

Australian Forest & Wood Products Industry
Options for Reform

Future Industry Requirements and
Industry/Institutional Structures

Prepared for

Forest & Wood Products Council
Steering Committee

September 2003

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PREFACE

This report is issued by JP Management Consulting (Asia-Pacific) Ltd (Jaakko Pöyry Consulting) to the Forest and Wood Products Council Steering Committee for its own use. No responsibility is accepted for any other use.

The report contains the opinion of Jaakko Pöyry Consulting as to the future forest industry requirements and options for industry/institutional structures to deliver enhanced competitiveness to the Australian forest industry. Jaakko Pöyry Consulting has no responsibility to update this report for events and circumstances occurring after the date of this report.

Jaakko Pöyry Consulting acknowledges the contribution of Dr Brian Johnston in the development of this report.

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EXECUTIVE SUMMARY

BACKGROUND

The Forest and Wood Products Council (FWPC) has established a committee to consider research and development (R&D) and generic marketing/promotion arrangements in other industries and to propose options and/or a possible course of action for the forest and wood products industry. This initiative flows from discussion within industry on the possible establishment of:

- a communication/education strategy funded by industry levies
- an industry owned company, funded by industry levies and Government contributions, to coordinate/integrate research and development, generic marketing and promotion of forest and wood products.

In recognition of the need to ensure the industry has an effective structure at the national level to manage R&D and generic marketing/promotion, the FWPC commissioned Jaakko Pöyry Consulting to undertake this study of Future Industry Requirements and Industry/Institutional Structures.

WHY CHANGE?

The Australian Forests and Wood Products industry is facing important challenges. These challenges include increasing restrictions on resource access and development, competitive pressures from substitutes in traditional market sectors, such as house framing, and increasing imports and international competition. The forest industry is also concerned that it is being poorly perceived in the market and wood's real environmental values are largely overlooked by end users when making a consumption choice. The industry considers that there is a need to more effectively promote the inherent properties of managed forests and the wood they produce, such as its natural qualities, recycling potential, sustainability, positive greenhouse impacts and potential to contribute to improved biodiversity and mitigation of environmental problems such as salinity.

Consultations within the industry indicated that the capacity of the industry to respond to these challenges is limited by access to generic marketing and promotion funds, the fragmented nature of the industry and limitations on existing structures to deliver integrated services. Greater co-ordination of activities along the value chain (e.g. growers, processors, end users) and between sectors of the industry (e.g. softwood, hardwood) would create opportunities for synergies to be realised.

The key forest industry issues identified with regard to R&D and generic marketing and promotion were:

- The forest industry needs to develop a unified voice
- The forest industry needs to actively promote the use of wood and wood based products and a generic "wood is good" type program is required
- The forest industry needs targeted research to address short-term and long-term issues

- The Forest and Wood Products Research and Development Corporation (FWPRDC) cannot deliver all of these under the current *Primary Industries and Energy Research and Development Act (1989)* (the PIERD Act) arrangement.

OPTIONS FOR CHANGE

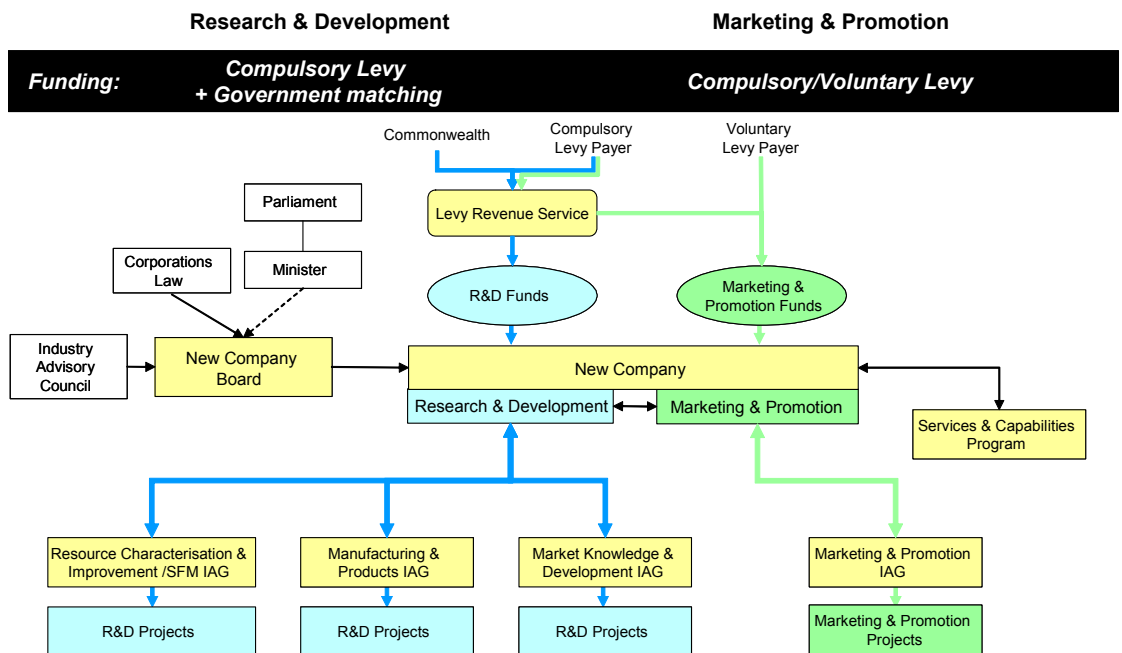
The key services to be provided to the forest industry are market driven R&D, generic marketing, promotion and communication activities. Following consideration and discussion of a range of models the Steering Committee proposes the following option for industry to consider.

A new company, provisionally named “Forest and Wood Products Australia”, would be established under Corporations Law to deliver market driven R&D, generic marketing, promotion, and communication services to the industry. Forest and Wood Products Australia (FWPA) would receive voluntary and compulsory funds from the industry and provide market driven R&D and generic marketing/promotion services to meet industry needs without the constraints imposed by the PIERD Act. This option requires new legislation to be passed by the Federal Parliament.

The board of FWPA would be advised by a pan-industry advisory council, provisionally named the Industry Advisory Council (IAC) that would meet regularly. The IAC would provide industry advice to the Board to assist in developing priorities.

FWPA would be owned by the industry, with ownership held by voluntary and compulsory levy payers and organisations contributing voluntary funds. In addition to voting rights for the Board and industry advisory groups (IAGs), owners would be entitled to attend and vote at annual general meetings on all relevant industry issues.

Diagrammatically, the structure of FWPA is depicted below.



The advantages and disadvantages of this option are:

Advantages

- Industry controls company
- No free-riders (for sectors adopting compulsory generic marketing/promotion levy)
- Existing R&D largely retained
- Better coordination of R&D and generic marketing/promotion throughout value chain
- Clear lines of accountability
- Voluntary R&D funds could be matched by Government

Disadvantages

- No control over generic marketing/promotion free-riders (for sectors adopting voluntary generic marketing/promotion levy)
- Could be disruptive to R&D activities initially
- Setup time and costs associated with moving to new structure (e.g. MOU, Deed of Agreement, Constitution)

While the Steering Committee has not estimated the cost of running a marketing and promotion program at this time, it has, however, requested that calculations for levy purposes be based on an indicative figure of \$3 million per annum. In order to raise the estimated \$3 million per annum, industry sectors could adopt either compulsory or voluntary levies. Where there is sector support, the option exists to adopt compulsory levies to ensure this level of funding is achieved. Adoption of compulsory levies reduces the potential for free-riding. Where a sector considers voluntary levies to be preferable to compulsory levies, the option exists for that sector to adopt voluntary levies, subject to safeguards to ensure sufficient funding levels are achieved. This would only apply where the structure of the sector would allow the collection of a substantial amount of voluntary contributions with little or no free-riding.

An option to raise the required funding for generic marketing and promotion would be to adopt the existing R&D levy structure and double existing levies. Alternative levy arrangements could be investigated such as broadening the levy base to include sectors not currently paying R&D levies or changing the basis of levies from volume based to value based.

It is important for the forest industry to carefully consider this option and act now if it is to gain Government support for industry reform. Should the opportunity to initiate reform not be embraced by the forest industry at this point in time, it is unlikely that another opportunity will arise within a short timeframe.

Critical issues that industry must consider when selecting a future structure are:

- The amount of R&D effort and industry funding must not be reduced below current levels of approximately \$3.4 million
- Commitment and funding for marketing and promotion programs must reach a 'critical mass' to make investment worthwhile. A suggested minimum funding requirement is \$3 million per annum
- Contractual arrangements would be necessary if voluntary contributions are used for funding to ensure continuity of the programs. A suggested minimum period is for three years.

STEERING COMMITTEE RECOMMENDATION

Following consideration and discussion of the options presented by Jaakko Pöyry Consulting the Steering Committee recommends the following course of action:

1. The forest industry should move toward greater coordination of market driven R&D, generic marketing and promotion programs and consider a two phase approach to meet industry's needs;

Phase 1: Current R&D programs continue under the administration of the FWPRDC while, simultaneously, the softwood and hardwood sectors combine to develop and voluntarily fund an industry-wide promotional program. This is a transitional step and will take effect as soon as industry can develop and implement a promotional program.

Phase 2: For the longer-term and within the current timetable, the Steering Committee continues with the development and introduction of a private company, under Corporations law, to deliver:

- (i) R&D funded by both compulsory industry levies and Government matching funds; and
- (ii) A generic marketing/promotion program, based on Phase 1 above, funded by compulsory levies where there is sector support and voluntary levies subject to safeguards to ensure sufficient levels of funding where a sector considers this as preferable.

Phase 1 and 2 would need to run concurrently. Phase 1 has commenced with preliminary discussions between key sectors of the industry in August 2003. Phase 2 would commence in September 2003 with extensive consultation with industry. Formal negotiation of key elements such as the Memorandum of Understanding (MOU), Deed of Agreement and Constitution, as well as passage of legislation through the Federal Parliament would be completed by the end of 2004. In order to achieve this timeframe the key sectors of the forest industry would need to commit substantial resources and effort to the entire process.

2. The forest industry should analyse the costs and benefits of adopting value based levies versus volume based levies for R&D and generic marketing and promotion programs; and
3. The forest industry should examine options for broadening the levy base for R&D and generic marketing and promotion programs.

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GLOSSARY

AA	Additions and alterations
ABARE	Australian Bureau of Agricultural and Resource Economics
AFFA	Department of Agriculture, Fisheries and Forestry Australia
AFG	Australian Forest Growers
AFS	Australian Forestry Standard
AGM	Annual General Meeting
APIC	Australian Paper Industry Council
APL	Australian Pork Limited
AWI	Australian Wool Innovation Ltd
CCA	Copper Chrome Arsenate
CEO	Chief Executive Officer
CFMEU	Construction, Forestry, Mining and Energy Union
CRC	Cooperative Research Centre
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DPI	Queensland Department of Primary Industries
ESFM	Ecologically Sustainable Forest Management
EWP	Engineered Wood Products
FSC	Forest Stewardship Council
FWPA	Forest and Wood Products Australia
FWPC	Forest and Wood Products Council
FWPRDC	Forest and Wood Products Research and Development Corporation
GST	Goods and Services Tax
GVP	Gross Value of Production
HB	Hardboard
IAG	Industry Advisory Group
IRO	Industry Representative Organisation
LRS	Levies Revenue Service
MDF	Medium density fibreboard
MLA	Meat and Livestock Australia Ltd
MOU	Memorandum of Understanding
MPC	Marketing, Promotion and Communications
MRTFC	Multi-Residential Timber Framed Construction
NAFI	National Association of Forest Industries
NGO	Non-Government Organisation
NRM	Natural Resource Management
NTDC	National Timber Development Council
NTDP	National Timber Development Program
PAA	Plywood Association of Australia
PB	Particleboard
PIERD Act	<i>Primary Industries and Energy Research & Development Act 1989</i>

PTAA	Plantation Timber Association of Australia
PTC	Plantation Timber Certification
PTFG	Pine Timber Framing Group
R&D	Research and Development
RPC	Regional Plantation Committee
SFM	Sustainable Forest Management
TMA	Timber Merchants Association
TPC	Timber Promotion Council
VAFI	Victorian Association of Forest Industries

1 BACKGROUND

In November 2002 the Forest and Wood Products Council (FWPC) established a committee to consider research and development (R&D) and generic marketing/promotion arrangements in other industries and propose options and/or a possible course of action for the forest and wood products industry. The genesis for this initiative flows from discussion within industry on the possible establishment of:

- A communication/education strategy funded by industry levies
- An industry owned company, funded by industry levies and Government contributions, to coordinate/integrate research & development, generic marketing and promotion of forest and wood products.

An industry/Government Steering Committee held its first meeting in January 2003 to allow industry organisations to put forward their ideas and comments and decide upon the next steps. The Steering Committee is comprised of representatives from the Department of Agriculture, Fisheries and Forestry Australia (AFFA), the National Association of Forest Industries (NAFI), the Plantation Timber Association of Australia (PTAA), Australian Forest Growers (AFG), the Construction, Forestry, Mining and Energy Union (CFMEU), the Timber Merchants Association of Victoria (TMA), the Forest and Wood Products Research and Development Corporation (FWPRDC), with observers from the Australian Paper Industry Council (APIC). Members of the Steering Committee are provided in Appendix 1.

The Steering Committee established the following terms of reference for this study:

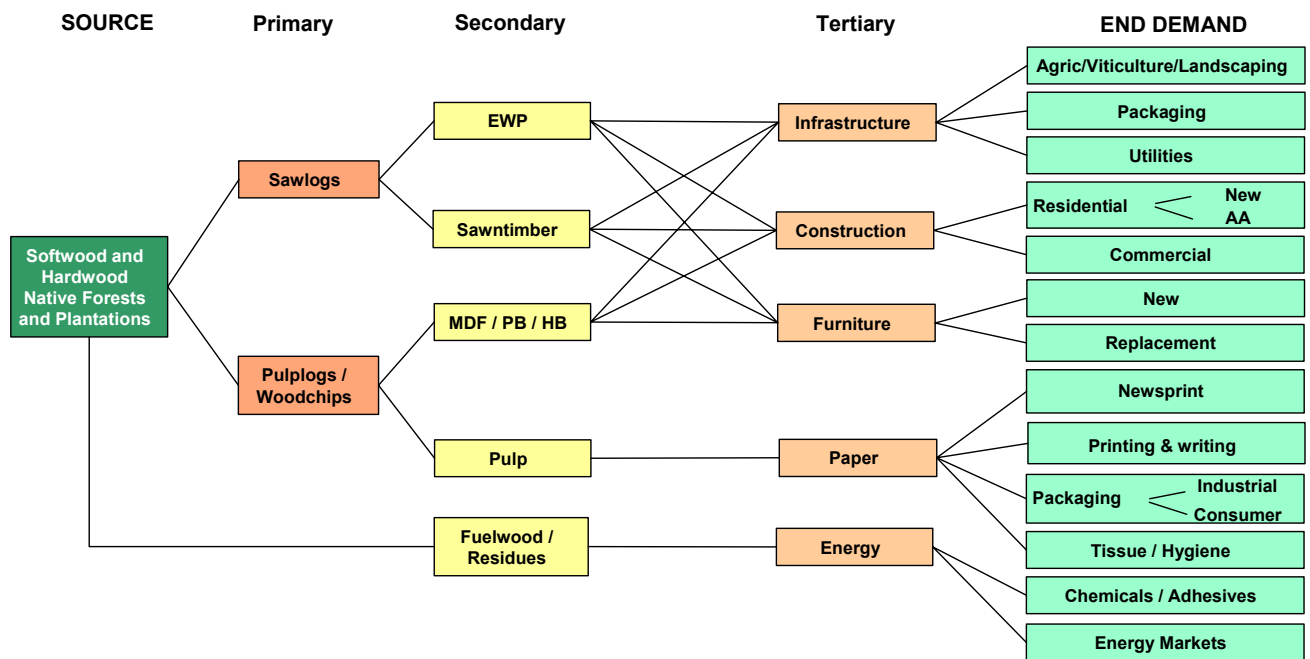
1. Identify the overarching broad needs of the forest and wood products industry particularly with regards to research, development, generic marketing, promotion and communications in relation to the industry's national and international operating environment and key market trends.
2. Examine and provide a brief overview of existing industry and institutional structures and roles for the forest and wood products industry; including industry associations, peak industry bodies and Government organisations. The analysis should include examination of their aims, objectives, charters, strategies, funding sources, efficiency and effectiveness, and synergies (or duplication) in delivery of services.
3. Taking into account the general principles applying to levy paying arrangements and national competition policy, develop options and make recommendations with regard to establishing the most efficient and effective industry/Government structural model in delivery of research, development, generic marketing, promotion and communication services. Particular attention should be given to levy payer representation and involvement in determining strategic direction as well as sign-off on specific programs.
4. Within the time available, the report's authors are to consult, to the extent practical and in co-operation with the Steering Committee, with both industry and Government representatives on the proposed options for a new research, development, generic marketing and promotion, and communications model.

The Steering Committee appointed Jaakko Pöyry Consulting to undertake the study and met with the consultants on three occasions during the course of the study.

