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Forestry Tasmania

25 June 2010

RDC Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Sir,

I am pleased to provide the attached submission to the Productivity Commission Inquiry into Rural Research and Development Corporations.

Forestry Tasmania is both a significant (voluntary) levy payer, as well as a significant forest research provider. We recognise the importance of a strong research base for the forest sector, and strongly support the role of a strong Forestry RDC as an important component of a nationally focussed and collaborative research effort.

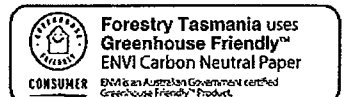
Yours sincerely

Dr Hans Drielsma
Executive General Manager
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Submission to Productivity Commission Inquiry into Rural Research and Development Corporations

Forestry Tasmania

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- The forestry sector is a significant contributor to the Tasmania economy, directly employing over 6,000 people and over 10,000 across the supply chain, and producing in 2008-09 timber and other goods equivalent to \$1.6 billion. It is a particularly significant employer in rural parts of the state. Tasmania has 3.4M ha of land under forest (50%), with significantly less than half being suitable and available for wood production. These areas comprise both public and private land.
- Forestry Tasmania is the Government Business Enterprise that manages the 1.5m ha of Tasmanian State forest, less than half of which is available for commercial production of timber. Forestry Tasmania had a turnover of \$180 million in 2008-09 and produced 3.1M of various log products.
- The general (national) case for forestry research, development and extension (RD&E) was compiled in the Forestry RDE Strategy, recently approved by PIMC. Tasmania, perhaps unlike the case for agriculture more generally, is a significant national centre of forest research, with the head-quarters of the CRC for Forestry, substantial CSIRO forest-related research, and a long history of programs at the University of Tasmania as well as at Forestry Tasmania.
- Tasmanian State forestry management has been characterized for many decades by the direct application of high-quality research outputs. Application of scientific knowledge has allowed development of the following innovations: techniques for harvesting and regenerating a wide variety of forest types, effective fire management, prescriptions for managing and monitoring a wide variety of flora and fauna, development of a softwood plantation estate and industry, more recently development of a hardwood plantation estate managed uniquely across Australia for solid timber products as well as pulp, and efficient and effective forest health surveillance processes. This work is well summarized in the

book "A History of Innovation" (2009), authored by Elliott, Stone and Jarman, and in many articles in the peer-reviewed journal *Tasforests*.

- As well as research inputs into management for commercial outcomes, research has also underpinned sustainable forest management certification processes, and the detailed development of the over-arching legal framework for forest management, namely the Regional Forest Agreement between the Tasmanian and Commonwealth governments.
- For many decades, Forestry Tasmania has maintained substantial internal research capacity and has actively collaborated with a wide variety of research providers and other research users across the sector. We are a significant research funder and provider in our own right. In 2009-10, Forestry Tasmania will manage a \$4.9m research program, with a net cost to the organisation of \$2.7m supplemented by external funding including competitive (grant) funding as well as leveraged research.
- Forest and Wood Products Australia (FWPA), the forest sector RDC, is a core part of forest sector research activity in Australia. It provides specific, project-focused activities and outputs, as well as strategic coordination and leadership to sector research, and sector-wide communication. Funded by levies on forest areas and wood production, FWPA is the one truly sector-wide research entity. The RDC model as applied by FWPA in the forestry sector has had significant influence in broadening the national scope and application of research across industry participants, and has encouraged collaborations that would not otherwise have occurred.
- Forestry Tasmania strongly supports the funding model for national forestry research which underpins the current RDC legislation. That is why we agreed, together with the other States, to contribute voluntarily the grower levy, even though by law the Commonwealth is not able to apply a levy to State entities. Forestry Tasmania thus pays an annual levy of \$150,000-\$200,000 to FWPA, calculated on the basis of commercial forest production. Forestry Tasmania is a research provider to a number (currently five) of FWPA projects where we have specific skills and capacity for projects of value to the whole sector in collaboration with other researchers across Australia and internationally. Forestry Tasmania also gives in-kind input to a number of further FWPA research projects that benefit from access to the Tasmanian state forest estate and resource. Lastly, Forestry

Tasmania is a substantial user of the range of research project outputs of FWPA, incorporating their findings variously into our business practices.

