

Workshop Summary

Held at the Park Royal, Melbourne Airport – Wednesday 11th of July 2012

Introduction and Forum Background

FWPA Chair Ron Adams welcomed the 45 plus participants to the workshop and made a number of comments about FWPA's achievements and the challenges it faces for the future:

- FWPA is coming to the end of its first 5 year plan and must develop a business case for funding priorities for the next 5 years.
- The current program has utilized cash reserves at about \$2 million per annum which cannot continue without a change of FWPA's levy base.
- The February Summit gave strong in principle support for collaborative activities
- Forum invitees represent 30% of the FWPA's total membership and 55% of its total voting rights, the company has 99 members.
- Research achievements include:
 - The Solid Wood Initiative identified \$19 per m³ of potential savings
 - A 24 percentage point increase in consumers' understanding of wood products and carbon and an 18 percentage point increase in consumers rating wood as "environmentally friendly."
 - 367,000 visits to the WoodSolutions website since June 2011.
 - The first wood high rise building being built in Melbourne by Lend Lease (<http://www.forteliving.com.au/>)
- The advantages of the FWPA model are numerous:
 - Whole of value chain involvement including importers.
 - No free riders.
 - Government matching funds.
 - Industry ownership.
 - Strong corporate governance.
 - Investment in focussed national programmes.

The Chairman reminded the forum that FWPA is their organization funded by their levies with Federal Government matched funding for R&D and other eligible activities but not marketing and promotion. Directors are elected by the shareholders and FWPA is similar to 15 other rural research and development corporations such as Dairy Australia, Horticulture Australia, Meat and Livestock Australia. He stressed that the FWPA Board strongly endorses the business case and is confident that FWPA has the structure and systems to deliver it.

One of the key tasks of the workshop is to determine what is the appropriate level and timing of investment for industry collaborative activities and what is appropriate split between programs and how should the benefit allocations be shared across the industry?

FWPA - Investment Review Forum

The Business Case for FWPA

The Chairman introduced the Managing Director of FWPA Mr Ric Sinclair to provide an overview of the key factors of the Business Case including:

- The Business Case is based on deliberations from the February Summit.
- Programs have been structured under six key strategies.
- Outline of activities and performance measures.
- Potential return on investment has been quantified where possible.
- Implementation and staging issues discussed.
- Levies are a result of benefit allocations.
- There is always the “do nothing” option

The Managing Director reminded attendees of the Vision and Mission of FWPA which are:

Vision – The Vision of FWPA is to ensure that forest and wood products are the preferred, sustainable material that meets the Australian market needs.

Mission - The vision will be achieved through FWPA investing strategically in R&D, knowledge transfer, education and generic promotion to gain community support and market acceptance for forest and wood products.

Current FWPA Program

Activity	\$ million
Generic Industry Promotion	3.9
Research and Development	4.65
Technical Transfer and Education	1.17
Standards Co-ordination	0.30
Corporate Overhead	1.40
Total	11.41
Funded by	
Industry Levies	4.80
Government matching funds	4.35
Difference (coming from FWPA reserves)	-2.2

The Industry Benefit Allocation	%
Growers	25
Solid Wood Processors	48
Engineered Wood Processors	8
Importers	17
Exporters	3
Pulp and Paper Industry	0
Total	100

FWPA - Investment Review Forum

The Managing Director compared the FWPA levies to those paid by other rural industries and found that where FWPA levies are generally less than 0.2% of end product selling price in other rural industries these are higher ranging from 0.49% to over 1% with some as high as 10%.

The Chairman then summarized what he hoped for the outcomes of the forum but recognized that there is a general lack of consumer confidence in the Australian economy and that the manufacturing sector is facing tough times and there is a profitability crisis in the forest sector.

He reiterated that what the Growers are looking for are:

- Increased sales per hectare
- Efficiency in Logistics
- Reduced risk over rotation
- Favourable outcomes in carbon constrained economy

Processors and Exporters would like:

- Increased fibre volume
- Improved processing cost
- Optimum fibre-market alignment

And generally the whole industry would like:

- Growing and predictable market
- Improved social licence
- Availability of skilled workforce

The Chairman concluded that collaborative and pre-competitive programs funded and initiated by FWPA will help achieve the desired future.

The Forum

The Chairman passed the management of the forum to Rob de Fégely who was introduced as the facilitator.