2 REASONS FOR CONSIDERING CHANGE

For the purpose of this report the Australian forest industry covers all growers, processors, merchants, importers, exporters and end users that produce or use wood as a principal raw material. Figure 2-1 shows the range of products that forest industry members produce under this definition.

Figure 2-1:
Products produced by the Australian Forest Industry



Source: Adapted from C. Nailer – The Economist

The Australian Forests and Wood Products industry is facing important challenges. These challenges include increasing restrictions on resource access and development, competitive pressures from substitutes in traditional market sectors, such as steel house framing, and increasing imports and international competition. The forest industry is also concerned that it is being unfairly perceived in the market place and that wood's real environmental values are largely overlooked by end users when making a consumption choice. The industry considers that the inherent properties of managed forests and the wood they produce such as wood's natural qualities, recycling potential, sustainability, positive greenhouse impacts and potential to contribute to improved biodiversity and mitigation of environmental problems such as salinity need to be promoted more effectively.

Consultations indicate that the capacity of the industry to respond to these challenges is limited by the lack of access to generic marketing and promotion funds and the fragmented nature of the industry.

STAKEHOLDER CONSULTATION PROCESS

In the lead up to this study and as part of this project, industry consultation was undertaken to determine industry needs and capacity to deliver those needs. Jaakko Pöyry Consulting undertook a series of activities and research to determine the needs of the forest industry and the principal challenges facing industry players.

Firstly, the Plantation Timber Association of Australia (PTAA) has generously allowed the Steering Committee to utilise data collected by Jaakko Pöyry Consulting during a strategic review in early 2003 for its five-year business plan. This review encompassed around 80 interviews with industry members and representatives and in particular discussed the issues of concern to the industry. These consultations covered issues facing the forest industry as a whole and were not confined to needs facing the plantation industry, nor were stakeholders restricted to organisations with solely plantation interests.

Secondly, a series of industry meetings were arranged to discuss industry reform and possible delivery mechanisms, in particular, whether the current FWPRDC is the best mechanism or whether alternatives exist. At these meetings industry perceptions and needs for the future were also discussed. Table 2-1 outlines the meetings held within the time available.

**Table 2-1:
Stakeholder Meetings**

Meeting Date	Stakeholder	Location
April 16, 2003	Victorian TMA	Melbourne
May 1, 2003	FWPRDC Leaders Forum	Melbourne
May 2, 2003	VAFI	Melbourne
May 14, 2003	Queensland industry	Brisbane
May 15, 2003	WA industry	Perth
May 15, 2003	FWPRDC Board Presentation	Melbourne
May 16, 2003	Tasmanian industry	Launceston (by telephone)
May 21, 2003	Green Triangle industry	Mount Gambier
May 22, 2003	NSW industry	Sydney
June 17, 2003	AFG Board Meeting	Melbourne

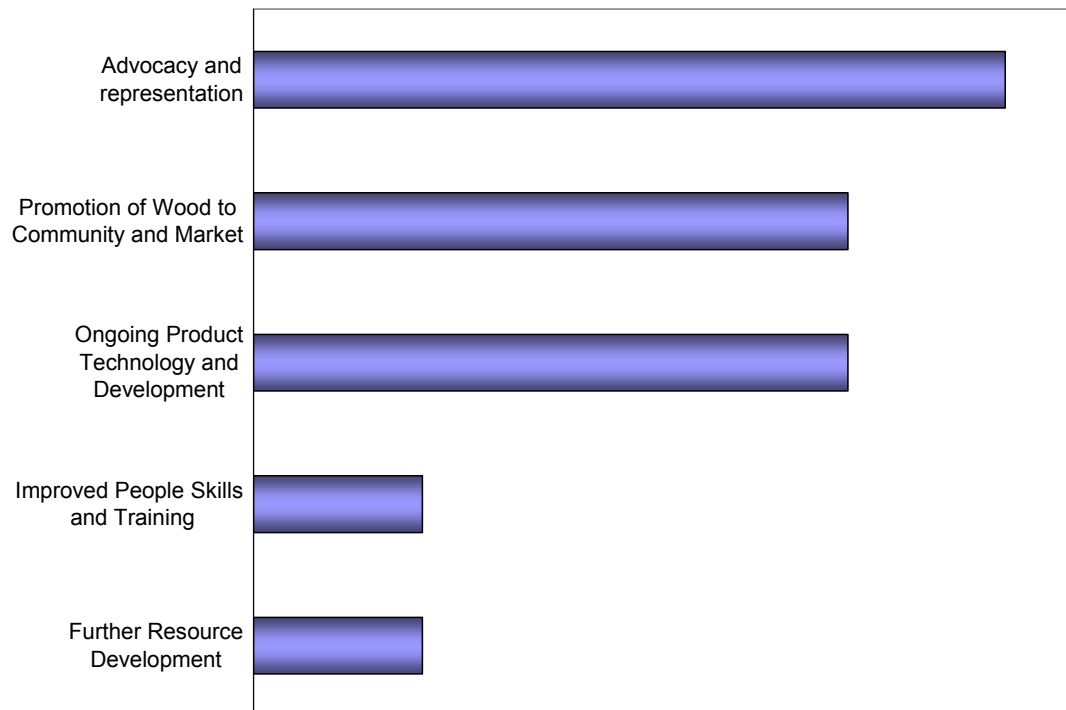
Thirdly, a Feedback Survey form was sent to industry members either directly or via industry associations to gain direct feedback (a copy of the survey form is contained in Appendix 2). These survey forms were also handed out to all meeting participants. Responses from 60 industry members were collated and analysed to identify common themes and priorities and these are contained in Appendix 3.

Survey responses relate primarily to forest growing and solid wood issues, reflecting the limited involvement of the pulp and paper sector in this process. Future analyses should incorporate input from that sector.

Outcomes from PTAA Survey

Figure 2-2 illustrates the general industry comments gathered during the PTAA review in early 2003. This illustrates the desire of the industry for greater unification and connectivity both along the supply chain and from the national to regional level. While the PTAA survey was based on their industry needs for the future and the answers were unprompted, it illustrates that unification followed by promotion and research and development are of foremost concern. Importantly the results do not lessen the importance of resource development or that skills and training are not a serious problem, it is just that the other issues were of greater immediate interest. These outcomes are similar to those raised by the hardwood sector during industry consultations.

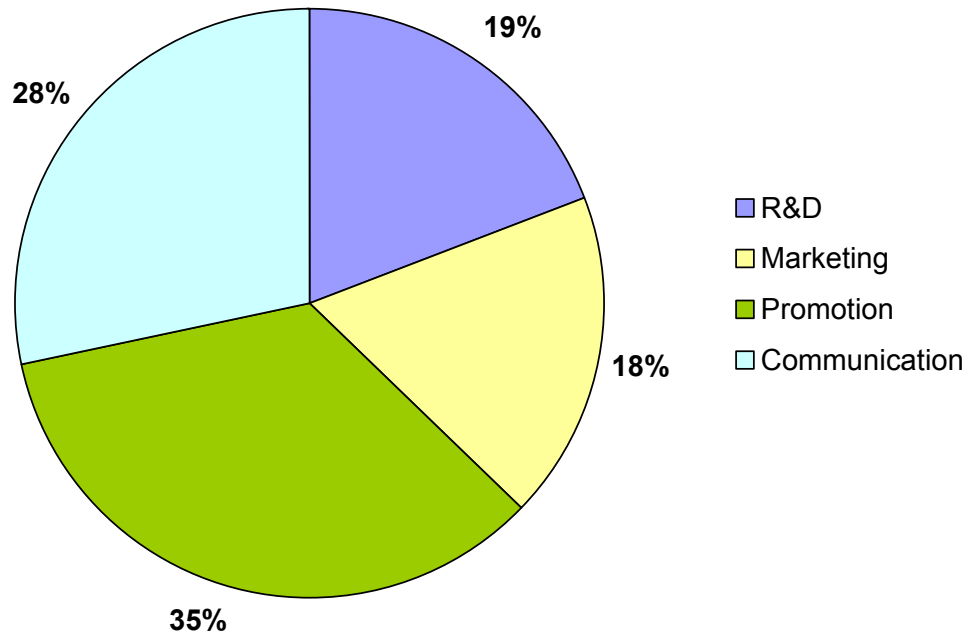
Figure 2-2:
Industry Needs Identified During PTAA Consultations



Outcomes from the Feedback Survey covering All Industry Sectors

The results from the stakeholder feedback (Figure 2-3) illustrate that industry defines promotion and communications as being of most immediate importance, whilst R&D and generic marketing are of lesser but similar importance.

Figure 2-3:
First Rank Prioritisation of Industry Needs as per 60 Survey Respondents



Whilst the absolute values of the two consultation processes are not directly comparable, the outcomes of both consultations indicate that the industry needs for communication and promotion are high.

The consultations identified three key areas the forest industry needs to address in order to maximise the industry’s potential to contribute to the economic, environmental and social wellbeing of the nation. The key issues were industry unification; generic marketing and promotion; and research and development.

2.1 Industry Unification

The forest industry lacks a unified voice.

In order to be regarded as a leading industrial sector, strong leadership is needed to “champion” the Australian forest industry. Industry leaders must define what the industry wants to achieve and lead the industry to those goals. Three elements will define the success: vision; culture; and strategy.

Vision

Leadership is needed to bring the industry together and set a future direction. An example vision could be:

“To increase Australia’s per capita consumption of wood and wood-fibre products - because these are recognised as the most environmentally friendly and sustainable products to meet the needs of the Australian community in terms of building products, packaging materials and communication media.”

Culture

Culture is the glue that brings the industry together to achieve its vision. A strong culture based on industry co-operation will greatly enhance the effectiveness of industry-wide marketing, promotion and lobbying activities, as well as individual company marketing initiatives. A common culture also means a universal view of who the competitors are. To effectively fight substitute products the industry must rise above the rivalry between hardwood and softwood and plantation versus natural forest products to sell wood.

Strategy

Strategy is the vehicle by which the forest industry will deliver its vision. A coherent strategy built on clear vision and strong industry culture will allow the industry to pro-actively develop its future rather than re-actively protect it.

The challenge facing the forest industry is to recognise and address inconsistencies in representation and competitive positioning that have resulted in fragmentation of the industry. There is a strong desire from members of the industry for greater unification and connectivity along the supply chain at the national and regional level.

A unified national voice can assist to overcome the fragmented supply chain and to resolve the issues of vision and culture and develop effective strategy to take the industry forward on a truly sustainable basis. This needs to occur regardless of which route the forest industry selects based on the options presented in this report.

Investigation of mechanisms for the development of a unified voice is outside the scope of this report. However it is a common wish among many industry members that some rationalisation of associations should occur which will not only reduce duplication but also greatly enhance industry's capacity to present a common view of the industry when desired. The development of a new R&D and marketing and promotion entity would assist the development of a unified industry voice.

In order to create a unified industry voice and effectively put forward the forest industry's case to the community and Government, key players need to work together to develop a shared vision, culture and strategy. It is not an objective of this project to define a process of rationalisation but it is important to highlight the need for unification.

An integral part of the company structure would be a forest industry advisory council which would meet with the company board on a regular basis to engage in the company planning process as well as discuss pan industry views. Membership of the council would be drawn from peak industry bodies as well as individual industry leaders from the Forest and Wood Products Council.

2.2 Need for Industry Promotion

The forest industry needs to actively promote the use of wood and wood based products and a generic “wood is good” type program is required.

Generic Marketing

Defending current markets and researching new niche market opportunities was a common need expressed by industry members. For example, a one percent market share in the structural housing market represents approximately \$10 million in wholesale value to the industry. If the market share of timber used in housing has declined by 6 percent as suggested by a recent survey of leading home builders, the forest industry may have already lost \$60-\$80 million per annum¹ to steel framing.

However, it is very important to consider the boundary between generic industry marketing and commercial marketing interests of individual companies. Generic marketing efforts should be based around collective interests of the industry with respect to the promotion of “wood as a product” for the general benefit of the whole industry or sector. Importantly it should not attempt to advantage one industry sector over another, but would promote respective strengths.

Promotion

Promotion of the industry and in particular a “wood is good” campaign was a common theme in both the PTAA survey and the recent industry consultations. There is widespread feeling within the industry that its competitors and/or detractors are unjustly maligning wood as a product. The inherent properties of managed forests and the wood they produce such as wood’s natural qualities, recycling potential, sustainability, positive greenhouse impacts and potential to contribute to improved biodiversity and mitigation of environmental problems such as salinity are largely overlooked by end users when making a consumption choice. An industry wide promotion of wood as a natural and environmentally friendly product is required to ensure consumers make a conscious decision to buy wood because they understand its real value to them and the environment.

It is clear that some issues require industry-wide attention, whereas others are specific to industry sectors. A detailed list of promotion and generic marketing issues raised by industry during stakeholder consultations is provided in Appendix 3.

Communication

Communication within the industry from the national to the regional level as well as along the industry supply chain is a problem and disconnection was a common point of concern. The lack of communication between processors and end users on product performance and potential improvements in supply logistics is an example.

There are in excess of 70 different forest industry organisations servicing various sectors of the industry and while many are doing an excellent job there are industry expectations that rationalisation must occur. Some of the sectoral associations do not have either the funds or capacity to work more broadly within the supply chain and this

¹ Personal Communication, Nick Livanes

has caused disconnections in communication between groups and sectors. This is perceived as an impediment to industry growth and a forum to bring these associations together to improve communication is required.

There is a need for national and State and/or regional based associations, particularly for lobbying and general advocacy, but they are currently not linked in any formal sense. For instance the State advocates should have some formal link with their national counterparts to ensure consistency of messages and efficiency of effort.

Similarly the timber development associations in their various forms in each State should form a national structure. There is a need for some state related work in monitoring building and industry regulations and planning processes but the majority of timber development programs have a national or even international focus and the industry should be structured accordingly.

As mentioned earlier it is not an objective of this project to define industry rationalisation – however, industry needs were to be highlighted and delivery mechanisms reviewed.

If industry forms a unified approach to communication then rationalising the industry associations will be relatively straightforward and cost efficiencies will be gained, but industry must have the combined will to achieve this goal.

2.3 Need for Industry Research and Development

The forest industry needs targeted research to address short-term and long-term issues.

Research and Development provides a foundation for industry development. The diverse nature of technical and market development issues faced by the forest industry from forest growing to end product uses can be addressed through targeted R&D. Some issues are of immediate importance and require short-term solutions through market driven R&D. Others are longer term but provide the seeds for future industry vitality. A detailed list of R&D issues raised by industry during stakeholder consultations is provided in Appendix 3.

The Forest and Wood Products Research and Development Corporation (FWPRDC) administers industry-wide research and development through a series of programs developed in conjunction with peak industry bodies. The programs are funded through compulsory R&D levies administered under the *Primary Industries and Energy Research and Development Act 1989* (PIERD Act). R&D projects are undertaken by service providers such as Co-operative Research Centres (CRCs), the Commonwealth Scientific and Industrial Research Organisation (CSIRO), universities, consultants etc.

The FWPRDC has undergone several important changes in 2003 including:

- greater industry input to the appointment of the new Board
- reorganisation of programs to reflect industry short-term and long-term needs, and
- development of industry advisory groups to provide greater industry input.

There is considerable scope for the industry to receive greater R&D funding from the Commonwealth Government through its commitment to match compulsory and voluntary levies up to 0.5 per cent of the gross value of primary production. This would require sectors of the industry to agree to increase R&D levies.

3 CAPACITY OF INDUSTRY STRUCTURE TO DELIVER NEEDS

Key industry needs were defined during the consultation phase and are explained in Section 2 of this report. The need for an overarching generic marketing and promotion program is a high priority, but delivery of such a program is inhibited by the fragmented nature of the industry. Participants made numerous references during industry consultations to the need for rationalisation of industry associations to provide more efficient generic marketing and promotion service delivery. Some examples include:

- *“The industry suffers from far too much fragmentation...too many associations...”*
- *“Without some rationalisation of industry associations this process of industry reform is doomed.”*
- *“We need to overcome fragmentation to give the industry an opportunity to achieve a better bang for buck.”*
- *“There are too many lobby groups within Australia. We need to sweep them up into one heap.”*
- *“The industry is diverse – contributors need to see the benefits flowing back to them; make existing contributions work more effectively.”*
- *“Create industry associations that clearly represent the industry.”*

A key challenge for the industry is to identify not only the best structure to deliver generic marketing and promotion programs but also ensure these are effectively integrated with R&D. The FWPRDC cannot deliver generic marketing and promotion programs under the PIERD Act.

This section examines key issues that would affect the delivery of industry needs and the development of a future industry structure.

3.1 Current Industry Structure

The current forest industry structure is fragmented resulting in unclear vision and inconsistent messages to stakeholders (internal and external).

One of the clear concerns emanating from stakeholder feedback is the lack of integration (resulting in duplication and/or conflicting messages) and support offered by various associations representing the industry. The forest industry is essentially a loose knit group of specialised industries with a single common thread, the use of wood as a principal raw material. Parts of the forest industry are linked by other common elements in their value chain, however the industry is characterised by fundamentally different businesses, ownership structure and markets.

