



**Forest & Wood  
Products Australia**

## **Annual operating plan**

**2017 — 2018**



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# Introduction

This annual operating plan should be read in the context that is provided by the company's 5-year strategic plan (2017-2022), which is a rolling plan that is reviewed annually.

This is the second year into our revised strategic plan with outcome-themed programs. In prior strategic plans, the company's activities were structured around functional areas such as research and development (R&D), generic marketing and standards development.

The new program structure is intended to shift the focus (and language) away from functional inputs to the outcomes that we are seeking to achieve for stakeholders. To be successful, this shift requires cultural change within the organisation and the broader industry and it will take time to become fully entrenched.

To assist in this change, we have established a new two-tiered industry engagement structure consisting of Industry Advisory Groups (IAGs) and Interest Groups (IGs) that are aligned to the five programs. IAGs will be primarily focussed on providing advice on strategic direction and resource allocation and are open to all FWPA voting members with multiple participation available. IGs are open to all stakeholders, including associations, researchers and consultants, and will be responsible for information flow and developing investment proposals.

The company has a track record of successfully building systems and platforms that help achieve its mission. Some notable examples include strategic partnerships with like-minded organisations such as Planet Ark and building professional associations, WoodSolutions, ForestLearning, industry statistics aggregation and R&D project management. These systems and platforms will continue to evolve and provide even greater value to stakeholders.

The following new or expanded initiatives will be the focus of this year's AOP:

- Establishing a new regionally based leadership training program
- Implementing the new Industry Advisory Group and Interest Group structure
- Getting the new National Centre for Timber Durability and Design Life fully operational
- Exploring the feasibility of a New National Centre on Small Log Processing
- Providing administrative support for the National Institute for Forest Products Innovation

Implementing the recommendations of the independent performance review by GHD with a particular focus on improved documentation for risk management and corporate governance

FWPA has a commitment to continuous improvement and collaboration in all of its activities and we will continue to refine our programs in response to market and stakeholder feedback.



Ric Sinclair  
Managing Director

# Overview of strategic framework

## Industry vision

The forest and wood products industry will grow as a result of increased demand for its market-oriented, sustainable and competitive products and services.

## Mission

We collaborate with industry stakeholders and Government to determine strategy and deliver programs designed to grow the market for forest and wood products, increase productivity (and implied profitability) across the value chain and ensure positive environmental and social outcomes.

## Desired Outcomes

We work with FWPA members and levy payers, the Australian Government and other key stakeholders to secure the co-operation and collaboration required to deliver the outcomes that will be of optimal benefit to the industry as a whole:

Increased Demand	Increased Community Acceptance	Increased Productivity	Increased Sustainability Credentials	Increased Capability
<p>We will employ a range of strategies to boost demand, including:</p> <ul style="list-style-type: none"> <li>• promoting the positive benefits of wood through education, promotion and advertising</li> <li>• improving the product knowledge of specifiers and consumers</li> <li>• addressing any perceived or real impediments to the use of wood in a range of applications.</li> </ul>	<p>We will increase the industry's social licence to operate by:</p> <ul style="list-style-type: none"> <li>• using social research to inform strategy</li> <li>• implementing targeted educational and promotional programs</li> <li>• leveraging strategic partnerships</li> <li>• making effective use of social and traditional media</li> </ul>	<p>We will increase value chain productivity and implied profitability by:</p> <ul style="list-style-type: none"> <li>• pursuing greater alignment between the initial resource and the finished product (tree to market)</li> <li>• improving market knowledge</li> <li>• ensuring products are fit for purpose, safe and durable with performance that meets user expectations</li> <li>• minimising strategic and operating risk.</li> </ul>	<p>We will enhance the sustainability credentials of forest and wood products by:</p> <ul style="list-style-type: none"> <li>• assisting the industry to identify, measure and manage the environmental and social impact of products and</li> <li>• management practices</li> <li>• engaging with the community to engender positive attitudes to the industry.</li> </ul>	<p>We will impact decision making by providing readily accessible information that assists current and future industry participants to:</p> <ul style="list-style-type: none"> <li>• adapt to changes in the business environment</li> <li>• achieve better commercial outcomes.</li> </ul>

## Programs

During the period of this plan, FWPA will deliver its mission through five thematic programs (and indicative allocation of expenditure):

1. Promoting the advantages of wood products
2. Aligning products to market needs
3. Assisting value chain optimisation
4. Increasing resource availability and reducing risk
5. Impacting decision making and industry capability

## Linking programs to outcomes

	Increased Demand	Increased Community Acceptance	Increased Productivity	Increased Sustainability Credentials	Increased Capability
<b>Program 1</b> Promoting the advantages of wood products	✓	✓		✓	✓
<b>Program 2</b> Aligning products to market needs	✓	✓	✓	✓	✓
<b>Program 3</b> Assisting value chain optimisation	✓	✓	✓	✓	✓
<b>Program 4</b> Increasing resource availability and reducing risk		✓	✓	✓	✓
<b>Program 5</b> Impacting decision making and industry capability	✓	✓	✓	✓	✓

## Corporate governance

As a public company limited by guarantee, FWPA operates within the legal framework of the *Corporations Act 2001 (Cth.)*, other relevant laws and its Constitution. FWPA is also registered with the Australian Charities and Not-for-profits Commission. In addition, as the nominated industry services body under the *Forestry Marketing and Research and Development Services Act 2007 (Cth.)*, FWPA has a contractual commitment via a Statutory

Funding Agreement (SFA) with the Commonwealth of Australia. FWPA is committed to pursuing best practice corporate governance in line with ASX's Corporate Governance Principles and Recommendations and all key documents are published on the corporate website ([www.fwpa.com.au](http://www.fwpa.com.au)).