The forum was opened to questions and a number arose that included, how should FWPA be measured in terms Key Performance Indicators can it be shown in pure financial terms. Others commented that while the industry in a tough period at the moment this will change and the FWPA and Planet Ark relationship is gaining traction and it is very difficult to effectively turn it on and off without losing the gains. FWPA has made good progress and needs support to continue to invest but industry probably needs to consider and confirm what scale of investment it wants to make in FWPA.

Forum Workshops

Following the initial comments from the floor the forum participants divided into three workshop groups for Growers, processors including engineered wood products and importers.

Growers - Linda Sewell reported on the Growers discussion and suggested that were

1. Support levy increase to maintain existing programs

FWPA - Investment Review Forum

2. Assess what the levy increases would need to be to achieve different aspects of the proposed business case
3. Sectors should meet to see whether an increase for that sector is appropriate.

Processors (incl EWPA) - Doug Head spoke on behalf of the processors stating that they had an interesting but not productive discussion but commented that FWPA is transparent and have done well with not a lot.

Growing the market is what interested the group and this was common theme among many attendees.

Processors tend to be more interested in internal R&D in tough times so would prefer to hold levy expenditure on these programs until the market picks up.

To gain an indication of thinking about the business case proposal,

- 2 votes suggested decreasing the levies,
- 2 voted to hold at the Status Quo but increase with CPI,
- 1 voted to go forward with business case proposal but in a staged fashion and
- 3 voted to go forward now as proposed.

There appeared to be a feeling from the small or family owned companies to increase the levies and the larger corporates to oppose any increase.

Importers – Nils Koren suggested that they are interested in whole of market growth and do need to keep investing but there are divergent views among members of the industry.

There was discussion about how market programs should be measured but essentially want to keep going and investing.

One suggestion was to rank the projects to the dollars required and another attendee suggested that a do nothing option would take revenue away from FWPA and therefore R&D would be gutted.

General comments from the attendees included the following:

The industry needs a vision and other sectors do this well such as HIA (Housing Industry Association Ltd) whereas the forest industry only has bits of its total industry and market jigsaw. We as an industry need to decide if we want to get this whole picture or not.

Others suggested that it is dangerous to split the industry too far as FWPA is precompetitive and therefore difficult to easily divide responsibilities and benefits – need the industry to come together not more fragmentation. FWPA resulted from earlier work of the FWPRDC and refinement, not perfect but it has been improving the collaboration between sectors.

Other processors commented that they would be happy to put all there R&D money to marketing and promotion.

FWPA - Investment Review Forum

One of the benefits of increasing the levies is that the industry has additional unallocated Commonwealth matching funds available. However in these uncertain times there is not guarantee that these funds will remain available for the industry in the future – it is potentially a case of use it or lose it!

Following lunch FWPA Independent (non-industry background) Director Mark Grey made the following comments or observations:

- The business case presented to the industry came from the high level of enthusiasm at the February Summit
- There appears to be a consensus – “grow the market”
- No apparent dissent with the consumer campaign with “Planet Ark”
- Must bring the consumer with you and the FWPA campaign shining the light on what timber does.
- Influencing the specification market is very important and we should see this continue as it is very important to increase timber consumption.
- Importantly these programs take time to build and cannot stop and start without losing momentum or market presence – must be consistent.
- R&D corporations are all matched by Govt funds and we should not walk away from money that the Government is offering, particularly as our Universities, the CRC's, CSIRO and State forest and timber R&D are all declining.
- Must remove sector hats and put on collective industry hat.

Greg McCormack – (Chair – AFPA) commented that he concurred with the members sentiment and the increases to support the full business case are a big pill to swallow in the current environment. Therefore what is the way forward in the knowledge that there is a clear and conscious demand for FWPA and its programs but probably not to the scale outlined in the Business case.

He therefore proposed that the forum accept in principal that the levies be increased to cover the current FWPA programs (that is cover the current shortfall of \$2.0million) which will result in a very slight increase in levies. This should then be followed by various sector meetings to determine their comfort in terms of total levy and the levy split between the various business case programs

The facilitator put this to the meeting and while it was not unanimous it was a very clear majority.

It was noted that this vote does not bind the industry in any way but provides an indication of the willingness of the participants to proceed. Any change in levies will require a vote of all members.

FWPA - Investment Review Forum

Conclusion - Priority Issues

1. Target an increase of \$2.0 million in funding for FWPA to maintain the 2011/12 level of activity (with some adjustment of priorities) with an equitable levy increase across all sectors.
2. Need to undertake Sector meetings over the coming months to determine any additional sector specific programs that may wish to be funded.
3. Within these meetings aim for a reduction of levy classes (which saves administration costs for FWPA and lower collection costs.)