For example, the structure of the softwood sawmilling sector is far more concentrated than other sectors of the industry with the top ten processors accounting for nearly 90 per cent of log consumption. In comparison the hardwood sawmilling sector is far less concentrated with the top ten processors accounting for less than 50 per cent of log consumption.

Organisations within the value chain are linked through contractual or co-operative arrangements as well as through a complex array of public and private representative organisations and institutions. There are over 70 forest industry associations and representative groups catering for virtually all aspects of the industry as well as Government-to-Government and Government-to-industry bodies. These organisations have developed over many years to address specific issues or sectors of the forest industry.

A myriad of local, State and national structures have been developed to foster the development of the forest industry and to ensure that the interests of industry participants are adequately addressed. Some organisations represent members in several segments.

The industry must determine how it should be structured in order to best achieve its vision. There is scope for consolidation as mentioned not only to reduce cost but also to improve services to the industry.

3.2 Current Generic Research and Development Programs

The forest industry cannot use compulsory levies collected under the PIERD Act to deliver generic marketing and promotion programs through the FWPRDC.

The FWPRDC operates under the PIERD Act, which was established by the Commonwealth to provide for the funding and administration of research and development relating to primary industries. The Act is implemented through statutory corporations, such as the FWPRDC, and allows for the Commonwealth to provide matched funds for R&D where these funds are collected through industry levies. Section 5 of the Act provides for industry R&D levies to be collected from primary industries for this purpose.

The FWPRDC, as for other statutory corporations operating under the Act, is required to comply fully with the Act, including detailed arrangements for approval of R&D plans (Division 3), Accountability (Division 4), Finance (Division 5), Meetings (Division 6), AGMs (Division 7), Appointment and Remuneration of Directors (Division 8), Executive Director (Division 9) and Employees (Division 10).

Under section 4 of the Act R&D is defined as:

- a) *a R&D project in respect of that industry or class; or*
- b) *the training of persons to carry out research and development in respect of that industry or class; or*
- c) *the dissemination of information, or the provision of advice or assistance, to persons or organisations engaged in any aspect of:*
 - (i) *that industry or class; or*

- (ii) *the production, processing, storage, transport or marketing of goods that are the produce, or that are derived from the produce, of that industry or class.*

While the Act allows for the FWPRDC to fund R&D into the transport or marketing of wood and wood products, it does not provide for the delivery of generic marketing and promotion programs to the industry. Given the desire of the forest and wood products industry to move actively into market promotion, this could not be undertaken by the existing FWPRDC.

Similarly, while the FWPRDC is able to accept voluntary funds provided by forestry companies for approved R&D projects, the PIERD Act does not allow for these contributions to be matched dollar-for-dollar by the Government income up to the 0.5 per cent of GVP of the industry. The Government, in legislation establishing Corporation Law companies to deliver R&D services to other industries, has allowed this flexibility to be introduced into the arrangements, potentially encouraging more voluntary funding for R&D from industry.

Market Failure

Under the Government's Levy Principles, introduced in January 1997, it is possible for an industry to agree to implement a statutory levy to raise funds for an activity for which there is "significant market failure". Market failure is the situation where the provision of the good or service fails to occur at an optimal level because the private sector cannot capture sufficient benefits to make the investment privately worthwhile. Without collective action to provide the good or service, there would be free riding and underinvestment and society as a whole would be worse off. This issue of market failure is discussed in more detail in Appendix 5.

Market failure arises when the benefits of an activity cannot be captured by one business or group of businesses and the benefits "spillover" to those who have not contributed to the investment. In circumstances where there is significant spillover of benefits some will attempt to free ride on contributions by others, gaining the benefits without contributing to the cost. Statutory or compulsory levies can overcome free riding by requiring all who benefit to contribute to the costs.

Under current levy arrangements, there is concern that some sectors of the industry are free-riding by paying compulsory R&D levies below the value obtained from R&D programs, whilst others pay zero levy.

Levy Guidelines

For a levy proposal to be approved by the Government the Guidelines specify the conditions that must be met in terms of consultation and voting processes (see Levy Guidelines and Principles in Appendix 5). In short, the industry proposing the levy (or levy change) must inform actual or potential levy payers of the proposal, its purpose and intended industry benefit by widely promoting the proposal in industry forums/meetings, newsletters and/or advertising in the press, in advance of a vote being taken at industry meetings or through a postal vote. For R&D, at least 50 per cent of levy payers must support the proposal, whereas for a generic marketing and promotion levy 75 per cent industry levy payer support is required. This is because the Government considers market failure to be less prevalent in marketing and promotion

than for R&D. Votes are counted for each levy payer, rather than the value of the levy they might pay. Opponents to any new levy are also to be given three months from the time the levy proposal is widely circulated to industry to show that they have more than 50 per cent of the industry against the proposal for an R&D levy and 25 per cent of the industry against a generic marketing and promotion levy, otherwise the levy is introduced. More detail on existing levies is provided in Appendix 6.

3.3 Current Generic Marketing/Promotion Programs

Existing generic marketing and promotion services provided by industry associations address some industry needs but are not generic to the whole industry or wood as a product.

Industry consultation indicates that while existing generic marketing and promotion services provided by industry associations and through voluntary contributions by companies (to specific projects) address some industry needs, there are still gaps between industry requirements and what is actually being delivered.

These gaps relate to issues requiring both industry-wide attention as well as to issues specific to individual industry sectors. Importantly, the industry has recognised that the implementation of these changes should be executed with a focus on:

- a) improved coordination throughout the value chain and between sectors
- b) more effective integration of R&D outcomes with industry generic marketing and promotion initiatives.

Table 3-1 documents examples of existing generic marketing and promotion programs.

**Table 3-1:
Existing Generic Marketing and Promotion Programs**

Industry-wide Initiatives	Sector-specific Initiatives
Multi-Residential Timber Framed Construction (MRTFC)	Hardwood Flooring Program
Monitoring Building Codes & Standards	New Product Branding
Showrooms	Product Standards
Advisory Services	Technical Data Sheets
Industry Education	Quality Assurance & Auditing (e.g. PAA, PTC)
Promotion Materials (e.g. brochures)	Single Residential Construction
	Timber Solutions Design Software
	Termites
	Araucaria Sector Program
	NTDP Communications Program
	ecoSelect ("wood lives on")
	Pine Timber Framing Group (PTFG)

The total expenditure on generic marketing and promotion activities in the forest industry is proportionately lower than other primary industries. Table 3-2 provides an estimate of the proportion of gross value of production (GVP) spent on generic

marketing and promotion activities by three industries: forest, horticulture and meat and livestock.

Table 3-2:
Estimated expenditure on generic marketing and promotion activities

Industry/Sector	Industry/Sector GVP ¹ (\$ billion)	Marketing Expenditure (\$ million)	Marketing as Proportion of GVP
Forest	1.34 ^a	1.50 ^b (contributions)	0.112%
Horticulture	5.90 ^c	7.80 ^d (levy)	0.132%
Meat & Livestock	9.29 ^e	43.18 ^e (levy)	0.465%

¹ GVP is the value of product at the first point of value adding. For the forest industry this is the mill door.

^a Source: ABARE

^b Source: estimate based on industry opinion

^c Source: AFFA (this figure pertains to 2000-01)

^d Source: AFFA (includes table grapes but not wine grapes; this figure pertains to 2001-02)

^e Source: AFFA (excludes pigs and poultry)

Whilst there are differences in the drivers for generic marketing and promotion in each industry, Table 3-2 indicates that funding by the forest industry could be increased as programs move towards more established structures found in other industries.

Consultation with the forest industry identified a need for a “wood is good” style campaign to extol and promote the environmental values of wood as a product. Such a campaign would need to be based on a well researched strategy in order to reach target audiences in the most effective manner to achieve long-term benefit. Some key issues to be considered in the strategy would be:

- The audience, structure, delivery mechanisms and funding of successful programs, both domestically (e.g. “wood lives on” program developed by TPC in Victoria) and internationally (e.g. the ‘be constructive’ program developed by the Wood Promotion Network in North America)
- Define the specific objectives of the program, (e.g. to improve consumer perceptions of the forest products industry, or to increase demand for wood products in Australia)
- Define who the target audience is and how best to reach that audience (e.g. media, stakeholder engagement)
- Define the administrative structures and resources requirement to meet the objectives
- Define the required budget and funding mechanisms.

An early outcome demonstrating progress towards a coordinated campaign is the commitment of NAFI and PTAA to work together on the development of key parameters for inclusion in such a campaign. This will enable important elements of a marketing and promotion program to be developed regardless of the option selected by the forest industry to deliver the program.

4 OPTIONS FOR THE FUTURE

The consultation and analysis undertaken for this report indicate that there is a strong desire by the industry to move forward and address the key challenges it faces. The key services required to achieve this are market driven R&D (already being addressed by the FWPRDC) and generic marketing and promotion (already being partly addressed by some industry and sector programs). This section examines the advantages and disadvantages of three key options facing the industry to most effectively deliver these services in the future.

4.1 Functions and Roles

The role of a new service delivery organisation for the forest and wood products industry would be to provide market driven R&D, generic marketing, promotion and communication activities. In taking a lead role in these activities the new service delivery organisation would provide leadership for the industry, partially fulfilling the role of 'industry champion'.

The new service delivery organisation would also be in a position to represent the industry's interests to the Government, particularly in areas where technical expertise is required to address issues relating to policy developments. Importantly, political lobbying on behalf of the industry would continue to be provided by existing industry associations or any new peak industry body established to represent the industry as a whole.

4.1.1 Research and Development

The principal R&D roles reflect the existing activities of the FWPRDC and include the following:

- Administration and coordination of R&D funding
- Setting priorities for R&D programs
- Appointment of R&D providers
- Coordination of R&D programs
- Dissemination of R&D outcomes to industry.

The principal R&D functions would provide services in the areas of resource characterisation and improvement, sustainable forest management, manufacturing and products, and market development. This could include:

- Market intelligence – trends and indicators
- Data collection, analysis, interpretation, storage and market reporting
- Research and development – planning, funding and program/project management
- Quality system development – language, description, grading and systems planning.

4.1.2 Generic Marketing and Promotion

The principal generic marketing and promotion roles reflect the need for overarching direction in activities that benefit a substantial portion of the industry. Roles would include:

- Setting priorities for generic marketing and promotion programs
- Appointment of generic marketing and promotion providers
- Coordination of programs.

Generic marketing and promotion functions reflect many of the programs being run by existing organisations, some of which will continue to be delivered at the State level. Functions could include:

- Generic promotion (domestic and international) e.g. “wood is good” – promote community benefits and environmental friendliness of the industry and drive demand
- Industry show rooms/exhibitions
- Advisory/technical services (call centre)
- Multi-Residential Timber Framed Construction (MRTFC)
- Monitoring Building Codes & Standards
- Industry education – from growing to processing to end users
- Market advertising, market development and consumer education
- Production of promotion materials (e.g. brochures)
- Communication within industry
- Market access
- Promotion of the Australian Forestry Standard (AFS).

4.2 The Options for Industry Reform

Following consideration and discussion of a range of models the Steering Committee proposes three key options for industry to consider.

- Option 1 - Status quo, whereby R&D continues to be administered by the FWPRDC and generic marketing and promotion activities are conducted on an ad hoc basis
- Option 2 - Establish a new Company to deliver generic marketing, promotion and market driven R&D funded by compulsory levies
- Option 3 - Establish a new Company to deliver generic marketing, promotion and market driven R&D funded by a mix of voluntary and compulsory levies.

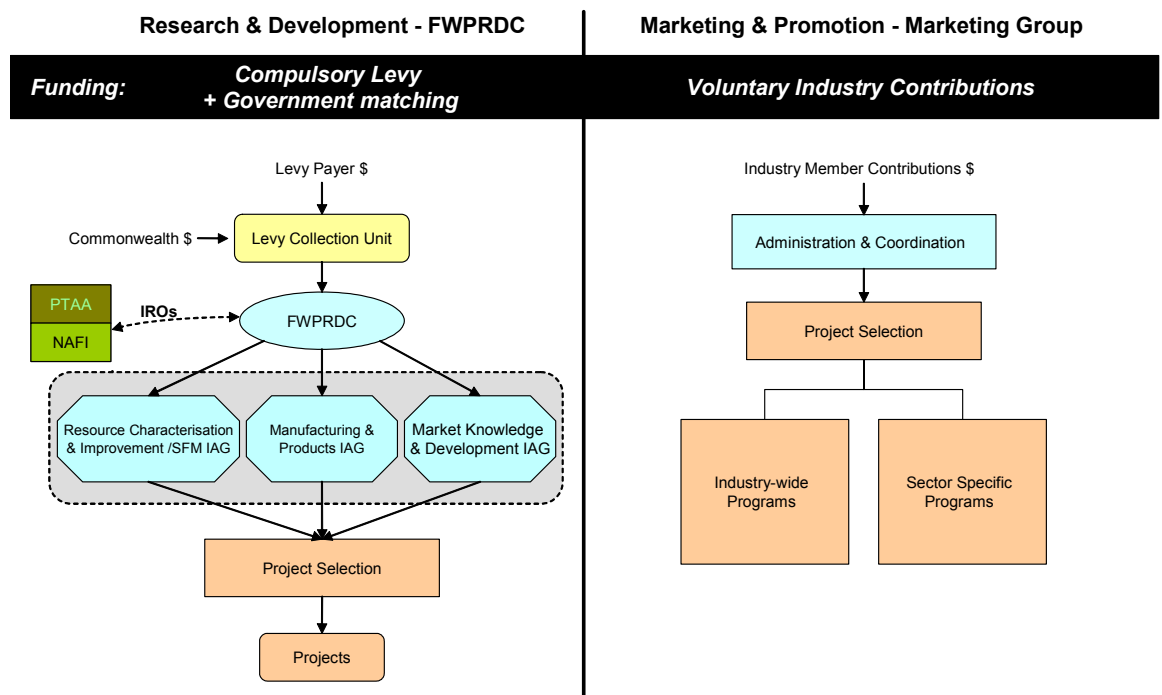
It is extremely important for the forest industry to carefully consider these options and act now if it is to gain Government support for industry reform. Should the opportunity to initiate reform not be embraced by the forest industry at this point in time, it is unlikely that another opportunity will arise within a short timeframe.

4.2.1 Option 1 – Status Quo

Under this model R&D services continue to be provided by the FWPRDC based on the structure proposed in the FWPRDC five year strategic plan. Generic marketing and promotion services would be developed as required by an industry steering group representing each sector of the industry with a commitment to develop generic marketing and promotion programs. Figure 4-1 illustrates the organisational structure for this option.

This option requires no changes to existing arrangements and hence can be implemented immediately with the development and implementation by industry of a generic marketing and promotion program.

**Figure 4-1:
Possible Organisational Structure of Option 1**



Operation

Under Option 1 the R&D and generic marketing/promotion streams would operate independently. Opportunities for coordination of programs from each stream would be followed up by the Industry Representative Organisations (IROs).

R&D functions would be undertaken by the FWPRDC using its existing IAG structure and resources. Generic marketing and promotion functions would be undertaken by a voluntary steering group of industry members that would identify priorities for programs and service providers to deliver these programs. Program managers may be assigned to individual programs with possible funding to cover their input. Some programs may be extensions of existing services provided by industry associations. Responsibility for each key role is set out in Table 4-1.

**Table 4-1:
Roles and Responsibilities for Option 1**

Role	R&D Responsibility	Generic Marketing & Promotion Responsibility
Accountability	Board (Chairperson, CEO, 7 directors)	Industry Steering Group
Leadership	Executive Director (1 staff)	Industry Steering Group
Business and Funding administration	Business Management Group (3 staff)	Program managers
Program coordination	Program Management Group (3 staff)	Industry Steering Group
Program development and monitoring	3 Industry Advisory Groups (10-12 members per IAG - drawn from industry)	Program committees

Under this option funding for R&D programs would continue under the current arrangements with compulsory levies paid by industry with dollar for dollar matching by the Commonwealth Government. Voluntary funding for generic marketing and promotion programs would be open to any members of the industry committed to the further development of market opportunities. PTAA and NAFI have agreed to cooperate in the development of generic marketing and promotion activities and will work to gain support from their members and others in the industry.

The type of programs that could be undertaken in the R&D stream would be bound by existing guidelines set out in the PIERD Act (see section 3.2). Under these arrangements it would be possible to undertake some projects that would provide valuable input into the structuring of programs undertaken by the generic marketing/promotion group, such as monitoring stakeholder opinions about the forest industry. Programs would be undertaken by service providers funded by FWPRDC.

Generic marketing and promotion program selection, coordination and management would be undertaken by a voluntary industry steering group. The group would identify programs needed, the possible structure of programs (components), how the programs would be related, and the most effective mechanisms for implementation. Programs would be implemented by specialists in generic marketing, stakeholder engagement, advertising, training etc.