## Scope of programs (2017-22)

Based on an analysis of the company's key competencies (i.e. strengths, weaknesses) and the operating environment (i.e. opportunities, threats), a number of key activities were identified within the 5-year strategic plan. The plan is based upon a combination of

existing activities that would be ongoing and activities with an expanded scope of work, as well as activities that were not previously a focus of the company.

Each activity and its status is shown in the following table (deferred activities are highlighted in red)

Activites	Status
<b>Program 1 - Promoting the advantages of wood products</b>	
Continue current promotional activities aimed at the consumer that leverage off the partnership with Planet Ark and focus on a broad range of beneficial wood attributes.	ONGOING
Leverage the current promotional activities to include the non-structural (and non-decorative) use of wood - such as for landscaping and packaging - to respond to competition from alternative materials.	EXPANSION
Increase the uptake and active use of teaching resources from the <a href="http://forestlearning.edu.au">forestlearning.edu.au</a> website.	ONGOING
Ensure that the sector's investment in independent certification and other environmental credentials is not lost due to low market awareness.	EXPANSION
Develop a targeted campaign to improve the community's understanding and acceptance of the environmental credentials of bio-energy from sustainably managed forests.	EXPANSION
Develop structured methodologies, in conjunction with other primary industries, to measure and enhance the community acceptance (i.e. social licence) of wood products and associated industries.	DEFERRED

Activites	Status
<b>Program 2 - Aligning products to market needs</b>	
Continue to develop the WoodSolutions platform including website, lectures, conferences and in-house/on-site delivery of training and reference materials that cover a wide range of key influencers and market segments.	ONGOING
Develop a timber design life and durability system that is evidence-based and stakeholder-inclusive, and improves the market opportunity and competitiveness of wood products compared to other materials.	EXPANSION
Increase the uptake of the new building code change by providing in-the-field information (WoodSolutions Midrise Advisory Program) about key wood-building technologies to building specifiers and developers and explore expanding the current pilot nationally.	EXPANSION
Continue activities to remove unnecessary impediments to wood products in the National Construction Code and key building standards.	ONGOING
Continue activities to improve the efficiency and effectiveness of key timber material and design standards, including ancillary products like connectors, to increase the uptake of timber systems.	ONGOING
Support skills development and product compliance mechanisms to ensure that timber systems are not undermined by poor practice.	DEFERRED
Assist in the removal of unnecessary impediments to the export of forest and wood products.	EXPANSION
<b>Program 3 - Assisting value chain optimisation</b>	
Develop and adopt improved techniques for the allocation of standing trees, logs, timber and fibre to the most appropriate use using new technologies and data analysis techniques (i.e. 'Big Data').	EXPANSION
Optimise product and building standards to increase the volume and value recovery along the value chain and to help ensure products are fit for purpose.	DEFERRED
Explore mechanisms for improved information capture and dissemination along the value chain that can contribute to more timely and relevant decision making.	EXPANSION
Evaluate new market opportunities for forest and manufacturing residues, including advanced bio-materials.	NEW

Activites	Status
<b>Program 4 - Increasing resources and reducing risks</b>	
Develop and deploy improved genetic stock, including possible genetically modified varieties, which can increase value recovery and reduce risk to plantation owners and their customers.	EXPANSION
Develop forest health and biosecurity systems that can minimise risk to forest owners and their customers.	DEFERRED
Ensure that forest management and forest operation tools deliver in-field practices that are scientifically sound, safe and compatible with international best practice.	ONGOING
Investigate mechanisms to understand and monetise the environmental benefits (e.g. carbon, biodiversity, catchment values) from tree crops to assist in an expansion of the commercial estate.	NEW
Establish a new voluntary-funded coordination structure to help develop better mechanisms for national forest research collaboration (Growers Research Advisory Committee)	NEW
<b>Program 5 - Impacting decision making and industry capability</b>	
In conjunction with willing industry participants, develop systems to aggregate data for a range of key management indicators - while protecting confidentiality - and make these available in an easily accessible form.	ONGOING
Improve understanding of key market drivers, including competition from alternative materials, to improve forecasting of key market segments.	EXPANSION
Provide ongoing support for the development and distribution of publicly available information, including that available through partnership with ABARES, that supports the economic, social and environmental contribution of the industry.	ONGOING
Ensure that key historical data series are conserved and leveraged to improve current and future decision making.	NEW
Provide professional development programs to ensure that current and future decision makers are using information that is evidence based and compatible with international best practice.	EXPANSION

There are no current activities that will cease due to the new strategic plan. As a consequence, any expanded or new activities will be funded through an internal reallocation, draw-down on cash reserves, collaborative investments or new funding sources (e.g. voluntary funds).

