Australia has a \$2 billion trade deficit in forest products.¹³ Since European settlement began, Australia has been importing a significant percentage of its forest product requirements and successive governments have battled with the concept of self-sufficiency.¹⁴ Yet, over the last 40 years, the volume of imports as a percentage of consumption, has risen from 28 per cent in 1960 to 43 per cent in 1999.¹⁵ Seventy per cent of the imports by value are for pulp and paper products. Sawntimber makes up a further 13 per cent and the remainder is mostly wooden furniture and other miscellaneous forest products.¹⁶

In 1999-2000, imports of forest products increased by 16 per cent to reach \$3.8 billion, reflecting increased imports of sawntimber to meet the demands of the housing sector.¹⁷ Exports of forest products rose by 22 per cent to \$1.6 billion in 1999-2000, mainly reflecting increased exports of paper and paperboard (whose value rose by 38 per cent to almost half a billion dollars). Woodchip exports, which account for just under half of the total value of forest product exports, increased by \$60 million in value, contributing to about one fifth of the rise in exports.¹⁸

Around 95 per cent of Australia's forest exports are to countries in the Asian and Oceania regions. Japan and New Zealand account for about 46 per cent and 20 per cent respectively of Australia's forest products exports by value. Indonesia, the Republic of Korea, China, Chinese Taipei, Hong Kong, Singapore and Malaysia account for about a further 20 per cent.¹⁹ Woodchips from plantation hardwood logs made up about 9 per cent of total hardwood woodchip exports in 1999-2000. The availability of hardwood logs from plantations is projected to more than triple over the coming five years, providing a significant increase in woodchip available for export.²⁰

In July 1996, the Ministerial Council on Forestry, Fisheries and Aquaculture endorsed the plantation industry's target of trebling the area of Australia's forest plantation estate by the year 2020. *Plantations for Australia – the 2020 Vision* was launched in Canberra's Stromlo Forest by the then Minister for Primary Industries and Energy, Hon John Anderson, on 2 October 1997.²¹ The implementation plan is designed to attract commercial investment from the global capital market and domestic investors to treble the nation's plantation estate by the year 2020.

However, it has been suggested that while Australia has been generally successful at establishing plantations, initially softwood, and more recently hardwood, one of the main problems has been to sell all the available resource, particularly pulpwood.²² The Jaakko Pöyry report commented that:

With [a] background of oversupply and under-utilisation in many regions (eg. Bombala, North Queensland, Oberon, Tumut, Latrobe, Green Triangle), the concept of trebling Australia's plantation area under Vision 2020 is confounding particularly for small private growers trying to access a market.

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Many private growers can correctly ask why is the government supporting expansion when they cannot sell what they have now?²³

The Minister for Forestry and Conservation has responded, that one of the reasons for Australia's failure to attract investment in world scale forest processing facilities is that a critical mass of resource has not been available. He has said, in answer to a Question on Notice, that:

[t]he expansion of Australia's plantation estate in key regions will provide the volume of resource necessary for world scale processing facilities and provide benefits in particular for regional employment.

...Furthermore, there are also opportunities to manage the plantation resource to produce products of higher value than pulpwood – for example, sawlogs or veneer logs.²⁴

Are there other anomalies in the PIERD Act?

Levies on agricultural, livestock and forestry products are imposed by the Commonwealth at the request of the relevant industry. The principal uses of the proceeds raised by these levies include the funding of research and development, statutory marketing authorities, and health and safety monitoring. These activities are usually beyond the scope of small, scattered rural enterprises to organise and put in place on their own. Funds raised by research and development levies are usually matched by the Commonwealth up to a maximum of 0.5 per cent of the relevant industry's gross value of production.

The *Primary Industries and Energy Research and Development Act 1989* (PIERD Act) provides for the establishment of research and development corporations which provide the funding and administration for research and development in agricultural industries. One of the aims of the PIERD Act is to improve the accountability of expenditure on research and development activities in relation to primary industries.

Section 32 of the PIERD Act provides that the Commonwealth's matching payments for a Research and Development Corporation are not to exceed a certain proportion of the rural industry's production. Usually this is an amount equal to 0.5 per cent of the gross value of production. However, where growers of tobacco leaf pay a levy to the Tobacco Research and Development Corporation (TRDC), subsection 32(3) of the PIERD Act provides that the Commonwealth's contribution is not to exceed 3.5 cents per kilogram of tobacco leaf. In 1999-2000, tobacco levy payers contributed \$891 430 and the Commonwealth \$258 333 to fund the TRDC.²⁵

The PIERD Act also provides separate arrangements for payments to a Research and Development Corporation established for the fishing industry (subsection 30A). For the fishing industry, the Commonwealth's contribution consists of two components. The first is a payment of 0.5 per cent of gross value of production (GVP). This is made in recognition that the Commonwealth exercises a stewardship role in relation to fisheries