IROs would continue to be involved in the running of programs through input to selection of the FWPRDC board and the FWPRDC IAGs, as well as playing a key role in the establishment of the generic marketing/promotion steering group. The two Peak Industry Bodies (NAFI and PTAA) would continue to make recommendations to levy payers regarding the level of compulsory levies required to effectively deliver R&D programs for the industry and carry these forward to the Government for implementation, when agreed by levy payers under the Levy Guidelines.

Advantages and Disadvantages

The key advantages of this option are that it does not require any additional compulsory levy, the industry controls generic marketing and promotion, the FWPRDC integrity is retained and it can be implemented now (no legislative change required). Key disadvantages are; no control over free-riders for generic marketing and promotion, no legal structure bringing R&D, marketing and promotion together, additional

administration costs (no chance of sharing costs with FWPRDC), difficult to maintain synergies and funding uncertainty – voluntary commercial contributions required from industry to fund ongoing activities. Adoption of Option 1 represents a lost opportunity to gain additional input and flexibility from the Government into the future development of the industry. These points are documented and compared with other options in Table 4-5.

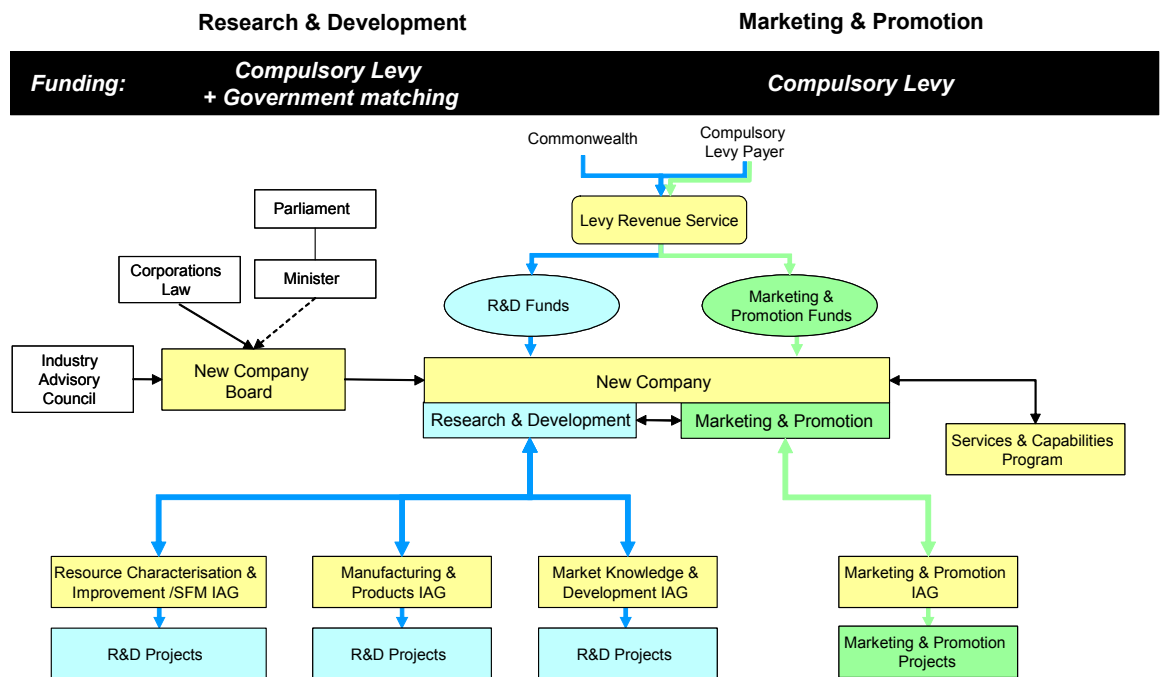
4.2.2 Option 2 – New Integrated Company with Compulsory Generic Marketing/Promotion Levies

Under Option 2 a new company, provisionally named “Forest and Wood Products Australia”, would be established under Corporations Law to deliver market driven R&D, generic marketing, promotion, and communication services to the industry. Appendix 4 describes the characteristics of a company established under Corporations Law. Figure 4-2 illustrates a possible organisational structure for this option.

Forest and Wood Products Australia (FWPA) would receive compulsory funds from the industry and provide market driven R&D and generic marketing/promotion services to meet industry needs without the constraints imposed by the PIERD Act. This option requires new legislation to be passed by the Federal Parliament.

The board of FWPA would be advised by a pan-industry advisory council, provisionally named the Industry Advisory Council (IAC) that would meet regularly. The IAC would provide industry advice to the Board to assist in developing priorities.

Figure 4-2: Possible Organisational Structure of Option 2 – Forest and Wood Products Australia



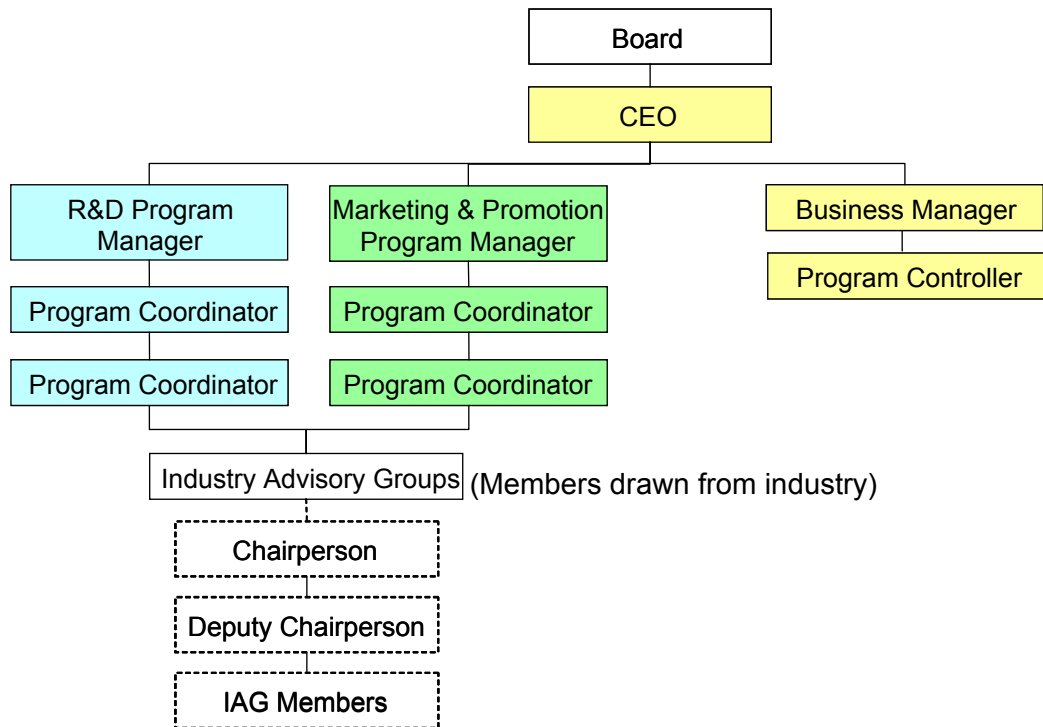
FWPA would be owned by the industry, with ownership held by compulsory levy payers and organisations contributing voluntary funds. In addition to voting rights for Board and IAGs, owners would be entitled to attend and vote at annual general meetings on all relevant industry issues.

Operation

Under Option 2 market driven R&D and generic marketing/promotion functions would be provided by one organisation with mechanisms in place to coordinate all services. Four IAGs would be established to develop programs to meet identified industry needs. R&D would be serviced by three IAGs, Resource Characterisation & Improvement/Sustainable Forest Management, Manufacturing & Products, and Market Knowledge & Development. These correspond to the IAGs proposed in the FWPRDC five year strategic plan. Generic marketing and promotion would be serviced by a separate IAG dedicated to both industry-wide and sector specific programs.

IAGs would be responsible for identifying programs needed and engaging service providers to deliver the programs. Each IAG would be comprised of a Board representative, chairperson, deputy chairperson and IAG members drawn from the industry. The total number of IAG members may vary depending on the issues faced by the program areas; it is suggested that the minimum number be seven, including one member of the Board. The IAGs would be supported by a program manager and program coordinators to coordinate program delivery, who would be employees of FWPA (Figure 4-3). Coordination between IAGs would be achieved through regular meetings of the Program Managers and Chairpersons of each IAG.

Figure 4-3:
Possible Operational Structure for Option 2



Responsibility for each key role is set out in Table 4-2.

**Table 4-2:
Roles and responsibilities for Option 2**

Role	Responsibility
Accountability	Board (Chairperson, CEO, 7 directors)
Leadership	Executive Director (1 staff)
Business and Funding administration	Business Management Group (2 staff)
Program coordination	Program Management Group (6 staff)
Monitoring	4 Industry Advisory Groups (7 members per IAG - drawn from industry)

Funding for R&D would continue to be collected based on current levy arrangements and would be matched dollar for dollar by the Commonwealth Government. Generic marketing and promotion funds would be collected through a new set of compulsory levies to be agreed by each industry sector, but would not be matched by the Government. The two peak industry bodies (NAFI and PTAA) would continue to make recommendations to levy payers regarding the level of compulsory levies required to effectively deliver R&D and marketing and promotion programs for industry and carry these forward to the Government for implementation, when agreed by levy payers at the AGM under the Levy Guidelines. This option also provides FWPA with the flexibility to broaden the levy base by including parts of the forest industry value chain not currently contributing funding, as well as providing scope for additional industry representative organisations (IROs).

Accountability for Use of Funds

It will be necessary for the company to develop and apply accounting systems, procedures and controls in accordance with good accounting practice, including all applicable Australian accounting standards. This includes the use of independent audit processes.

These accounting practices need to ensure that the use of levy funds is fully accounted for in terms of incoming and outgoing funds by sector and that levy payers are kept fully informed of how their funds are expended and the results achieved. Because the company will potentially have levy streams for both R&D and marketing and promotion, these will need to be kept separate within the company books, as R&D involves matched taxpayer funds, whereas marketing and promotion funds are not matched. The Deed of Agreement with the Government will require systems of accountability to ensure this happens.

Programs

The type of programs that could be undertaken by FWPA, in addition to R&D, would be expanded to include generic marketing and promotion. IAGs would define program priorities, select projects, allocate funding accordingly and engage service providers to implement programs. Programs would be implemented by outsourced specialists in R&D, generic marketing, stakeholder engagement, advertising, training etc. through a competitive tendering process, where appropriate.

FWPA would not undertake lobbying or advocacy. This will continue to be provided by industry associations at the national, State and regional level.

Board Composition

The Board selected on the basis of expertise would be comprised of a Chairperson, chief executive officer (CEO) and seven directors.

Director skills would need to collectively include:

- corporate governance
- financial management
- public policy and administration
- research management
- marketing and promotion
- environmental management
- communications
- industry knowledge and experience covering:
 - growing
 - processing/manufacturing
 - merchandising
 - importing
 - exporting.

Appointment of the Board and voting rights

Under a company structure the Board would be appointed by its members and the functions of the company would be prescribed in both legislation and the company objectives contained in the company constitution. A critical issue for a company structure is therefore who its members are and what voting rights they would hold. This has been handled in different ways by other primary industries that have formed company structures. In the case of wool and meat industries only levy payers are members of the company and hold voting rights.

Wool and meat industries members receive votes in direct proportion to the amount of levies they pay, receiving 1 vote per \$100 of levy.

In the case of horticulture three classes of membership were created:

- Class A members are peak industry bodies that represent a group of statutory levy payers
- Class B members are industry bodies that provide voluntary funds to the company
- Class C members are individuals or other entities providing voluntary funds to the company.

The horticulture structure provides for industry bodies to be voting members of the company and to be directly represented in its operations. This may not be seen as an

advantage by some in the forest industry who believe that some industry bodies filter levy payer interests. The horticulture company membership structure also provides individual or businesses contributing voluntary funds to the company to also receive voting rights and participate in company operations. This is appropriate, as they are contributing funds.

In the case of horticulture and other industry services companies, voting in the company is non-compulsory, with the provision for members to exercise their voting rights by proxy. In horticulture votes were allocated on the basis of the level of funds contributed to company programs (Table 4-3).

Table 4-3:
Horticulture model class A and B member vote allocation

Amount of Levy paid	Votes
0 to \$200,000	2 votes
\$200,001 to \$500,000	4 votes
\$500,001 to \$1,000,000	6 votes
\$1,000,001 to \$2,000,000	8 votes
\$2,000,001 plus	10 votes

Class C members that represent purely commercial operations were allocated votes at half the rate of Class A and B members. Class C members are also limited to holding 24 per cent of the aggregate vote at meetings of the company. This policy of discriminating between classes of members in issuing voting entitlements is designed to ensure that the industry organisations representing the broader interests of horticulture (Class A and B members) retain majority control of the industry services company. Hence, members are not able to exploit their voting rights to deliver a private benefit or exercise them in a manner that may compromise the interests of the wider horticulture community.

For the forest industry, the current levy is collected on logs delivered to mills and processing mills. As discussed, the levy cost is then partly borne by timber producers and partly borne by timber consumers as the cost of the levy is borne up and down the marketing chain.

Meat and horticulture levies are collected on the value of production. The levies are collected by marketing agents at the first point of sale (e.g. abattoir, sale yard, wholesale market, and processor) and charged back to the producer. The levy payer is therefore unambiguously the producer. In the meat and wool industry company structures producers hold the voting rights. In horticulture, because over 30 production sectors are involved (apples and pears, vegetables, cherries, and nurseries etc.), the votes are held by industry associations on behalf of the producers.

In the forest and wood products industry company it would be important that processors (mostly sawmillers) who pay the levy have voting rights, but there is also merit in considering broadening the voting rights to allow a proportion of votes to be held by other individuals, companies and organisations who contribute voluntary funds to the company (as applies in horticulture). A possible voting structure for the forest and wood products industry, taking these factors into account is shown in Table 4-4.

**Table 4-4:
Possible Vote Allocation for Class A (Levy Payers) and Class B (Voluntary Contributors)
in Forest and Wood Products Australia**

Amount of Levy paid	Votes
0 to \$200,000	4 votes
\$200,001 to \$500,000	8 votes
\$500,001 to \$1,000,000	12 votes
\$1,000,001 to \$2,000,000	16 votes
\$2,000,001 plus	20 votes

Due to concerns that any one class of votes could dominate voting on Board matters, rules could be used to cap a class of vote to a maximum level. A sliding (decaying²) scale of votes has been proposed to address this issue.

Appointment of the Board and the Chairperson

The first Board of the company will be a transition Board, guiding the establishment of the company and ensuring there is a smooth transition from the existing FWPRDC to the new company. It is proposed that the membership of the first Board be established by mutual agreement between the industry and the Minister for Fisheries, Forestry and Conservation. Subsequent Board membership will then be decided by voting by company members on the basis of the company constitution and voting rights held by members. The company may wish to consider establishing a Selection Committee to identify suitable industry representatives with the required mix of skills required for the Board. In accordance with the usual Corporate Law arrangements, the Chairperson would be selected from the appointed Directors by a majority vote of Directors at their first meeting. A Chairperson could also be removed by a majority vote of Directors.

Government Director

When previous companies were being established by the Government to provide R&D and marketing/promotion services to industries, discussion has taken place regarding the merits of including a Government Director on the Board. The rationale for considering a Government Director has been to ensure that the Board, when making decisions about the use of company funds (including the use of funds provided by the Government under the matching arrangements for R&D), has access to expert advice on Government policy and accountability to Government. A Government Director is able to directly access Government policy and pass this to the Board, should it be needed.

The opposing viewpoint is that the company should be owned and run entirely by industry and should it require Government policy advice for a particular decision, it should seek it directly from the Government for that purpose.

On balance, there is merit in having a government director to ensure that decisions taken by the company comply with government policy and that the expenditure of public funds is entirely appropriate at all times.

² A decaying scale means as levy payments increase the number of votes attracted per dollar of levy paid diminishes.

Advantages and Disadvantages

The key advantages for industry of this option are industry controls the company, no free-riders, existing administration of R&D can be retained, better coordination of R&D and generic marketing and promotion throughout the value chain and at Board level, voluntary R&D funds could be matched by Government and clear lines of accountability. Key disadvantages are the changes could be disruptive to R&D activities initially and the setup time and costs associated with moving to a new structure (e.g. MOU, Deed of Agreement, Constitution). These points are documented and compared with the other options in Table 4-5.

4.2.3 Option 3 – New Integrated Company with Compulsory and Voluntary Generic Marketing/Promotion Levies

Under Option 3, a new company would be established under Corporations Law to deliver market driven R&D, generic marketing, promotion and communication services to the industry. The structure and operation of this option is the same as for Option 2.

Option 3 permits industry sectors to adopt either compulsory or voluntary levies to fund generic marketing and promotion activities. Where there is sector support, the option exists to adopt compulsory levies to ensure the level of funding required for generic marketing and promotion activities is achieved. Adoption of compulsory levies reduces the potential for free-riding.

The hardwood sawmilling sector is far less concentrated than some other sectors, with the top ten processors accounting for less than 50 per cent of log consumption. Due to the difficulty in collecting voluntary levies from the large number of processors, the hardwood industry may elect to adopt compulsory levies on hardwood sawlog production to ensure funding levels are met.