A number of activities were identified as potential expansions to FWPA's activities in the prior 5-year strategic plan and the 2012 business case, but these have not been included due to a lack of stakeholder support and/or funding constraints:

- Restore the previous postgraduate scholarship program and mid-career prizes to target specific skill shortages

- Revamp the previous GrowingCareers program to promote the attractiveness of the sector as a career opportunity
- Develop a targeted campaign to maintain and/or increase access to native forests
- Develop a national program of extension to encourage the private native forest and plantation farm sector
- Fund scholarships and resource materials to support tertiary forestry education in Australia
- Develop a national program of forest health and biosecurity.

This list may be revisited in future if there is a change in industry and government priorities or the company secures additional funds.

## 2017-18 budget

The 2017-18 budget and prior year comparison is shown below:

	2016-17 Forecast \$m	2017-18 Budget \$m
<b>Revenues</b>		
<u>Levies</u>		
Processor levy	3.443	3.489
Grower levy	1.089	1.133
State grower levy	0.437	0.454
Importer charge	0.647	0.961
<b>Total levies</b>	<b>5.616</b>	<b>6.037</b>
Interests and other revenues	0.306	0.312
Commonwealth matching	4.637	4.282
Voluntary contributions (inc. MAP etc)	1.166	1.382
Voluntary contributions matching	1.152	1.382
Government direct project funding	0.480	1.147
<b>Total revenues</b>	<b>13.357</b>	<b>14.542</b>
<b>Expenses</b>		
Promoting advantages of wood products	2.309	2.356
Aligning products to market needs	5.094	4.698
Assisting value chain optimisation	1.424	1.246
Increasing resources and reducing risk	1.770	1.575
Impacting decision making and capability	0.667	1.022
Voluntary contributions expenditure (inc. MAP)	2.304	2.764
Government direct project funding expenses	0.480	1.147
<b>Total expense</b>	<b>14.059</b>	<b>14.808</b>
<b>Net surplus / (deficit)</b>	<b>(0.701)</b>	<b>(0.266)</b>
<b>Closing funds balance</b>	<b>4.866</b>	<b>4.600</b>

*Note: Under the Statutory Funding Agreement, the company is required to have a cost allocation policy that ensures that all direct and indirect expenses are allocated to the programs.*

The Company is planning to draw down on its cash reserves by \$266,000 to assist in the transition to the new strategic framework with a focus on the following:

- Development of regionally based leadership programs
- Maintenance of consumer advertising at an appropriate media weight

After this draw-down, the company's cash reserves will remain comfortably above the limit set by the Board.

The forecast income for levies is based on a 1% adjustment on the previous year. This is a simple assumption, but it has remained robust over recent years and the company regularly adjusts expenditure to match the target budget surplus (deficit).

The company is working with a range of interested parties to ensure that the Government's matching payments for voluntary contributions are fully committed in the operating year (i.e. \$1.382 million) with only \$347,000 currently unallocated. In most cases, the eligible projects will be managed externally and FWPA will be the contract manager in terms of milestone payments and post-project audits to provide accountability for the use of Government funds – a nominal management fee of 5% will be applied to voluntary contributions.

For eligible projects that are managed internally within FWPA, such as the WoodSolutions Midrise Advisory Program, full accountability will be provided to voluntary contributors and the Government.

The budget allocation of levy-based expenditure, excluding voluntary contributions and expenditure, is shown in comparison to the 5-year strategic plan allocation:

	Budget allocation of levy-based expenditure	5-year strategic plan expenditure allocation
Promoting the benefits of wood products	22%	18%
Aligning products to market needs	43%	47%
Assisting value chain optimisation	11%	15%
Increasing resource availability and reducing risks	14%	15%
Impacting decision making and industry capability	9%	5%
	100%	100%

As part of a half-yearly review, the Board will review and approve a re-forecast of income and expenditure and make adjustments in relation to any changes in the operating environment.

# Program activities (2017-18)

## Program 1. Promoting the advantages of wood products

This program promotes the benefits and usage of forests and wood products in response to changing community attitudes and it has been a key part of the company's activities since 2008.

The program is built upon a solid foundation of factual information based on scientific evidence and objective market research. This approach has been critical to the ongoing partnership with Planet Ark, one of Australia's most recognised and trusted organisations, and the development of the ForestLearning educational resources platform.

The program uses strong brand-based communication with a positive tone with the aim of promoting benefits rather than detracting from other materials or industries.