- Forestry Tasmania is concerned to note the low level of R & D investment in forestry research in Australia compared to other industry sectors, and that this investment has been decreasing in real terms over recent decades (See Forestry, RD & E Strategy, 2010). The FWPA has been a key element in mitigating this overall decline.
- FWPA is distinct from the other major research groupings or organisations in the sector, namely CSIRO and the CRC for Forestry.
- CSIRO recently dissolved its Division of Forest Biosciences, and distributed its forestry and forest products expertise across a number of other divisions. Furthermore, CSIRO followed this by withdrawing altogether from forest products research, with the termination of a number of experienced staff at its Clayton laboratories. These moves were consistent with a general refocusing of CSIRO research effort towards nationally significant priorities and policy decision-making, away from industry requirements. CSIRO does retain a number of excellent forest science researchers across various divisions such as Plant Industry, and Sustainable Ecosystems, but industry members now need to engage with these individually.
- The CRC for Forestry occupies a different place to FWPA in the research landscape, with the CRC resourcing and conducting entire programs of forestry research, and taking a long-term view of research development and outputs. The CRC also only includes self-selected members of the forestry sector, and it is clear that it does not necessarily represent the needs or interests of the wider sector – it currently carries out very little forest products research, for example. Forestry Tasmania is in a unique position to understand this distinct role of the CRC for Forestry, having been a member of this CRC and its predecessors continually since 1991. The CRC model thus takes much greater responsibility from creation of research culture to bringing projects to completion, while the RDC model as expounded by FWPA focuses necessarily on individual, shorter-term projects. The CRC model allows industry funders to target their funds to projects, while the RDC model in forestry is distinct in having an industry-wide mandate. Lastly, the CRC model includes public-good research, which is important for forestry in regard to landscape-scale and

social issues, whereas the RDC model in forestry focuses on applied projects. The entities are thus very complementary.

- The Forestry RDE Strategy recognised the distinction and complementary nature of CRCs and RDCs in the forestry sector, strengthened the future co-ordination and co-operation between these entities, and argued strongly for a continuation of both the CRC model and the FWPA (RDC) model as elements of future forestry research.
- Access to RDC funds through FWPA is an important means for the Tasmanian forest sector to meet the cost of providing research, development and communications activities. The diversity of research needs in the forestry sector, covering the range from landscape ecology through genetics and tree physiology to harvesting logistics, milling and marketing, underpins the need for a diversity of providers.
- FWPA is, from a number of perspectives, a well-run organisation. We have no issues with governance. FWPA has recently been restructured and refreshed, concomitant with incorporation of tree-growing entities as well as wood-producing entities, and governance processes ensure strong linkages to levy payer interests and objectives generally, involving the sector in priority setting and research decisions. A number of functioning strategic advisory committees involve industry members directly in setting priorities and giving in-principle approval to projects. FWPA and its predecessor, the Forest and Wood Products RDC, have always been focused on the wood value-chain, ensuring commercial applicability of research project results. The FWPA does not appear to suffer from any of the concerns apparently expressed for some sector CRCs about their role in advocacy or inappropriate expenditure priorities removed from broad sector research interests.
- FWPA is currently increasing its emphasis on mechanisms for uptake of research outputs and new knowledge directly into sector business. There remains some disjunction between the extensive database of FWPA and previous FWPRDC project reports, and their application by individual industry members. This is due in part to a lack of capacity in industry members to use this new knowledge (a capacity that Forestry Tasmania prides itself in retaining). An updated *approach to wider project application is being explored by FWPA.*

- Development of the content of the recent Forestry RDE Strategy was driven by a number of sector entities, but the strategy was coordinated by FWPA. The ability to capture broad, sector-wide industry engagement identifies a strong and ongoing role for FWPA in future setting of sector-wide research directions in response to industry needs.
- We find that issues of commercially valuable research outputs, and free-riders on the research system, are often overstated. Our experience is that the best way for a business with an innovative mind-set and approach to maintain its competitive edge is through using new knowledge faster than its competitors, and by having appropriate knowledge management processes and innovation-aware staff. Free-riders lag behind innovators, and substantially lack the ability to incorporate new knowledge into their business, so are a low net cost. An equitable levy system is the correct approach to providing funding balance.
- In conclusion, Forestry Tasmania finds the *RDC model to be fundamentally sound in the forestry sector. It has enabled significant investment to be made in forestry and forest products RD&E that would not otherwise have occurred or if producer contributions (levies) were voluntary.* In the absence of the RDC model, there would be a predictable decline in sector research investment and therefore in innovation, with other players not duplicating the role or activity of the RDC system. The RDC system provides a real contribution to the future value and the longer term competitive prospects of the Australian forest industry against triple-bottom-line outcomes, and we would not support any amendments that would significantly reduce the effectiveness of this funding model.