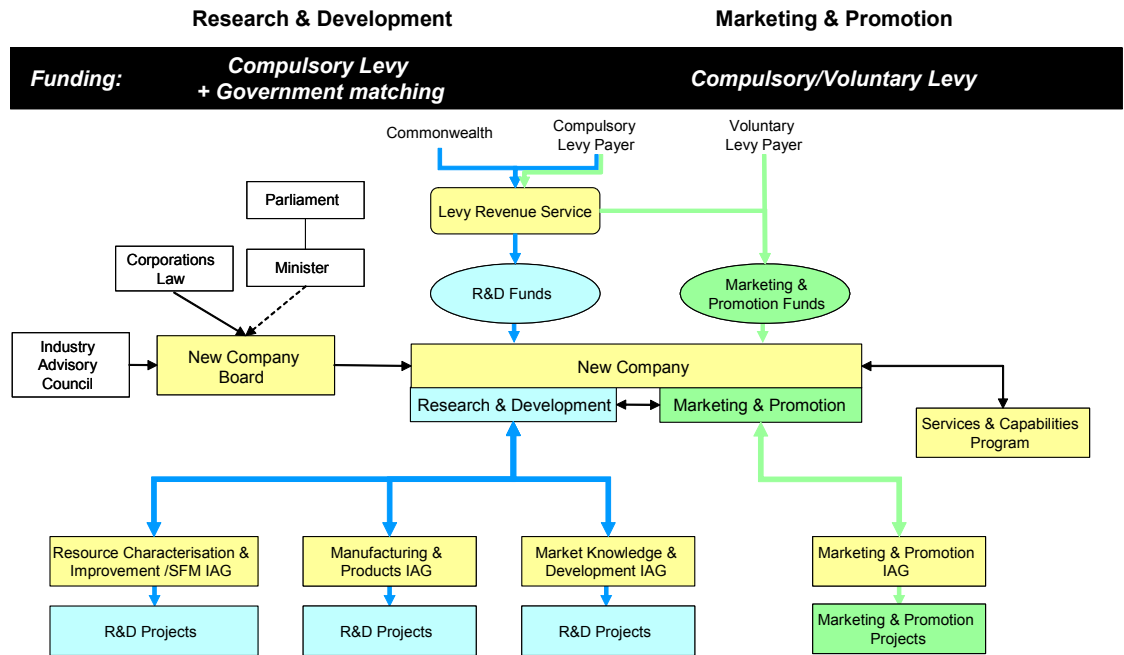
Where a sector considers voluntary levies to be preferable to compulsory levies, the option exists for that sector to adopt voluntary levies, subject to safeguards to ensure sufficient funding levels are achieved. This would only apply where the structure of the sector would allow the collection of a substantial amount of voluntary contributions with little or no free-riding.

Under this arrangement, those sectors adopting a voluntary levy would be required to agree in writing to a fixed term agreement with the company and/or government to demonstrate commitment to the process. The agreement would include milestones and performance targets as well as funding commitments. It is proposed that the agreement be for three years with a review at the end of that period.

The structure of the softwood sawmilling sector is an example of this concentration as the top ten processors account for nearly 90 per cent of log consumption. This would permit a high proportion of potential levies to be collected through voluntary agreement by these players, with limited free-riding should other processors elect not to contribute. Hence, the softwood sawmilling sector could adopt voluntary levies on softwood sawlog production for generic marketing and promotion funding, provided the largest players commit to voluntary contributions.

There are no other differences from the company structure in Option 2.

Figure 4-4:
Possible Organisational Structure of Option 3



Advantages and Disadvantages

The key advantages of this option are; industry control of the company through selection of the Board and IAGs, existing administration of R&D is retained, better coordination of R&D and generic marketing and promotion throughout the value chain, voluntary R&D funds could be matched by Government and clear lines of accountability. Key disadvantages are; no control over generic marketing and promotion free-riders (for sectors adopting voluntary generic marketing/promotion levy), changes could be disruptive to R&D activities initially and the setup time and costs with moving to a new structure (e.g. MOU, Deed of Agreement, Constitution). These points are documented and compared with the other options in Table 4-5.

4.3 Comparison of Options

Table 4-5 compares the options. Option 1 is the simplest model and is able to be implemented immediately upon development and implementation by industry of a generic marketing and promotion program. Option 2 and 3 are more complex to implement, but provide greater control and flexibility over service provision of industry needs providing enhanced benefits in the long-term. Options 2 and 3 differ only in the mechanism by which generic marketing and promotion programs are funded.

Demonstrated commitment of industry to the development of generic marketing/promotion activities, similar to that envisaged in Option 1, would be critical to agreement by the Government to proceed with Options 2 or 3. Such a marketing and promotion program would need to be substantive enough to make it worth the while for both industry and government to proceed with either option. The Steering Committee has suggested \$3 million per annum as an indicative figure to aid calculations for this purpose.

**Table 4-5:
Summary of Advantages and Disadvantages of Options**

Option	Advantages	Disadvantages
Option 1 Retain FWPRDC and industry runs a voluntary funded marketing and promotion program	<ul style="list-style-type: none"> No additional levy Industry controls generic marketing and promotion FWPRDC integrity retained Can be implemented now (no legislative change required) A large proportion of voluntary funds could be provided by agreement from a small number of organisations 	<ul style="list-style-type: none"> No control over free-riders for generic marketing/promotion No formal structure Additional administration costs Funding uncertainty - voluntary commitment required from industry to fund ongoing activities Voluntary R&D funds are not matched by the Government
Option 2 FWPA (with compulsory levy)	<ul style="list-style-type: none"> Industry controls company No free-riders Existing R&D administration largely retained Better coordination of R&D and generic marketing/promotion throughout value chain, including also at Board level Clear lines of accountability Voluntary R&D funds could be matched by Government 	<ul style="list-style-type: none"> Could be disruptive to R&D activities initially Setup time and costs associated with moving to new structure (e.g. MOU, Deed of Agreement, Constitution)
Option 3 FWPA (with compulsory and voluntary levy options)	<ul style="list-style-type: none"> Industry controls company No free-riders (for sectors adopting compulsory generic marketing/promotion levy) Existing R&D administration largely retained Better coordination of R&D and generic marketing/promotion throughout value chain Clear lines of accountability Voluntary R&D funds could be matched by Government 	<ul style="list-style-type: none"> No control over generic marketing/promotion free-riders (for sectors adopting voluntary generic marketing/promotion levy) Could be disruptive to R&D activities initially Setup time and costs associated with moving to new structure (e.g. MOU, Deed of Agreement, Constitution)

**Table 4-6:
Structure and Function of Proposed Options**

Issue	Option 1	Option 2	Option 3
Organisational structure	R&D services provided by FWPRDC structure (as per 5 year strategic plan). Generic marketing/Promotion group established to provide generic marketing/ promotion services to the forest industry.	New company established to provide R&D and generic marketing/promotion services to the forest industry. Provisional name "Forest and Wood Products Australia" (FWPA)	New company established to provide R&D and generic marketing/promotion services to the forest industry. Provisional name "Forest and Wood Products Australia" (FWPA)
R&D service delivery	Program selection and coordination by FWPRDC (as per 5 year strategic plan). Program delivery by contracted service providers.	Program selection and coordination by 3 R&D Industry Advisory Groups. Program delivery by contracted service providers.	Program selection and coordination by 3 R&D Industry Advisory Groups. Program delivery by contracted service providers.
Generic marketing/ promotion service delivery	Program selection and coordination by generic marketing group. Program delivery by contracted service providers.	Program selection and coordination by Generic marketing/Promotion Industry Advisory Group. Program delivery by contracted service providers.	Program selection and coordination by Generic marketing/Promotion Industry Advisory Group. Program delivery by contracted service providers.
Plan of action for generic marketing/ promotion	Industry to develop a plan of action for generic marketing/promotion group, including commitment to process and agreement for fixed period of funding.	Memorandum of understanding (MOU), Deed of Agreement and Constitution	Formal plan and budget required showing the softwood sector's industry commitment to a 3 year voluntary program for generic marketing/promotion funding. Memorandum of understanding (MOU), Deed of Agreement and Constitution.
Legislation	No legislative change required.	New legislation required.	New legislation required.
R&D funding	No change to current R&D levy arrangements.	No change initially to levy structure, but flexibility built into levy structure for compulsory contributions by sector (e.g. FWPA would have flexibility to broaden the levy base by including parts of the forest industry value chain not currently contributing funding.) Any change to compulsory levies must meet Levy Principles and Guidelines and be voted on at AGM.	No change initially to levy structure, but flexibility built into levy structure for compulsory and voluntary contributions by sector (e.g. FWPA would have flexibility to broaden the levy base by including parts of the forest industry value chain not currently contributing funding.) Any change to compulsory levies must meet Levy Principles and Guidelines and be voted on at AGM.
Generic marketing/ promotion funding	Voluntary funding from industry for programs.	Funding derived from compulsory levies for generic marketing/promotion programs from all industry sectors.	Fully flexible funding arrangements can be put in place. Contributions can be via sector-based voluntary or compulsory levy, one-off voluntary contributions, etc. Softwood sawmilling sector prefers a voluntary levy, whereas the hardwood sawmilling sector prefers a compulsory levy due to industry structure.
Industry Advisory Groups (IAG)	R&D Advisory Groups (3) as per FWPRDC 5 year strategic plan. Generic marketing/Promotion programs coordinated by industry committees.	R&D Advisory Groups (3) as per FWPRDC 5 year strategic plan. Generic marketing/promotion advisory group responsible for all generic marketing/promotion programs.	R&D Advisory Groups (3) as per FWPRDC 5 year strategic plan. Generic marketing/promotion Advisory Group responsible for all generic marketing/promotion programs.

Issue	Option 1	Option 2	Option 3
IAG composition	FWPRDC Advisory Group members appointed by board. Generic marketing/promotion committees nominated by industry.	IAG members nominated by industry and appointed by board. 1 board member appointed to each IAG.	IAG members nominated by industry and appointed by board. 1 board member appointed to each IAG
Board composition	No change to current FWPRDC board provisions. No board required for generic marketing/promotion programs.	9 members. Chairperson, CEO plus 7 directors including a Government director Chairperson would be appointed by board. Board members to collectively have required skill set.	9 members. Chairperson, CEO plus 7 directors including a Government director Chairperson would be appointed by board. Board members to collectively have required skill set.
Voting rights /process for Board appointment	FWPRDC. No change.	All funding contributors have the right to vote for the Board (compulsory levy payers and voluntary contributors). Voting rights based on levy payment but on a (decaying) sliding scale. Board nominees provided through a Selection Panel approach. Initial board appointed by Minister in consultation with industry. Subsequently board is appointed by vote of funding contributors at AGM.	All funding contributors have the right to vote for the Board (compulsory and voluntary). Voting rights based on levy payment but on a (decaying) sliding scale. Board nominees provided through a Selection Panel approach. Initial board appointed by Minister in consultation with industry. Subsequently board is appointed by vote of funding contributors at AGM.
Board term	No change to current FWPRDC board provisions.	3 year term with 1/3 of board replaced each year.	3 year term with 1/3 of board replaced each year.
Accountability	No change to existing FWPRDC provisions.	Key Performance Indicators to be established.	Key Performance Indicators to be established.
IROs	No change to IROs. Scope for more IROs in future.	Initially no change to IROs. Scope for more IROs in future. Consultation process between board and IROs to be formalised.	Initially no change to IROs. Scope for more IROs in future. Consultation process between board and IROs to be formalised.
Industry Advisory Council	None	The Board of FWPA would be advised by the Industry Advisory Council (IAC) that would provide industry advice to the Board to assist in developing priorities.	The Board of FWPA would be advised by the Industry Advisory Council (IAC) that would provide industry advice to the Board to assist in developing priorities.

Operating Costs

For each option, R&D funding has been assumed to continue at the current level (comprised of \$3.4 million per annum of industry levies and \$2.8 million per annum of matched Government funding). While the Steering Committee has not estimated the cost of running a marketing and promotion program at this time, it has, however, requested that calculations for levy purposes be based on an indicative figure of \$3 million per annum.

Under Option 1, the operating costs for R&D remain unchanged, based on retaining the existing FWPRDC structure. The cost of the generic marketing and promotion programs would be borne by the industry in terms of expenditure on programs and their administration. It has been assumed that expenses for the generic marketing and promotion programs would fund the activities of an industry steering group, an industry advisory committee, and program managers.

Under Options 2 and 3, there are potential long-term cost advantages due to synergies in administrative and operational activities of running R&D and generic marketing and promotion programs under a single organisation. Benefits arise through removal of duplication, such as accountability and leadership provided by a single board as well as administrative efficiencies. These advantages are in addition to the integration of R&D and generic marketing and promotion that provides greater opportunities for market driven R&D.

An estimate of operating costs for each option is presented in

Table 4-7. Options 2 and 3 provide opportunities to develop a more streamlined, whole-of-chain approach to service delivery, with the potential to achieve economic benefits in the form of reduced operating expenses. The difference between Option 1 and Options 2 and 3 represents these estimated savings.

The estimated number of staff required to perform the roles and functions of the new service delivery entity are shown in Table 4-8. The staff numbers for option 1 represent the paid input of industry members, not employees of a marketing and promotion organisation.

**Table 4-7:
Comparison of estimated program funds and operating expenses**

Option	R&D Program Funds (\$ million)	Generic marketing & Promotion Program Funds (\$ million)	Operating Expenses (\$ million)
1	5.45	3.0	1.1
2	5.45	3.0	1.0
3	5.45	3.0	1.0

**Table 4-8:
Comparison of estimated staff for each option**

Option	R&D Programs	Generic Marketing & Promotion Programs	Leadership/ Administration	Total
1	3	3	4	10
2	3	3	3	9
3	3	3	3	9

Current and Potential Levy Base

The net revenue raised by the forest and wood products industry in 2001/2002 through compulsory levies was \$3.4 million (domestic levies \$2.8 million, imports \$0.6 million). The domestically raised levy was matched by the Government, providing a total pool of funds for R&D of \$6.2 million.

The potential compulsory levy base for R&D could remain at \$3.4 million with an additional \$3 million being raised through either compulsory or voluntary levies for generic marketing and promotion programs. On this basis the required contributions for each option have been estimated based on the existing distribution of contributions by each sector to the R&D levy (Table 4-9). The small overall cost difference between options means there is no discernable difference in levy rates for each option.

Options for broadening the levy base across the value chain and/or redistribution of the levy as well as a move to value-based levies could also be considered by the forest industry to address concerns about equity in levy rates. FWPA should have the inbuilt flexibility to both lead discussions on this matter and adopt any new agreed measures. Issues and some options are outlined in Appendix 6.

**Table 4-9:
Estimated levy rates for each option by industry sector**

Levy-Paying Group	Option 1			Option 2	Option 3
	Current R&D Levy (\$/m ³)	Pro-rata Industry Contribution (\$/m ³)	Total Contribution (\$/m ³)	Total Compulsory Levy (\$/m ³)	Total Compulsory and Voluntary Levies (\$/m ³)
Hardwood Export Woodchip	0.035	0.035	0.07	0.07	0.07
Wood Panels Pulp Log	0.10	0.10	0.20	0.20	0.20
Plywood & Veneer Log	0.15	0.15	0.30	0.30	0.30
Softwood Sawlog	0.29	0.29	0.58	0.58	0.58
Hardwood Sawlog	0.22	0.22	0.44	0.44	0.44
Cypress Sawlog	0.22	0.22	0.44	0.44	0.44
Softwood Lower Grade	0.08	0.08	0.16	0.16	0.16
Softwood Roundwood Log	0.08	0.08	0.16	0.16	0.16
Paper Pulp Log	0.00	0.00	0.00	0.00	0.00
Softwood Export Pulp Log/Woodchip	0.00	0.00	0.00	0.00	0.00
Importers	0.725	0.725	1.45	1.45	1.45

5 STEERING COMMITTEE RECOMMENDATIONS

Following consideration and discussion of the options, presented by Jaakko Pöyry Consulting the Steering Committee recommends the following course of action:

1. The forest industry should move toward greater coordination and integration of R&D, generic marketing and promotion programs and consider a two phase approach to meet industry's needs.

Phase 1: Current R&D programs continue under the administration of the FWPRDC while, simultaneously, the softwood and hardwood sectors combine to develop and voluntarily fund an industry-wide promotional program. This is a transitional step and will take effect as soon as industry can develop and implement a promotional program.

Phase 2: For the longer-term and within the current timetable, the Steering Committee continues with the development and introduction of a private company, under Corporations law (Option 3), to deliver:

- (i) R&D funded by both compulsory industry levies and voluntary contributions, and Government matching funds; and
- (ii) a generic marketing/promotion program, based on Phase 1 above, funded by voluntary levies for the softwood sector and compulsory levies for the hardwood sector.

Phase 1 and 2 would need to run concurrently. An indicative timeframe for this process is illustrated in Figure 5-1. In order to achieve this timeframe the key sectors of the forest industry would need to commit substantial resources and effort to the entire process.