The primary message for the program is that sustainably sourced wood products help tackle climate change because wood stores carbon. The program has been extremely successful in improving consumer perceptions of wood products and their support for sustainable forest management. According to the most recent market research (June 2016):

- 85% of consumers either “like” or “love” the look and feel of wood
- 78% of consumers associate wood with the term “environmentally friendly”
- 70% of consumers associate wood with the term “stores carbon”
- 81% of consumers agree that “cutting down trees is okay as long as we replant them”/

The market research clearly demonstrates the success of the program, which has lifted or maintained a number of key consumer perception indicators. This has had flow-on benefits through the increased acceptance of the industry and its environmental credentials by key influencers such as building professionals, school teachers and regulators.

The success of the program should not become an excuse for complacency. Community information programs need ongoing reinforcement to maintain presence and top-of-mind awareness.

The initial consumer advertising program has gone through several iterations in response to consumer research to refine the messages and improve consumer recall.

In 2011, FWPA initiated a strategic alliance with Planet Ark to promote the use of sustainably managed wood products as a way to help tackle climate change. Planet Ark is one of Australia's most trusted sources of information about environmental issues and the use of their brand on the Wood. Naturally Better television commercial is considered to be a factor in the commercial's strong performance. Planet Ark's Make It Wood Campaign includes a range of activities including community service announcements, an animated video program, print and bus advertising, consumer promotions and the introduction of the 'Wood Encouragement Policies' to local councils such as the Latrobe City Council. As at June 2016, a total of two Local Government Authorities (LGAs) and twelve local councils have adopted a Wood Encouragement Policy in Australia. All activities are centred on their website [www.makeitwood.org](http://www.makeitwood.org)

The TV commercial campaign features Peter Maddison, host of Grand Designs Australia, who is viewed as trusted, likeable and credible. Peter has been a major part of the program's success and he has agreed to ongoing participation in the company's consumer promotional activities.

The ForestLearning platform and membership of the Primary Industries Education Foundation of Australia (PIEFA) are focussed on developing and promoting curricula materials for school teachers.

The ForestLearning website now has around 60 resource materials that have been specifically developed and accredited to the National curricula for all school years from kinder to year 12. The resources are suitable for a wide number of teaching subjects including agriculture, biology, history, science, technology, English and maths.

The focus of the program is now moving from content creation to encouraging uptake by school teachers. There are more than 250,000 teachers in Australia and they are a very difficult audience to reach due to their time constraints, wide geographical coverage and diversity of communication channels. In addition, the communication environment is highly cluttered due to a large number of other organisations also seeking the attention of teachers. Despite these difficulties, the company is pursuing a multi-prong approach including the recruitment of industry champions to promote ForestLearning to their local schools.

The program will also include a new focus on promoting the benefits of converting forest and mill waste to bioenergy. This initiative is due to concerns about the lack of community awareness of the benefits of bioenergy and its social licence, as well as the need to find more suitable commercial markets for residues.

### **Priorities for 2017-18**

- Continue with the consumer advertising program featuring Peter Maddison and Planet Ark based on six different 15-second videos featuring different industry products
- Refine the Planet Ark's 'Make It Wood' activities with a focus on local governments, ethical investments, education and health authorities and key influencers in the built environment supporting the message around the positive benefits of sustainably sourced wood products
- Increase uptake of the ForestLearning curricula materials through industry champions, advertising, sponsorships and direct mail
- Work with Forest Stewardship Council and Australian Forestry Standard Limited to promote awareness of certification
- Develop communication materials to support the environmental credentials of bioenergy from sustainably sourced wood products

## Program 2. Aligning products to market needs

This program aims to ensure that the industry's products and services are fit for purpose, appropriately aligned to market needs and better communicated to key influencers. This has been a major part of the company's focus (and the focus of its predecessor, FWPRDC) since inception.

Research will be undertaken to understand current market needs and trends with the aim of identifying information gaps and opportunities for new or modified products and systems for the built environment, industrial markets and other key segments. A key focus will be on better matching of product performance (i.e. strength, durability and aesthetics) to market needs.

The program is effectively an information conduit from, and to, the market. Market needs are determined through research, international experience, product testing and feedback from stakeholders. This information can be utilised by industry participants in the development of their products and services. The information can also assist end users and specifiers in the use and application of wood-based products.

The program assists in information flow to the market through WoodSolutions, the company's branded platform, and through building codes and standards.

WoodSolutions was established with the objective of creating a one-stop source of authoritative information on wood products in the Australian market. It was intended to address concerns that building specifiers found wood products too complex and difficult to use and would thus specify more homogeneous products like concrete or steel.

The cornerstone of WoodSolutions is the website, which has become the most visited wood information website in the English speaking world, and this is supported through partnership arrangements with professional associations, technical design guides and face-to-face presentations.

WoodSolutions CAMPUS is a new online education and skills development for people working with wood and wood products. Completing WoodSolutions learning modules and the accompanying assessment tasks can earn CPD points (subject to the requirements of individual professional associations) or provide a pathway to further education and VET training. There are currently 11 learning modules covering topics such as midrise construction, design for durability and timber grades. The aim is significantly expand the modules to cover all topics of relevance to designers, builders and merchants.

A number of proposals for change to the National Construction Code have been submitted to remove technical barriers to the use of wood. The most significant proposal was to expand the deemed-to-satisfy prescriptions to all other building classes for both lightweight and massive timber systems. FWPA will work with the Australian Building Codes Board and state regulators to address any issues that may arise from these proposals.