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resources on behalf of the Australian community. The second component is an additional payment, up to 0.25 per cent of GVP, to match receipts from the voluntary levy paid by the fishing industry. This is in line with policy principles that beneficiaries from research should pay roughly in proportion to the benefits received. In 1999-2000, approximately 75 per cent of the Fisheries Research and Development Corporation's revenue came from the Commonwealth Government.²⁶

Main Provisions

Item 2 of Schedule 1 repeals subsection 31(4) of the *Primary Industries and Energy Research and Development Act 1989*. This has the effect of providing that the Government's contributions to the Forest and Wood Products Research and Development Corporation will be at the same rate as that provided to other primary industry research and development corporations, that is, dollar for dollar.

Item 3 provides that the increased matching payment will not come into effect before 1 July 2001.

Item 5 repeals subsection 32(4). This subsection provided an upper limit to the Commonwealth's payments for research and development in the forestry and wood products industry of 0.25 per cent of the gross value of production. Its repeal means that the Forest and Wood Products Research and Development Corporation will have the same ceiling as other research and development corporations under subsection 32(1), namely 0.5 per cent of the gross value of production.

Item 6 provides that the new upper limit will apply from 1 July 2001.

Endnotes

- 1 McMullan, Sen the Hon R.F., 'Second reading speech', Primary Industries and Energy Legislation Amendment Bill 1993, Senate, *Debates*, 7 October 1993, p. 1928.
- 2 Forest and Wood Products Research and Development Corporation, *Annual report 1999/2000*, p. 14.
- 3 The Commonwealth contributed \$462,715 to WAPIS Value Adding/Plantations Regrowth Project, \$635,000 to WAPIS Sustainability Indicators, and \$192,500 National Heritage Trust projects administered by the Forest and Wood Products Research and Development Corporation. (Forest and Wood Products Research and Development Corporation, op cit, p. 14).
- 4 *ibid.*, p. 14.
- 5 Wood and Paper Industry Strategy (WAPIS), (Website visited 14 March 2001) www.affa.gov.au/docs/forestryaction_agenda/wapis_initiatives.html

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- 6 Forest and Wood Products Research and Development Corporation, op cit, p. 1.
- 7 ibid., p. 88 provides a list of all the organisations funded in 1999-2000.
- 8 Tuckey, Hon Wilson MP, 'Government boosts R & D funding for timber industry – Tuckey', *Media Releases* AFFA00/63TU, 5 September 2000.
- 9 Tuckey, Hon Wilson MP, 'Second reading speech', Primary Industries and Energy Research and Development Amendment Bill 2001, House of Representatives, *Debates*, 1 March 2001, p. 21423.
- 10 Jaakko Pöyry Consulting, *The need for change: positioning Australia's forest industry for the changes/opportunities for tomorrow?* prepared for Agriculture, Fisheries and Forestry – Australia, February 2000, p. 9.
- 11 ibid., p. 9.
- 12 ibid., p. 9.
- 13 Tuckey, Hon Wilson MP, 'Don't have a bar of forest fiction', *West Australian*, 7 January 2000.
- 14 Jaakko Pöyry Consulting, *The need for change: positioning Australia's forest industry for the changes/opportunities for tomorrow?* op cit, p. 1.
- 15 ABARE, *Australian commodity statistics*, 1999. Quoted in Jaakko Pöyry Consulting, *The need for change: positioning Australia's forest industry for the changes/opportunities for tomorrow?* op cit, p.1.
- 16 ABARE, *Australian forest products statistics*, September quarter 2000, p. 5.
- 17 Yainshet, Alasebu and Sledge, Philip, 'Wood products: outlook to 2005-06', *Outlook 2001: Proceedings of the National Outlook Conference*, Canberra, 27 February – 1 March 2001, p.134.
- 18 ibid., p. 135.
- 19 ibid., p. 134.
- 20 ibid., p. 135.
- 21 Anderson, Hon John MP, '2020 plantation vision – a boost for jobs, economic growth and rural communities', *Media release* DPIE 97/126A, 2 October 1997.
- 22 Jaakko Pöyry Consulting, *The need for change: positioning Australia's forest industry for the changes/opportunities for tomorrow?* op cit, p. 16.
- 23 ibid., p. 16–17.
- 24 'Question on Notice: Forests: Jaakko Poyry Report', Senate, *Hansard*, 9 November 2000, p. 19659.
- 25 Tobacco Research and Development Corporation, *Annual report 1999/2000*, p. 34.
- 26 Fisheries Research and Development Corporation, *Annual report 1999-2000*, p. 106.

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