2. The forest industry should analyse the costs and benefits of adopting value based levies versus volume based levies.
3. The forest industry should examine options for broadening the levy base to include other sectors for R&D and generic marketing and promotion programs.

**Figure 5-1:
Key tasks and Indicative Timeframe**

Task	2003					2004											
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Industry to develop and voluntarily fund industry-wide marketing and promotion program	[Yellow bar spanning from August 2003 to November 2003]																
Undertake extensive consultation with industry – workshops etc	[Yellow bar spanning from August 2003 to November 2003]																
Obtain formal support from levy payers to develop package for implementation. Full and open consultation with formal proposal and vote (for compulsory levy)						[Yellow bar spanning from October 2003 to December 2003]											
Appoint negotiation teams and develop and negotiate institutional structures – Chair, Board committees, MOUs, Deeds of Agreement etc. - and transitional arrangements						[Yellow bar spanning from October 2003 to May 2004]											
Obtain Departmental/Ministerial approval for the framework of the package											[Yellow bar spanning from September 2003 to October 2003]						
Obtain Ministerial/Cabinet approval for package and agreement to proceed with implementation											[Yellow bar spanning from March 2004 to April 2004]						
Development of drafting instructions and enabling legislation											[Yellow bar spanning from April 2004 to May 2004]						
Commence setting in place transitional/new arrangements											[Yellow bar spanning from June 2004 to July 2004]						
Passage of legislation through the Parliament														[Yellow bar spanning from August 2004 to November 2004]			
Proclamation of the new Act														[Yellow bar spanning from November 2004 to December 2004]			

6 REFERENCES

- ABARE (2003) Australian Forest and Wood Product Statistics, Sept and Dec Quarters 2002
- Australian Meat and Livestock Industry Act 1997*
- Forest and Wood Products R&D Corporation (FWPRDC) Annual Report 2001-2002
- Horticultural Industry Alliance Steering Committee Green Paper, February 1999, p.30
- Horticulture Marketing and Research and Development Services Bill 2000:*
- Primary Industries and Energy Research and Development Act 1989*
- Primary Industries Levies and Charges Collection Act 1991, the Primary Industries (Excise) Levies Act 1999*
- Primary Industries Levies Charges Collection Act 1999*
- Report to Clients 2001/2002, LRS.
- AFFA (2003) Unpublished. Linkages between the Commonwealth, State Governments and industry

APPENDIX 1

Steering Committee Members

Steering Committee Members

Mike Macnamara (Chair)	Department of Agriculture, Fisheries and Forestry Australia (AFFA)
Murray Johns (Secretary)	Department of Agriculture, Fisheries and Forestry Australia (AFFA)
Richard Brooks	Timber Merchants Association (TMA)
Kate Carnell	National Association of Forest Industries (NAFI)
Peter Juniper	Plantation Timber Association of Australia (PTAA)
Glen Kile	Forest and Wood Products Research and Development Corporation (FWPRDC)
Greg McCormack	National Association of Forest Industries (NAFI)
Warwick Ragg	Australian Forest Growers (AFG)
Nick Roberts	Plantation Timber Association of Australia (PTAA)
Trevor Smith	Construction, Forestry, Mining and Energy Union (CFMEU)

Observers

Chris Lafferty	Forest and Wood Products Research and Development Corporation (FWPRDC)
Richard Stanton	Australian Paper Industry Council (APIC)

APPENDIX 2

Feedback Survey Form

Needs Analysis Feedback Form

Name: _____

Organisation: _____

Australian Forestry Industry Reform Options

To ensure we include your ideas, please provide your feedback to us on the following issues (Note do not feel obliged to fill in all boxes just add what is really important to you and your business).

1. Which of the following is most important for the industry to concentrate on now?

	Priority (1=Highest, 4=Lowest)
Research and Development – priorities, focus, products	
Marketing – intelligence, access, new opportunities etc	
Promotion – of the industry & wood products	
Communication – within the industry & to Govt & the community	

2. What are your needs and thoughts on the industry at present?

Research and Development – (e.g. focus, feedback, new technology & products etc)

<i>Priorities</i>	<i>Opportunities</i>

Marketing – (e.g. new products & markets, intelligence, counter substitutes)

<i>Priorities</i>	<i>Opportunities</i>

Promotion – (e.g. industry champion, improve industry attractiveness, environmental values - “wood is good”, lobbying)

<i>Priorities</i>	<i>Opportunities</i>

Communication – (e.g. connection within the industry along the market chain = a unified voice for promotion to Government and community and feedback to sectors)

<i>Priorities</i>	<i>Opportunities</i>

3. How can these objectives be achieved?

Other industry sectors such as meat, dairy and horticulture have formed a private sector company to deliver integrated R&D, Marketing, Promotion and Communication services for their industries. The benefits are: improved critical mass, ability to work across the production and marketing chain, and improved effectiveness of outcomes.

Would you support the concept of a new forest and wood products company being formed to deliver integrated services for the forest and wood products industry?

If so, why?

If not, what would be your reasons?

4. What Structure would work for you and/or your business?

The Board of such companies is required by the Government to have expert Directors and an independent Chair. The membership of the Board is chosen by its members, with all forest or wood product companies or organisations contributing funding to the company to have voting rights in the company.

Is the concept of voting rights being directly linked to funding contributions acceptable to you?

Or would you consider membership of the company being on some other basis? If so, what basis?

5. Do you think the current levy basis for funding R&D is adequate or should be changed in any way?

Yes or No?

6. Should the industry consider expanding levies to cover the delivery of Marketing, Promotion and Communication services as well as R&D or should funding for these activities be purely voluntary contributions from individual companies or industry organisations?

Please fax/email back to: Rob de Fégely, Principal, Jaakko Pöyry Consulting

Fax No. 03 9867 2744 or Email: rob.defegely@povrv.com.au

by: 5.00pm Friday 23 May 2003

APPENDIX 3

Detailed List of Industry Needs

DETAILED LIST OF INDUSTRY NEEDS

The following lists of industry needs were compiled from feedback received during the stakeholder consultations conducted as part of this review.

Table 3A-1:
Industry needs that would comply with FWPRDC funding guidelines

Sustainable Forest Management & Resource Characterisation	Manufacturing and Processing	Market Research
<ul style="list-style-type: none"> ▪ Trees suitable for: <ul style="list-style-type: none"> - medium-low rainfall areas - environmentally degraded areas - varying soils and sites - firewood (suitable species, silviculture, productivity issues) ▪ Sustainability of hardwood plantations ▪ Role of forests in catchment hydrology and water use ▪ Fauna/flora responses & conservation values between managed/unmanaged Native Forest ▪ Public/private partnership SFM-driven forestry development ▪ Improved site silviculture, yield and forestry systems (incl. solid wood from plantations) ▪ Plantation pest, disease and health including insect damage i.e. aphids, drought stress and chemical use – (herbicides & pesticides) ▪ Review linkages with, and/or continue old R&D trials New harvesting options and systems ▪ Low grade resource utilisation & residues ▪ Research and quantify environmental benefits of trees to the grower (carbon, salinity etc) ▪ Sustainability criteria including forest & product certification systems and 3rd party audits ▪ Commercial and financial investment models of sustainable NRM-driven forestry development ▪ Tree breeding 	<ul style="list-style-type: none"> ▪ Log Characteristics including: <ul style="list-style-type: none"> - growth stress in small logs - regrowth timber processing - accurate 3D log defect scanning ▪ Processing and drying technology <ul style="list-style-type: none"> - to support smaller & younger logs - glues/bonding systems suitable for external use and durable species - effective knot-scanning optimizers - chemical efficacy & use (i.e. CCA) - wood modification - increase grade recovery ▪ Value adding & Engineered Wood Products (EWP): <ul style="list-style-type: none"> - finger jointing and laminated products - formaldehyde emissions from product and processing plants - resin (next generation); reduced dependency on petrochemical industry ▪ Product quality in hardwood and softwood <ul style="list-style-type: none"> - structural timber grading effectiveness - termites, fumigation of pests and durability - timber treatment options (CCA or alternatives) - fire proofing and planning issues - timber properties products and building systems ▪ New products <ul style="list-style-type: none"> - to replace alternative products and increase market opportunities - Integrating wood use with energy recovery - greenhouse benefits 	<ul style="list-style-type: none"> ▪ Research new timber markets - residential, commercial ▪ Market drivers, costs of production and new technology for different classes of timber products ▪ Improve availability of Market Intelligence <ul style="list-style-type: none"> - log price and inventory data - new markets & trends local and export especially Asia) - supply/demand predictions ▪ Make product properties known to the industry & end users ▪ Market options for short clears from re-growth logs currently sold as pulp ▪ Research alternative construction materials ▪ Import replacement and non-wood replacement ▪ Furniture product opportunities ▪ Market acceptance and demand for glue-jointed products ▪ Define the environmental advantages of using timber

Table 3A-2:
Industry needs that do not comply with FWPRDC funding guidelines

Promotion & Marketing	Communication & Lobbying
<p>Growers</p> <ul style="list-style-type: none"> ▪ Plantation forestry as a form of agriculture to increase resource ▪ Australian label/sustainability image and certification (AFS/FSC) being accepted/understood by community ▪ Emphasis on excellent reservation outcomes and conservation record in native forests ▪ Competitive advantage of Australian woodchip products ▪ Increase timber utilization <p>Processing and End Users</p> <ul style="list-style-type: none"> ▪ Improve product knowledge and qualities to end users to increase product reputation ▪ Promote more use of wood and wood composites in construction and joinery & furniture ▪ Position timber as the preferred building material because it is easy to use and is environmentally and consumer friendly ▪ Reinforce use of existing and traditional timber products to counter steel & wood substitutes <p>Markets</p> <ul style="list-style-type: none"> ▪ Strategic market development program to: <ul style="list-style-type: none"> - increase market per capita consumption of wood - highlight unique properties of timber - promote timber framing over alternatives - market to end users i.e. specifiers, architects, engineers, interior designers - regain, maintain and increase market share ▪ Provide marketing information to support promotional initiatives <p>Community</p> <ul style="list-style-type: none"> ▪ “wood is good” type campaign to promote: <ul style="list-style-type: none"> - industry image and community education to improve the awareness of the environmental benefits of wood and develop a positive community mindset to our industry (i.e. build on greenhouse positive) - environmental benefits of timber versus steel - timber as the environmentally superior product with a strong consumer preference (counter green myths) - industry attractiveness for young people to enter the industry and build careers (i.e. forestry schools, skills& trades, management, technical etc) - community benefits of industry (environmental, social and economic) ▪ strategies that ensure a whole of chain approach ▪ wood industry attractiveness to rural and regional areas for employment and investment ▪ international promotion of Australian forestry and sustainability credentials ▪ identify public advocates for the industry 	<p>Growers</p> <ul style="list-style-type: none"> ▪ Access to markets for private growers ▪ Transparency in pricing ▪ Visible and accessible environmental services markets <p>Processing and End Users</p> <ul style="list-style-type: none"> ▪ Resource access/development ▪ Security of log supply <p>Markets</p> <ul style="list-style-type: none"> ▪ International timber market access/duties ▪ Eliminate trade barriers, provide technical support ▪ Ensure Australian forest products are allowed to compete on equal footing with other wood/non-wood products ▪ Influence legislative and regulatory environment so wood products not excluded from legitimate markets based on flawed perceptions <p>Community and Industry level:</p> <ul style="list-style-type: none"> ▪ A strong unified industry voice is required to: <ul style="list-style-type: none"> - communicate at international, national, State and regional levels, and - communicate along the supply chain from public and private growers to end users and the community - develop a strategic whole of industry approach - build alliances with environmental NGO’s and other NRM and primary producer groups - regain the policy ascendancy at the national level - assist in the rationalization of industry assoc’s - create a link with other industries and assoc’s - develop consistent messages about the industry – sustainability etc <p>Overarching forum to coordinate the industry:</p> <ul style="list-style-type: none"> - Co-ordinate the industry message and address community concerns as they arise - Remove disconnections in the supply chain between growing/harvesting, processing, merchant & wholesalers, end users and the community. - liaise with Government t departments to keep industry in line with legislation - assist with unified research (CRC’s, Industry and Govt) - potentially create one national association with local branches - lobby Governments consistently at all levels

In addition to the above needs, the following key operational issues were highlighted:

- priorities should be assigned in accordance with industry and government determined needs (not provider driven R&D)
- inclusive process both along the supply chain from growers to end users and between sectors
- need for a transparent funding system for assigning and reporting R&D priorities
- projects must have a clear purpose and objective with balance between short term and long term
- ensure project outputs are not lost in the complexity of implementation
- coordination with New Zealand and South Africa in key common areas
- coordination (avoid duplication) to ensure program complementarity.

APPENDIX 4

Corporations Law Company Model

CORPORATIONS LAW MODEL

The Government lays out a number of requirements in order to implement a Corporations Law model of service delivery for an industry-owned company that takes over the assets and liabilities of an existing statutory corporation (e.g. FWPRDC) and uses levy and taxpayer funds to implement new programs.

The industry and Government needs to agree on the appropriate structure and objects of the proposed company that will meet the industry objectives and the Government's accountability requirements.

There needs to be agreement on the voting rights, company Board and the company Constitution.

The accountability mechanisms that will satisfy the Government on corporate governance issues, such as independent audit requirements and accountability to levy payers need to be specified.

New legislation will be needed to allow the transfer of assets, liabilities and staff to the new company from the existing R&D statutory corporation, the FWPRDC, and to allow for levy payer and taxpayer funds to be used by the company.

These elements are developed within the MOU, the Company Constitution, the Deed of Agreement and the Legislation. These key documents are usually drafted by a joint industry-Government working party with specialist legal input.

MOU

The MOU provides an agreement between the forest and wood products industry and the Government regarding the intent to establish a Corporations Law company and the key elements of the proposed company operations including:

- Preamble – describes the process leading to the company option and the key elements of the proposal
- Definitions and Interpretation – of key terms in the MOU
- Effect of the MOU – outlines what the MOU does
- Record of Commitment – contained in the schedules – structure of company and functions
- Roles and Responsibilities – Commonwealth, Company, Industry Advisory Committees
- Design of the Company – First Board, Skills, Not for Personal Profit Company
- MOU review – procedures
- Schedules – detail of the agreements.

Company Constitution

The company Constitution is the Corporations Law document that provides the operating rules for the company and to which Directors of the Company are legally bound. The Constitution is lodged with the Australian Securities and Investment Commission just prior to company commencement. The key elements of the Constitution are:

- Capacity – ability to exercise powers set out in section 124 of the Corporations Law and any exclusions
- Not for Personal Profit
- Apolitical
- Limited Liability
- Members Guarantee
- Classes of Members
- Register of Members
- General Meetings
- Proceeding at Meetings
- Votes of Members
- Proxies
- Directors
- Term and Removal of Directors
- Disqualification of Directors
- Powers and Duties of Directors
- Director Contracts
- Director Conflicts of Interest
- Proceedings of Directors
- Borrowing Powers
- Industry Committees
- Minutes
- Financial Records
- Secretary
- Seal
- Notices
- Winding Up
- Indemnity
- Interpretation.

Deed of Agreement

The Deed of Agreement specifies the conditions that the company agrees to meet in return for the Government providing new legislation to establish the company and the transfer of assets, liabilities and staff of the FWPRDC to the industry-owned company. Included in the Deed are the accountability requirements of the Government regarding the use of levy funds and Government funds provided to the company to assist it achieve its objectives laid out in the Constitution of the company. It is signed by the nominated Commonwealth Government Minister and the nominee of the company.

Key elements are:

- Recitals – the Acts of Parliament establishing the company
- Interpretation – definitions used in the Deed
- Operation of the Deed – the clauses of the Deed relating to sections of legislation
- Use of Funds – conditions to be met by the company
- Reduction or Suspension of Funds – conditions under which reduction or suspension of funds to the company could occur
- Repayment of Funds - conditions under which repayment of funds to the Government could occur
- Goods and Services Tax (GST) – if the company incurs a GST liability in the provision of Government funds to the company, the Government will meet this
- Transfers of Funds to the company – conditions imposed by the Government
- General provisions – covering items like proposed changes to the Constitution, Corporate Planning and Performance Review, Records and Access, Audit, Reports, Accountability, Insurance, Dispute Resolution and Notices
- Schedules – detailed requirements.

Legislation

To allow the establishment of the company the Government will need to introduce new legislation into the Parliament and have it passed by both Houses. The legislation is needed to allow the transfer of assets, liabilities and staff to the new company and to allow the Government to provide access to levy payer funds and taxpayer funds under the matching funds arrangements in place for R&D. The preferred strategy is to obtain bipartisan support for the new legislation.

APPENDIX 5

Levy Guidelines and Principles

Guidelines and Principles - AFFA

Introduction

The Government introduced 12 Levy Principles in January 1997. These Principles must be met when an industry or group of levy payers proposes a new, or a change to an existing Statutory Levy.