Utilising voluntary contributions, FWPA is managing a three-year pilot for a WoodSolutions Midrise Advisory Team (previously known as the technical fieldforce) in Victoria and Queensland. If the pilot is successful, it is hoped to expand this activity to other States.

The Industry's products and services are highly influenced by a suite of material and building standards, as well as by the regulatory environment. The program will work with industry to optimise the material and building standards to ensure a robust system that is evidence based, inclusive and improves the market opportunity and competitiveness of wood products.

The results will also help remove unjustifiable regulatory and market barriers to using timber products in domestic and commercial building applications.

Following significant stakeholder consultation and market research over the last two years, FWPA announced the establishment of a new National Centre for Timber Durability and Design Life in November 2016. The Centre will be based at the University of the Sunshine Coast in collaboration with University of Queensland and the Queensland Department of Agriculture and Fisheries (Salisbury facility) and will address the lack of independent expertise on timber durability and design issues with the ambition of developing a process model approach to design life prediction. Progress with the Centre was delayed due to multi-party contract negotiations and the selection/ appointment of an appropriate Centre Head, but that has now been resolved with the appointment of Professor Phil Evans of University of British Columbia (UBC). The ramp up of the Centre and its research programs will be a major priority for the year.

In May 2017, the FWPA Board approved an R&D investment program to address productivity and regulatory issues related to the export of wood products that may put Australia at a disadvantage compared to other regions. Implementation of this program will occur over the next three years.

### **Priorities for 2017-18**

- Develop research program for the National Centre of Timber Durability and Design Life
- Continue development of the WoodSolutions program, with new design guides and learning modules within WoodSolutions CAMPUS
- Technical and stakeholder support for the new proposals for change to National Construction Code
- Undertake product performance testing in relation to the National Construction Code to open up new market opportunities and support future proposals-for-change
- Update some key standards and design tools, especially related to connectors and design life

## Program 3. Assisting value chain optimisation

This program is about increasing the value and volume recovery from existing resources to ensure that all wood fibre is utilised to its highest and best use. As FWPA is funded along the full value chain (i.e. growers, processors, market), it is well placed to work with all value chain participants to help identify opportunities for improved optimisation.

There is a strong interaction between this program and program 2 (aligning products to market needs) and program 4 (increasing resource availability and reducing risk), as they will provide market and resource information inputs.

One of the impediments to full utilisation within the sector is often the lack of viable markets for forest and mill residues. Some traditional residue markets such as newsprint and communication papers are in decline, although the market for hygiene and packaging papers remain strong. There is also growing interest in development of bio-chemicals, composite materials and bioenergy around the world and the challenge in Australia will be to adopt these technologies at an appropriate scale to match regional wood fibre availability.

FWPA is currently soliciting industry views regarding the possible establishment of a new national research centre to address two long running industry priorities: (1) developing a value added use for processing residues and low quality logs; and (2) identification of high value products from plantation resources sufficient enough to stimulate further expansion of Australia's plantation resource base. The centre would investigate potential product option recoveries obtainable from the existing plantation estate under a range of reduced rotation scenarios to determine if the production of next generation engineered wood products from younger age rotations could underpin the greenfield expansion of shorter rotation plantings.

The Australian forest and wood products sector has increasing availability of data along the value chain from forests to mills to markets but this information is often poorly integrated into decision support tools. The interconnectivity of data collection devices (i.e. 'Internet of Things') and improved data analytical tools (i.e. 'Big Data') have the potential to revolutionise the sector.

This will involve identifying and developing improvements to forest management, harvesting, transport, manufacturing processes, product development and information systems to provide value to all participants in the value chain.

Research areas will include improved understanding of wood properties, resource characterisation, wood handling and processing, manufacturing systems and improved fit-for-purpose products, and information capture, storage and dissemination along the value chain.

Identifying key knowledge gaps will involve industry and other stakeholders, as well as international liaison, to minimise unnecessary duplication of effort and to ensure the knowledge has a pathway to adoption.

Activities underway include the E-cambium model for the prediction of wood properties and the application of the resistograph technology for quicker assessment of the stiffness of standing trees.

There are also opportunities for increased automation of data collection through harvesting heads and automation of log processing and handling within mills. For hardwood sawmilling, robotic log and sawn timber handling can help improve recovery rates and capture data for use down the value chain.

## Priorities for 2017-18

- In conjunction with other RDCs, evaluate 'big data' tools and bio-refinery opportunities
- Continue research in modelling wood qualities and resource characterisation
- Evaluate new opportunities for forest and manufacturing residues, including opportunities for plantation hardwoods, through a new national research centre
- Explore opportunities for automation of data capture with harvester heads and the use of robotics within processing facilities

## Program 4. Increasing resource availability and reducing risk

This program aims to increase the availability of wood fibre to support an expanding market and associated manufacturing capacity.

Increased resource availability is most likely to come from improved productivity and utilisation of the existing plantation and government-owned native forest estate. There are opportunities to expand production forests through greenfield plantations, especially in conjunction with the farm sector, and to expand management of privately owned native forests.

Under the Commonwealth's R&D4Profit program, FWPA is providing funds to a CSIRO-led project on developing decision support tools for agro-forestry, and a Victorian consortium has been funded under the voluntary matching program to investigate new business models for incentivising land owners to support commercial plantations.

Climate change modelling suggests that many of Australia's forestry regions will face drying conditions and will require adaptation strategies in terms of silviculture, species selection or breeding strategies. In the shorter term, drier sites also a potential for greenfield expansion if commercial forest crops could be developed.

Improved genetics for existing and potential commercial species remains one of the key strategies to increasing resources and reducing risks. FWPA has consistently supported improved genetics and deployment and this will remain an ongoing priority. The FWPA Board has supported a large, multi-year genetics program through matching of voluntary contributions from the major forest growers. In addition, there is ongoing research into the genetic conservation and utilisation of radiata pine germplasm and marker-assisted selection in Australia's major plantation eucalypts.

Remote sensing technologies are evolving quickly and offer increased accuracy of resource information at lower costs. Research is ongoing in the deployment and integration of remote sensing data and in the use of dense point cloud data for plantation inventory.

Forest growing is a long-term venture that is exposed to environmental risks (e.g. pests, fire, climate change). In conjunction with other plant-based RDCs, FWPA is providing funding for a coordinator to work with Plant Health Australia and also provide support to develop a specific forest sector biosecurity plan.

In addition to wood products, commercial forest crops can produce a wide range of environmental and societal values that may not be currently captured or valued by the forest owner or the community. These include carbon storage, recreation, water catchment and biodiversity values. FWPA has secured additional research funds under the Commonwealth's R&D4Profit program for a CSIRO-led project on developing methodologies for natural capital accounting.

Following several rounds of consultation, the major forest growers have agreed to explore opportunities for national forest research collaboration through a new Grower Research Advisory Committee (GRAC). This Committee will jointly develop and evaluate proposals for voluntary research funding by the grower sector. Contingent on sufficient funds being available, those projects may attract additional support under FWPA's voluntary funding program. During 2017/18, FWPA will recruit a program manager to provide national coordination of these activities.

## Priorities for 2017-18

- Continue investment in identification and deployment of improved genetic stock that can increase value recovery and reduce risk to plantation owners and their customers
- Support biosecurity and forest health initiatives based on regional needs and risk assessments
- Continue investment in remote sensing tools to improve data accuracy and reduce collection costs
- Explore the use of natural capital accounting to understand and monetise the environmental benefits (e.g. carbon, biodiversity, catchment values) from tree crops to assist in an expansion of the commercial estate
- Develop a comprehensive plan of investigation into commercial tree crops in drier areas within the recognised wood production hubs
- Establish a new voluntary funded coordination structure to help provide better mechanisms for national forest research collaboration (Growers Research Advisory Committee)

## Program 5. Impacting decision making and industry capability

This program will help ensure that the industry has the skills and systems necessary to support improved decision making by all players across the value chain.

Much of the key data required by the sector to allow better decisions resides at the individual company and organisational level. A major focus of the program is to aggregate this information in a confidential manner and then provide it to participants in an accessible and easy-to-understand format. Data aggregation is now fully operational in the following areas:

- softwood sawn timber volumes and pricing
- hardwood sawn timber volume and pricing
- forest grower occupational health and safety indicators (OH&S)
- forest grower volume, price and production costs.

The company will continue to investigate other data series that participants are willing to contribute to on an aggregated basis that can impact on decision making within the sector.

Increasing the availability and accessibility of key economic data via the dashboard and StatisticsCount email newsletter are key mechanisms for information uptake. In addition, FWPA is organising the 'Insights and Outlook Conference' in Melbourne in conjunction with DANA and Australian Timber Importers Federation. This conference will focus on international and domestic trends, including the findings from some key FWPA projects.

FWPA maintains a strong partnership with the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) with a focus on improving the accuracy and timeliness of publicly available statistics and improved short-term and longer-term forecasting.

Activities during the year will be on improved understanding of market shares and cross elasticities of demand.

To build capacity for information uptake and improve opportunities for collaboration, FWPA will establish a new program aimed building regional leadership skills within the sector. The program will build upon the work previously undertaken by ForestWorks in relation to innovation and similar leadership programs run by some other RDCs (e.g. Wine Australia, Fisheries).