General Principles Applying to Proposals for New and Changed Primary Industry Levies

1. The proposed levy must relate to a function for which there is a significant market failure.
2. A request for a levy must be supported by industry bodies representing wherever possible, all levy payers, or by levy payers directly. Otherwise a levy may be initiated by the government in the public interest in consultation with the industries involved.
3. The initiator of a levy proposal shall provide an assessment of the extent, the nature and source of any opposition to the levy, and shall provide an analysis of the opposing argument and reasons why the levy should be imposed despite the argument raised against the levy. The initiator shall also demonstrate that all reasonable attempts have been made to inform levy payers of the proposal and that they have had the opportunity to comment on the proposed levy.
4. The initiator shall provide an estimate of the amount of levy to be raised to fulfil the function to be paid for by the levy, a clear plan of how the levy will be utilised, including an assessment of how the plan will benefit the levy payers in an equitable manner, and demonstrate acceptance of the plan by levy payers in a manner consistent with Principle 2.
5. The initiator must be able to demonstrate that there is agreement by a significant majority on the levy imposition/collection mechanism, or that, despite objections, the proposed mechanism is equitable in the circumstance.
6. The levy imposition must be equitable between levy payers.
7. The imposition of the levy must be related to the inputs, outputs or units of value of production of the industry or some other equitable arrangements linked to the function causing the market failure.
8. The levy collection system must be efficient and practical, and must impose the lowest possible "red tape" impact on business, subject to transparency and accountability requirements.
9. Unless new structures are proposed, the organisation or organisations which will manage expenditure of levy monies must be consulted prior to introduction of the levy.
10. The body managing expenditure of levy monies must be accountable to levy payers and to the Commonwealth.
11. Levies must be reviewed against these principles following a specified period and in a manner determined by the Government in consultation with industry at the time of the imposition of the levy.

Changes to Existing Levies.

12. The proposed change must be supported by industry bodies or by levy payers, or by the Government in the public interest. The initiator of the change must establish the case for change and, where an increase is involved, estimate the additional amount which would be raised, indicate how the increase would be spent and to demonstrate how this expenditure would benefit levy players.

Since these principles were introduced some difficulties have arisen in their implementation, requiring the Government to delay the introduction of some levies until further industry consultation processes have been completed.

As a result, Levy Guidelines have been developed to complement the 12 Levy Principles and assist rural industries in the consultation processes that should be followed before the Government formally considers the levy proposal brought forward by an industry. After some 18 months, minor revisions and updating have been done to improve the operation of the Guidelines.

Guidelines

A) The initiator of a **new** levy must be able to demonstrate it has met the first 11 levy principles. The principal criteria to be satisfied are market failure, net industry benefit and that the application of the levy is practical. Market failure is avoided where only collective action by levy payers will ensure the desired outcome cost effectively. Net industry benefit establishes the case for industry benefits exceeding the costs of raising and funding the levy. The collection of the levy needs to be practical.

B) For a change to an **existing** levy that is of an administrative nature, designed to fine tune the rate of levy in circumstances of fluctuating production and prices, then Levy Principle 12 applies.

C) For a **new** levy, or a **change to an existing levy that is not simply administrative**, (ie will substantially change the level of the levy or direction of the activity that the levy funds), the initiator must take effective steps to inform all actual or potential levy payers of the levy proposal. The levy payers should be informed of its purpose and intended industry benefit by widely promoting the proposal in industry forums/meetings, newsletters and/or advertising in the rural press, in advance of a vote being taken at industry meetings or through a postal vote conducted by an industry. The objective is that all levy payers are aware of and have the opportunity to

express a view on the proposal.

D) Due to the fact that industries have differing arrangements for voting at industry meetings, there will be some flexibility on how a vote of levy payers is taken to support or reject a new levy or a substantial change to a levy. For industries that have a statutory, corporate or industry organisational structure that prescribes the voting rules and processes in its supporting regulations or constitution, the Government will accept the voting rules prescribed in order for the industry to demonstrate majority support for the proposal, providing Guideline C has been met.

E) In circumstances where no such formalised voting industry arrangements exist under statutory, corporate or industry organisational arrangements, it is the Government's intention that the initiator should conduct a vote of actual or potential levy payers to demonstrate that a majority of levy payers in the industry support the proposal. The only exception to this would be if the proponents can demonstrate that voting in this way would be prohibitively expensive.

F) In circumstances where an initiator of a new or change to an existing levy has clearly been able to satisfy Guideline A, but has been unable to conduct a vote under Guideline E, because it has not been cost-effective to do so, then they will need to demonstrate majority support by providing evidence that a thorough industry-wide consultation processes has been followed and that industry is widely supportive of the proposal. From the date the levy proposal, including the supporting documents relating to the level of support, is formally lodged with the Minister or Parliamentary Secretary dissenters have three months in which to lodge a formal objection. Dissenters should include in their objection reasons why the levy is opposed, with analysis of the pro levy argument and clear evidence they can demonstrate support of at least 50% of the actual or potential levy payers to oppose the implementation of the levy. Objections considered irrelevant, frivolous or vexatious, or objections having little basis in fact will not be proceeded with.

G) Where evidence of the extent to which net industry benefit and market failure tests are met is not clear cut, the required level of support by industry for the proposal is 75%. Where the initiator has satisfied Guideline A and C but has been unable to conduct a vote under Guideline E, due to prohibitive cost, then they will need to demonstrate majority support by providing evidence that a thorough industry-wide consultation processes has been followed and that that industry is widely supportive of the proposal. From the date the levy proposal, including the supporting documents relating to the level of support, is formally lodged with the Minister or Parliamentary Secretary dissenters have three months in which to lodge a formal objection. Dissenters should include in their objection, reasons why the levy is opposed, with an analysis of the pro levy argument and clear evidence they can demonstrate support of at least 25% of actual or potential levy payers to oppose the implementation of the levy. Objections considered irrelevant, frivolous or vexatious, objections having little basis in fact, will not be proceeded with.

H) Decisions to instigate management of emergency animal and plant health issues, pest incursions and product safety, should on economic grounds be taken only if there is an expectation that the sum of the net industry benefit and the public benefit less the cost to industry and government is clearly positive. Where there are pre determined arrangements for responding to emergencies, and where there are pre-determined cost-sharing arrangements between governments and industry, these pre-determined arrangements will prevail.

I) As a general rule, where funding for research and development provides net industry benefit and meets the criterion of market failure, industry needs only to satisfy Guidelines B to F to meet the Guidelines.

J) Where industry support is provided to Government efforts in trade access negotiations, market failure will be considered on a case by case basis. Where evidence regarding net industry benefit and market failure is limited, Guideline G applies.

K) These Guidelines do not apply to the National Residue Survey (NRS), except where participation in the NRS is at the voluntary instigation of the industry concerned, such as to meet quality assurance arrangements. Where participation is considered necessary by Government to meet certification requirements for domestic and/or international trade, or participation is in the national interest where there is a significant risk to public health or to trade, the Government may require an industry to participate in the NRS and may implement statutory arrangements to recover the cost of the survey from industry.

L) Where there is failure to demonstrate a net industry benefit and market failure, statutory levies not be supported.

M) Statutory levies are not to be used to fund agri-political activities.

Footnote : AFFA will provide advice to initiators of a new levy proposal or for a change to existing levy on appropriate industry consultation processes with respect to meeting these Guidelines. This includes the need to widely disseminate relevant levy information to levy payers and providing the opportunity for levy payers to express their views on the levy proposal, before bringing recommendations to Government. Processes followed should be documented. The Government may also decide on the need for an independent professional assessment before approving the levy.

MARKET FAILURE AND NET INDUSTRY BENEFIT

The economic rationale for governments to facilitate industry wide levy funding of research, promotion and other industry programs rests in part on two propositions. First, the nature and dispersal of program benefits are such that a private investor would not profit from supplying them. For example, the results of some research are widely applicable within the industry, but the benefits are not always appropriable by private investors. Second, levies represent a source of funds with low enforcement and collection costs, largely because industry participants recognise the benefits of cooperative behaviour.

Assessment of a particular levy proposal can be approached by seeking answers to the series of questions outlined below.

The relevant questions are:

- whether the industry benefits are likely to exceed the levy costs - including collection and other administrative costs;
- whether there is market failure, and
- whether the levy approach will facilitate operation of the program and provide the lowest cost means of finance in the particular case.

INDUSTRY BENEFITS

In the circumstances in which levies are likely to be considered, program benefits will generally accrue as a result of group actions. Nevertheless, industry benefits from the program will simply be the sum of benefits to all individuals in the industry. If it is apparent that an individual or a group of individuals could profitably organise and finance the program, there is no case for government provision of levy funding. In other cases there may be an issue of appropriate definition of the industry or of distribution of industry benefits. The discussion below of 'public benefits' concerns cases where there are significant benefits to individuals who are excluded from any practical definition of the industry for levy purposes.

MARKET FAILURE

A primary role for government is the setting and enforcement of property rights and related institutions that will facilitate the efficient operation of commodity and resource markets. Where markets fail to provide socially desirable levels of a good, or do so but not cost effectively, there may be a case for other forms of government action.

The rationale frequently used to justify government intervention in industry research is that the results of some research are a 'public good'. Such goods have two key characteristics. First, the use of public good by one person generally does not alter the ability of others to use it. This is described as being nonrival. In essence, nonrivalry encourages 'free riding' by individuals who realise that they can benefit from production of the good as long as somebody pays. Second, it is not possible to prevent others from using it. This is described as a lack of appropriability. Lack of appropriability discourages individuals from producing a good, no matter how much others value it.

In the case of research, if it were simply that research results were not appropriable, a policy solution of providing or strengthening property rights where possible generally would be appropriate. Such a policy would enable private researchers to restrict the use of the research results and recoup the cost of their research in the same way they would recoup the costs of any other investment. However, with research results being nonrival, social benefits from the research would be higher if research results were made available to all at the cost of dissemination of the results. Dissemination costs would usually be small relative to the cost of the research and researchers would be unable to capture sufficient benefits to recoup the costs of the research.

Lack of appropriability of the benefits of individual efforts may also characterise aspects of weed or pest control. One farmer's pest and weed control will benefit neighbouring farmers. But in a free market, those neighbours will pay nothing for the benefit. Conversely, any farmer maintaining a poor standard of weed and pest control will increase the cost of control to neighbouring farmers. Some aspects of weed and pest control may have added problems of nonrivalry. Consider a farmer who uses a pest control regime designed to minimise pesticide resistance in insects. Any resulting lowering of the probability of resistance will be available to all farmers.

Individual incentives to be involved in generic food safety and product promotion campaigns are also likely to be limited by lack of appropriability and nonrivalry of benefits. To the extent that changes in consumer perceptions from such campaigns benefit one producer, they are likely to benefit all. And an individual promoter of a generic product will be able to retrieve part only of the benefits of those efforts.

Not all research results or benefits from promotion are public goods. For example, private investors in research can appropriate some of the benefits by means such as keeping the results secret or, as incumbent firms, taking advantage of their research in the short term. Promotion of product brands allows a producer to appropriate much of the benefit of product design, quality control and advertising. An important test of the proposition that an industry funded effort is worthwhile is that public goods characteristics dominate for the case at hand.

PUBLIC BENEFIT

The government role discussed above is to ensure that industry policy or research of potential benefit to rural industries as a whole is undertaken. In some cases there may be substantial benefits to others outside the industry. The two most obvious cases of benefits external to the industry concern research or policies that benefit domestic consumers of farm products and those that improve environmental amenities that are valued by individuals not associated with the industry.

APPENDIX 6

Forest and Wood Product Levies

FOREST AND WOOD PRODUCTS LEVIES

The forest and wood products industry currently has in place a set of statutory levies to provide funds for industry R&D. These statutory levies are collected and disbursed under three pieces of Commonwealth legislation – the *Primary Industries Levies and Charges Collection Act 1991*, the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries Levies Charges Collection Act 1999*. The AFFA Levies Revenue Service (LRS) collects and disburses the funds to the Forests and Wood Products Research and Development Corporation (FWPRDC) after an administration fee has been deducted and they have been matched dollar for dollar by the Government, up to a ceiling of 0.5 per cent of GVP of the forest industry. The FWPRDC operates under the *Primary Industries and Energy Research and Development Act 1989* (PIERD Act). The PIERD Act defines primary industry:

“...means any field of endeavour whose objective is:

- (a) the production of agricultural or other primary produce; or*
- (b) the extraction from the environment of:
 - (i) minerals; or*
 - (ii) substances from which energy is made available; or*
 - (iii) energy; or**
- (c) the conservation and the sustainable use and management of a natural resource.”*

Industry levies are a mechanism to overcome “market failure”, whereby without compulsion many industry members would seek to “free ride” and not pay the levy. The Government requires an industry to comply with the 12 Levy Principles and Guidelines before it approves a compulsory levy and the industry needs to meet the key tests of market failure, net industry benefit, public benefit and effective levy payer consultation processes. The Government’s 12 Levy Principles and Guidelines are provided in Appendix 5.

Under the PIERD Act the Government requires an industry to comply with the following definition of R&D:

“...research and development”, in relation to a primary industry or class of primary industries, means systematic experimentation and analysis in any field of science, technology or economics (including the study of the social or environmental consequences of the adoption of new technology) carried out with the object of: (a) acquiring knowledge that may be of use in obtaining or furthering an objective of that primary industry or class, including knowledge that may be of use for the purpose of improving any aspect of the production, processing, storage, transport or marketing of goods that are the produce, or that are derived from the produce, of that primary industry or class; or (b) applying such knowledge for the purpose of attaining or furthering such an objective”.

This definition allows broad ranging industry R&D to be funded, including R&D into transport, marketing and economics. It does not, however, allow the marketing and promotion functions of an industry to be funded under the 1:1 matching arrangements, unless these issues are part of an approved R&D project.

Use of the levies

The current levies are utilised by the FWPRDC to provide a national R&D program for the forest and wood products industry (FWPRDC Annual Report 2001/2002, p. 9).

The FWPRDC operates under the PIERD Act which requires the FWPRDC to fund and administer R&D relating to primary industries with a view to:

- Increasing the economic, environmental and social benefits to members of the primary industry and to the community in general by improving the production, processing, storage, transport and marketing of the products of the primary industry;
- Achieving the sustainable use and sustainable management of natural resources;
- Making more effective use of the resources and skills of the community in general, and the scientific community in particular; and
- Improving accountability to industry and Government in relation to expenditure on research and development activities in primary industries.

The proposed new FWPRDC Programs cover:

- Market Knowledge and Development
- Manufacturing and Products
- Resource Characterisation and Improvement
- Sustainable Forest Management
- Services and Capability

At the time of writing the FWPRDC was awaiting approval to implement these programs.

A component of levy funds is used expressly to fund the National Timber Development Program (NTDP). The NTDP was established in 1997 in response to the industry's request to the Commonwealth Government to increase the FWPRDC's levies to fund market development activities aimed at increasing the utilisation of timber. The NTDP was inaugurated in July 2001 and a memorandum of understanding (MOU) between the FWPRDC and the National Timber Development Council (NTDC) sets out the basis for the operation of the program (FWPRDC Annual Report 2001/2002, p. 29). The future of the NTDP is under review.

As noted earlier, under the PIERD Act arrangements, the levies on logs entering a processing mill are collected by the Levies Revenue Service (LRS) of AFFA. Under the PIERD Act it is levy funds that are eligible for matching under the Government's R&D arrangements. Voluntary contributions by levy payers, for example for specific projects, are not eligible for matched funding under the PIERD Act.

The FWPRDC receives the matched levy R&D funds directly from the LRS. When considering which projects to fund, the FWPRDC requires industry and the research providers (CSIRO, universities and others) to meet 50 per cent of the costs of an R&D project from either in-kind contributions or direct funding grants. This is not a mandatory requirement, but an FWPRDC policy designed to raise the funds available for R&D and to encourage direct industry involvement in the project, so the linkages between the R&D and its subsequent adoption by industry are strengthened.

In the company R&D arrangements established for other industries, the Government has provided more flexible funding arrangements so that voluntary contributions of funds by industry for specific R&D projects can also be matched dollar for dollar by the Government. This acts as a strong incentive for industry to fund additional R&D over and above the level raised by levies. This is a key issue for the industry to take up with the Government, should it decide to move to new company arrangements.

Market Failure in R&D, Marketing and Promotion Levies

Under the Government's Levy Principles, introduced in January 1997, it is possible for an industry to agree to implement a statutory levy to raise funds for an activity for which there is "significant market failure" (see Appendix 5). Market failure is the situation where the provision of the good or service fails to occur at an optimal level because the private sector cannot capture sufficient of the benefits to make the investment privately worthwhile. Without collective action to provide the good or service, there would be free riding and underinvestment and society as a whole would be worse off.

Market failure arises when the benefits of an activity cannot be captured by one business or group of businesses and the benefits "spillover" to those who have not contributed to the investment. In circumstances where there is significant spillover of benefits some will attempt to free ride on contributions by others, gaining the benefits without contributing to the cost. Statutory or compulsory levies can overcome free riding by requiring all who benefit to contribute to the costs.