### Priorities for 2017-18

- Expand the scope and participation of data aggregation within the sector with the publishing of previously developed data series for hardwood sawmilling, softwood sawmilling performance benchmarking, including OH&S
- Continue with the ABARES partnership on publishing public data series and improving forecasting capability
- Develop a regionally based leadership program to assist in building capability and regional collaboration

# Performance measures

The program activities outlined above are intended to directly influence the desired outcomes established within the 5-year strategic plan. Each of these outcomes has a number of direct and indirect (i.e. proxy) measures as shown below:

Increased Demand	Increased Community Acceptance	Increased Productivity	Increased Sustainability Credentials	Increased Capability
<b>Key measures</b> <ul style="list-style-type: none"> <li>Increased consumption.</li> <li>Increased consumer and building specifier perception that 'wood is good'.</li> <li>Increased consumer awareness of advertising and/or brand awareness and improved perceptions of wood as environmentally positive and suitable material.</li> <li>Greater understanding of the role of wood products in future construction applications.</li> </ul>	<b>Key measures</b> <ul style="list-style-type: none"> <li>Maintenance of social licence relating to production and harvesting of wood.</li> <li>Uptake of relevant teaching resources.</li> </ul>	<b>Key measures</b> <ul style="list-style-type: none"> <li>Increased capital investment in forest growing and processing.</li> <li>Increased productivity along the value chain.</li> <li>Industry benefits from company's investments are at least double the investment (i.e. benefit-cost analyses (BCA) greater than 2).</li> </ul>	<b>Key measures</b> <ul style="list-style-type: none"> <li>Increased acceptance of the sustainability credentials of the sector by consumers and building specifiers.</li> </ul>	<b>Key measures</b> <ul style="list-style-type: none"> <li>Uptake and usage of information and analysis.</li> <li>Industry support for skills development programs.</li> <li>Attractiveness of the sector as a career opportunity.</li> </ul>

## Priorities for 2017-18

- Ongoing consumer and building specifier perceptions survey
- Benefit-cost analysis of our research project portfolio in accordance with the agreed methodology of the Council of Rural RDCs
- Ongoing website tracking statistics
- Ongoing tracking of e-newsletter communications
- Market consumption and/or share statistics

# Corporate governance

Under its Statutory Funding Agreement (SFA) with the Australian Government, FWPA is required to commission an independent performance review, which is a precondition of any new funding agreement (the current agreement expires in August 2017). The performance review was completed by GHD in February 2017 and has been published on the FWPA website and promoted via the ForWood newsletter. The review found the following:

FWPA has met all of its obligations under the SFA and has also delivered benefits to levy payers and the industry generally, including communicating effectively with stakeholders. The Company is pro-active in ensuring that its operational processes comply with the various policies it has established by regularly conducting system audits by external consultants and correcting the relatively minor issues identified. This approach is evidence of FWPA's philosophy of 'continuous improvement' in its operations to ensure the efficient and effective use of levy funds and matching government contributions.

It is anticipated that a new SFA will be finalised with the Government to take effect from September 2017.

The performance review and the SFA place significant emphasis on good corporate governance in line with the ASX principles and consistent with continuous improvement. The GHD report made the following recommendations:

1. *Update the Fraud Control Plan in line with AS 8001 Fraud and Corruption Control (we note that this is currently in progress) and separate this from the Risk Management Plan. Complete annual reviews of the Fraud Control Plan and Risk Management Plan (currently formally reviewed tri-annually).*
2. *Establish an Audit, Finance and Risk Committee (reconstituted from the current Audit and Finance Committee) to ensure additional focus on risk management.*
3. *Adopt a clear overall framework for managing risk by bringing together all risk management documents (policy, plan, methodology, risk registers etc.) to allow systematic periodic review against contemporary risk management methodologies resulting in regular updates to the risks and controls.*
4. *Consider using an external facilitator to assist with Board performance review to enable the best methodology and production of a clear report on outcomes and plans to address areas for improvement identified.*
5. *Develop a Diversity Policy to articulate FWPA's approach and goals in relation to increasing diversity in the recruitment of Board appointees and Company employees.*
6. *Develop an induction process for new Board members.*
7. *Establish consistent terms of reference for all Advisory and Reference Groups, and date and include these in the Policies and Procedures Manual.*
8. *Ensure improved version control of the Policies and Procedures Manual by including dates when last reviewed.*
9. *Minimise duplication within the new SFA – the current SFA includes many aspects covered by the Corporations Act.*
10. *Consider ways to better quantify expected and actual performance (e.g. Key Performance Indicators – KPIs) in place of the largely qualitative measures currently used.*
11. *An addition to the Administration and Human Resources section of the Policies and Procedures Manual with regards to succession planning.*

The FWPA Board resolved to adopt all the recommendations and they will be progressively implemented through the year.

# Communication

To ensure greater engagement and ownership of FWPA's activities, a number of formal committees have been established to provide input into the company's investment decisions. The structure and composition of these committees have varied over time and have been variously based on product sectors and functional areas.

To reinforce the new program structure and the company's commitment to transparency, FWPA has restructured its industry engagement to create a two-tiered structure consisting of Industry Advisory Groups (IAGs) and Interest Groups (IGs) that will be aligned to the five programs. IAGs will be primarily focussed on providing advice on strategic direction and resource allocation and are open to all FWPA voting members with multiple participation available. IGs are open to all stakeholders, including associations, researchers and consultants, and will be responsible for information flow and developing investment proposals. A kick-off meeting was held on Friday 16th June.

FWPA is committed to ensuring effective communication with all stakeholders as an essential prerequisite for the successful delivery of the strategic plan, and structured targeted communication activities will support all programs.

The company delivers most of its communication via electronic means using the following periodic e-newsletters:

- ForWood
- R&DWorks
- Statistics Count
- WoodSolutions
- ForestLearning
- Wood. Naturally Better Partner Program

In addition, company members receive periodic updates and a copy of the 5-year strategic plan, annual operating plan and annual report. All newsletters, plans and reports are published on the company's websites.

The company is actively expanding its use of social media especially Facebook, Twitter, Instagram and LinkedIn.

# Collaboration

## Forest Industries Advisory Council

In 2014, the Commonwealth Government announced the formation of the Forest Industry Advisory Council (FIAC), and the managing director of FWPA is an observer participant. In March 2015, FIAC released an issues paper for public consultation and has been working on recommendations for the Australian Government and for industry.

The report *Transforming Australia's Forest Products Industry - Recommendations from the Forest Industry Advisory Council* was released in early June 2016.

It is expected that the recommendations will be considered by Government and industry over the next 12 months and, where there is widespread agreement, FWPA will seek to modify its work program to assist in implementation.

## RD&E Framework

FWPA has previously provided resources for the development of the national forest industries research, development and extension (RD&E) framework. Operating under the Agriculture Senior Officials Committee (ASOC), the RD&E framework seeks to identify and implement a coordinated collaborative approach to research development and extension activities undertaken by the research community.

A forest industry RD&E Forum was established with senior representatives of the forest products industry, government and research stakeholders. However, the decline in research funding and capacity has meant that there was little for the Forum to discuss, and as a consequence, it has not met for over three years.

The introduction of Government matching payments for voluntary contributions has stimulated new R&D investment in the sector. Also, FWPA has been able to leverage its activities through new Australian Council of Research (ARC) industry transformation hubs and the Department of Agriculture and Water's R&D4Profit program.

In addition, the Australian Government and the Governments of Tasmania and South Australia have provided funds to support research centres to be based at Launceston and Mt Gambier as part of a move towards establishing a National Institute for Forest Products Innovation. FWPA is entering into a contract with the Australian Government to provide administrative support for the centres, which will help ensure that there is no unnecessary duplication of research and extension activities.

## Working with other RDCs

FWPA is a financial member of the Council of Rural Research and Development Corporations (CRRDC) with active staff involvement in a number of Council structures, working groups and programs. As a relatively small RDC, the company values these interactions as a means of understanding the broader policy environment, identifying industry trends and best practice, as well as creating leveraged investment opportunities.

Where possible, the company will seek to co-invest with other RDCs but the opportunities are usually limited to platform technologies, trees as part of a diversified farm portfolio and social licence-to-operate.

During 2017-18, FWPA will maintain its investment in the cross-sectoral climate change research strategy for primary industries program.

In addition, FWPA has co-invested in four R&D4Profit research initiatives that have been funded by the Department of Agriculture and Water:

- Natural Capital Accounting
- Bio refineries
- Big data for decision making
- Agroforestry decision support tools.

## Rural research and national research priorities

The existing Australian Government rural R&D priorities complement, and are informed by, the Government's national research priorities, which highlight areas of particular social, economic and environmental importance to Australia, and where a whole-of-government focus has the potential to improve research and broader policy outcomes.

National research priorities address areas of strength, opportunity or need in Australian research. The alignment of FWPA's investment programs against rural R&D priorities and corresponding national strategic research priorities is shown in Table 1 and Table 2.

Most FWPA investment programs deliver outcomes across a number of national and rural priorities and, for the purpose of forecasting, R&D expenditure benefits have been attributed uniformly across the relevant priorities.

**Table 1: Matchable expenditure across national science and research priorities**

	2. Soil and Water (\$m)	3. Transport (\$m)	5. Energy (\$m)	7. Advanced manufacturing (\$m)	Total (\$m)
1. Promoting the advantages of wood products	0	0	0	0	0
2. Aligning products to market needs	0	0	0.4	0.4	0.4
3. Assisting value chain optimisation	0	0.2	0	0	0.4
4. Increasing resource availability and reducing risk	0.1	0.1	0.1	0.1	0.4
5. Impacting decision making and industry capability	0	0	0	0	0
<b>Total Expenditure</b>	<b>0.1</b>	<b>0.3</b>	<b>0.5</b>	<b>0.5</b>	<b>1.0</b>

**Table 2: Matchable expenditure across rural RD&E priorities**

	Advanced Technology (\$m)	Biosecurity (\$m)	Soil, water and managing natural resources (\$m)	Adoption of R&D (\$m)	Total (\$m)
1. Promoting the advantages of wood products	0	0	0	1.1	1.1
2. Aligning products to market needs	0.2	0	0	0.5	0.7
3. Assisting value chain optimisation	0.1	0	0.2	0.1	0.5
4. Increasing resource availability and reducing risk	0.1	0.3	2.5	0.1	3.0
5. Impacting decision making and industry capability	0	0	0.2	0.1	0.3
<b>Total Expenditure</b>	<b>0.4</b>	<b>0.3</b>	<b>2.7</b>	<b>1.9</b>	<b>5.6</b>