As noted, a number of statutory corporations have undertaken generic marketing programs for their industries in the past, including the Australian Wool Research and Promotion Corporation and the Australian Horticultural Corporation. Eligible expenditure on marketing activity is defined in the *Horticulture Marketing and Research and Development Services Bill 2000*:

"...activities intended to improve the meeting of customer needs (including processing, handling, transporting, storing, promoting and selling), but does not include research and development". In this definition, promotion is included as an eligible expenditure, but communication is not specifically mentioned.

Levy Guidelines

For a levy proposal to be approved by the Government, the Guidelines specify the conditions that must be met in terms of consultation and voting processes. In short, the industry proposing the levy (or levy change) must inform actual or potential levy payers of the proposal, its purpose and intended industry benefit by widely promoting the

proposal in industry forums/meetings, newsletters and/or advertising in the press, in advance of a vote being taken at industry meetings or through a postal vote. For R&D, at least 50 per cent of levy payers must support the proposal, whereas for a marketing and promotion levy 75 per cent industry levy payer support is required. This is because the Government considers market failure to be less prevalent in marketing and promotion than for R&D. Votes are counted for each levy payer, rather than the value of the levy they might pay. Opponents to any new levy are also to be given three months from the time the levy proposal is widely circulated to industry to show that they have more than 50 per cent support against the proposal for a R&D levy and 25 per cent support against a marketing and promotion levy, otherwise the levy is introduced.

Current Levies

The forest and wood products industry currently has nine active levies and two inactive ones.

**Table A6-1:
Forestry and Wood Products Levy Rates and Sectors**

Class of logs/industry sector	Initial Levy (cents per m ³)	Levy Increase to provide for NTDP	Total Levy (cents per m ³)
Export Woodchip (hardwood)	3.5	-	3.5
Wood Panels pulp log	10	-	10
Plywood and veneer log	15	-	15
Softwood saw log	18	11	29
Hardwood saw log	15	7	22
Cypress saw log	15	7	22
Softwood lower grade	5	3	8
Softwood roundwood log	5	3	8
Paper pulp log	zero	zero	0
Softwood export pulp log/woodchip	zero	zero	0
Importers	Charged at 2.5 times the highest sector levy rate based on sawn timber imports not log volume (levy collection not matched by Government)		

Source: Forest and Wood Products R&D Corporation (FWPRDC) Annual Report 2001-2002, p.24.

Two levies are currently set at zero – Paper pulp log and Softwood export pulp log/woodchip. Both levies were set at zero when the levies were put in place in 1994, at the request of the respective production sectors. In the case of paper pulp log, the pulp and paper sector argued that because the sector comprises a small number of large companies they were already funding considerable R&D into their business activities and there was no “market failure”, so they should be exempted from the levy. The softwood export pulp log/woodchip levy was set at zero because softwood export woodchips were a small percentage of export woodchips in 1994. These levies are still set at zero.

The amounts collected by the active levies in 2001/2002 are presented in Table A6-2. It should be noted that prior to 2001/2002 the Government matched industry contributions at the rate of \$1 for each \$2 collected from industry. The change in funding formulae increased funds for R&D from \$5.47 million in 2000/2001 to \$6.13 million in

2001/2002 (FWPRDC Annual Report 2001/2002, p. 15). In the case of the forest and wood products industry the administration fee charged by the LRS is equivalent to approximately 2.1 per cent of collection revenue in 2000/2001 (Report to Clients 2001/2002, LRS).

The majority of the importer levy relates to imports of softwood and this is paid at the rate of 29 cents per cubic metre on sawn wood imports (not log volume as applies to the domestic industry). The factor of 2.5 applied to the importer levy rate is used to provide ‘equivalence’ with logs (to reflect a recovery rate of 40 per cent).

Table A6-2:
Forest and Wood Products Levies Collected in 2001/2002

Levy	Volume (million m ³)	Levy Amount (\$ million)	Amount Provided by Govt. (\$ million)	Proportion of Total Levy Funds (%)	Estimated Proportion of Sector GVP (%) ¹
Export Woodchip (hardwood)	5.4	0.19	0.19	5.7	0.07
Wood Panels pulp log	1.4	0.14	0.14	4.2	0.18
Plywood and veneer log	0.5	0.08	0.08	2.4	0.14
Softwood saw log	5.7	1.6	1.6	47.1	0.35
Hardwood saw log	2.7	0.6	0.6	17.7	0.29
Cypress saw log	0.2	0.05	0.05	1.5	0.33
Softwood lower grade	0.7	0.05	0.05	1.5	0.14
Softwood round wood log	0.2	0.02	0.02	0.6	0.15
Paper pulp log	-	-	-	0.0	0.0
Softwood export pulp log	-	-	-	0.0	0.0
Importers	NA	0.6	-	17.7	-
	Total	\$3.4m	\$2.8m	\$6.2m	0.2

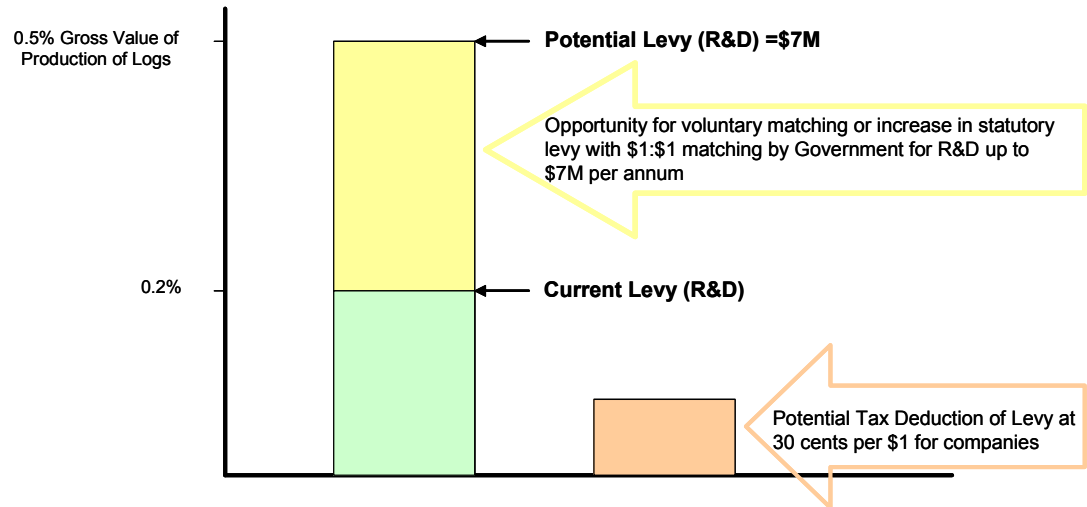
Source: Levies Revenue Service, AFFA

¹ Sector GVP estimated based on delivered log value

Two categories of levies (softwood and hardwood sawlogs) provided nearly 65 per cent of total levy revenue in 2001/2002. Many other levy collections were relatively small, with the importers levy providing 17.7 per cent of total revenue in 2001/2002. The majority of the importer levy relates to imports of softwood sawn timber with the levy rate being linked to the softwood sawlog rate. The importer levy is not matched by the Government, because there is not seen to be the same level of spillover benefits to the Australian community as applies to the application of the domestic levies. (NB. There may be a case for re-examining the extent of spillover benefit provided by the importer levy and approaching the Government for matching funds).

The net levy revenue raised by the forest and wood products industry in 2001/2002 of \$3.4 million is approximately 0.2 per cent of the gross value of wood production (domestic levy revenue was \$2.8 million and the GVP of forest production \$1.35 billion). As the Commonwealth Government will match levies and voluntary contributions up to 0.5 per cent of primary production, there is considerable scope to increase the levy collections should the forest and wood products industry consider it would result in increased net benefits to the industry.

**Figure A6-1:
Potential Increase in Commonwealth Government Matched R&D Funding**



- Notes:**
- GVP wood production \$1.35 Billion
 - Current Domestic Levy collection \$2.8M (\$3.4M less \$0.6M importer levy)
 - Levies are tax deductible by sawmills

Who Pays the Levy?

The current range of levies is collected by the processing mills on the volume of log delivered to mills. The mills provide the first practical point in the value chain at which production can be measured and a levy collected. Also, the LRS has advised that under Section 114 of the Constitution it is not possible to place a production levy compulsorily on the States and Territories. However, this can be done if the States are agreeable. As a significant portion of wood production comes from State/Territory forests, having the levy collected and paid by the mills provides a practical solution to this problem.

Although the levy is paid directly by the mills on log production, who “bears the cost of the levy” depends on supply and demand conditions prevailing in the industry. The sector comprises many relatively small businesses that compete for access to logs for milling and can be regarded as a competitive sector of the economy. Mills also compete for market share with other mills and substitute products (such as steel, aluminium, plastic etc.) when offering milled products for sale and will want to be as competitive as possible. When purchasing the logs, the mills know they need to pay the levy and should factor this into the prices offered for logs. Market forces will also dictate that the economic cost of the levy will be distributed between the sellers of logs (producers) and the downstream consumers of the mill products.

Stakeholder consultations indicate some misunderstanding of this issue by a number of players in the industry. An alternative structure could be adopted whereby a portion of the levy is charged to the grower and a portion to the processor (e.g. 50% each). This would broaden the perceived “through-chain” nature of the levy, although it may be difficult to administer. The LRS would need to be consulted on the practicality of such an approach and the growers and wood product users would need to be consulted and agree under the Levy Guidelines processes.

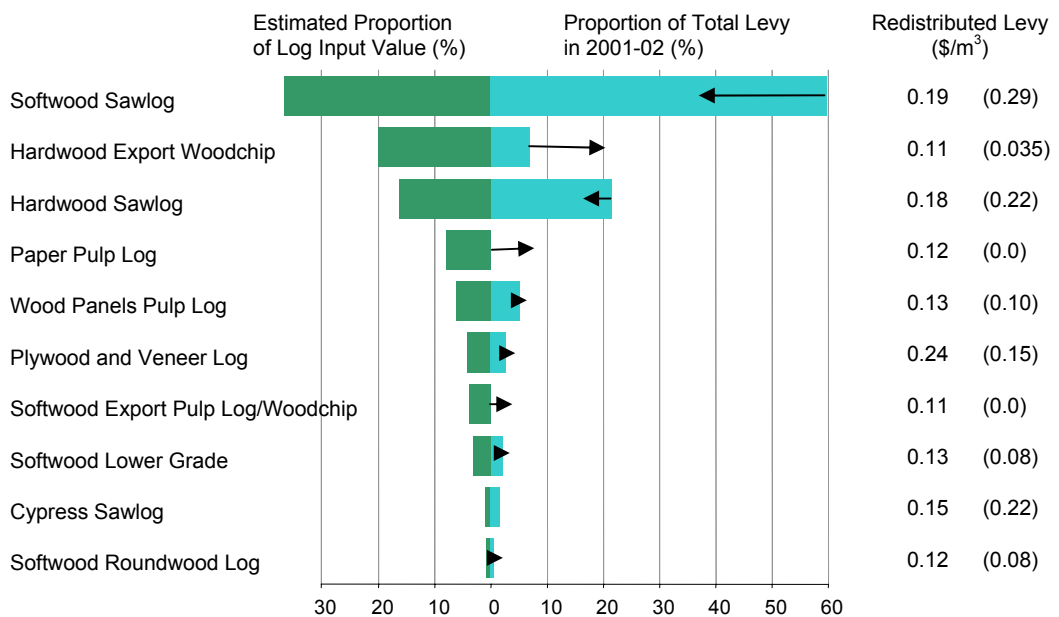
Levy collection could also be broadened to include sectors of the industry that currently do not pay levies or have set levies at zero.

Production Versus Value Levies

A number of other industries have moved away from a levy based on production quantity and moved to ad valorem or value levies. The main motivation for this has been the fact that value levies tend to fluctuate less than production quantity levies because if production falls, prices generally rise, offsetting the reduction in levy income that would otherwise have occurred. A value based levy system may also overcome the equity problem between processors of low and high grade logs. The processors of low grade logs argue they pay pro-rata more in levies because they have to process many more cubic meters of logs for the same value of output. The forest industry may wish to consider this option in the future, as the value of forest production has risen steadily over time, while production quantity in some sectors, such as hardwood sawlogs, has fallen as the resource availability has declined. Two important issues to consider with any change would be the impact on equity between levy payers and maintaining simplicity of the levy collection process.

An example of how the levy could be redistributed based on log input value is shown in Figure A6-2. If the levy was redistributed across all levy paying sectors in balance with the proportion of total delivered log value, some sectors would pay lower levies and some sectors would pay higher levies. The total value of levies would not change under this redistribution.

Figure A6-2:
Example of value-based redistribution of levy



APPENDIX 7

Recent Industry Reforms

RECENT INDUSTRY REFORMS

A number of primary industries have reformed their institutional arrangements in recent years. These include wool, meat and horticulture.

Wool

Following a period of considerable industry turmoil, including the accumulation of a large wool stockpile in the 1980's, the industry has subsequently implemented a number of reforms. The first of these was to create a private sector company in 1997 called "Wool Australia Ltd" to sell down the remainder of the wool stockpile, which it has now successfully done. In addition, a new company "Australian Wool Services Ltd" was created in 2001. It has two fully owned subsidiaries – The Woolmark Company - to promote wool in the domestic and international textile markets - and Australian Wool Innovation Ltd (AWI) to undertake R&D on behalf of the Australian wool industry. AWI is a fully independent public company owned by Australian woolgrowers. The woolgrowers hold voting rights in the company with each \$100 of wool levy paid providing one vote at the Board AGM or Special Meetings of the company.

The purpose of these reforms were to make wool growers more directly accountable for industry matters and provide them with industry structures that put them firmly in control of their own industry performance. The restructuring of the industry statutory authorities into company structures has allowed a more commercial focus and more direct accountability to levy payers. Wool Australia Ltd has successfully sold the stockpile and the two fully owned subsidiaries have fully private sector boards to ensure commercial focus on R&D and marketing and promotion. The arrangements for the delivery of wool R&D within the company structure are still to be finally settled, with ongoing debate about the membership of the Board and future priorities.

Meat and Livestock

The meat and livestock industry previously had two statutory authorities – one for R&D and one for meat marketing and promotion. A Task Force Report prepared in 1996 found that while the statutory arrangements had generally served the industry well, there was a need for more commercially focussed and driven programs. The industry agreed to establish a public company to deliver R&D and marketing and promotion services to the industry. The *Australian Meat and Livestock Industry Act 1997* created Meat and Livestock Australia Ltd (MLA) to achieve this. Levy payers hold voting rights in the company, with each levy payer eligible to one vote. Meat processors also contribute funds voluntarily to the company and hold voting rights.

Because in the meat and livestock industry there are six peak industry bodies, an Advisory Council was created. Each peak industry body carries responsibilities for decisions on the level of levies to support the MLA activities and the development of each sector's input into the meat industry strategic plan and its implementation. The Council co-ordinates the development of the industry's strategic plan, assesses performance of the plan and provides an interface for resolving sectoral differences. The working of the Advisory Council has at times been contentious and difficult.

Pork

Following extensive industry consultation, the Australian pork producers established a company, Australian Pork Limited (APL), in May 2000. The company participated in the restructuring of the industry whereby three previous organisations – Australian Pork Producers Association, the Pork R&D Corporation and Pork Australia, the promotion arm of the industry, were merged into a single company structure. The industry company combines the functions of R&D, marketing, export development and strategic policy development to assist the industry in securing a profitable and sustainable future. Although the company can deliver strategic policy development services, as for all other industry companies, the Government prohibits it from engaging in agri-political activities. To implement the arrangements the Commonwealth Government provided new legislation, a contract (Deed of Agreement) between the Commonwealth Government and APL and approved the company's constitution.

Horticulture

A meeting of industry leaders and staff of the two statutory corporations operating in horticulture met in March 1998 and agreed to examine options for future industry structures, including the merits of developing a single entity to deliver R&D and marketing services to the Australian horticulture industry. A Green Paper was prepared for industry discussion that compared three possible structures for the industry – a statutory corporation, a limited liability public company and a commercial business based on purely voluntary funding, with no statutory levies.

The Green Paper concluded that there was an ongoing need in horticulture to provide collectively funded industry programs because the industry comprised a collection of independent businesses and the peak industry bodies were funded largely from membership fees. These organisations were inadequately resourced to provide industry services such as R&D and collective marketing and promotion programs. Without the use of statutory levies, free riding would prevent the industry-wide programs from being adequately funded and delivered. The Green Paper concluded that the option of a commercial business without statutory levies to deliver industry programs was infeasible and this option was set aside.

The organisational structure of a statutory corporation and a company limited by guarantee were directly compared (see Table A7-1 below).

**Table A7-1:
Statutory Corporations vs Companies Ltd Structures**

	Statutory Corporation	Company Limited by Guarantee Under Corporations Law
OBJECTIVES AND FUNCTIONS	Prescribed by an Act of Parliament	Consultation of the company
OWNERSHIP	Government	Members as specified (levy payers and voluntary contributors, peak industry bodies, other interests in the marketing chain). No right to participate in a winding up
SERVICE CAPABILITY	Functions defined by the Act	Flexible: any industry/commercial service as allowed by the company's constitution
ORGANISATIONAL STRUCTURE	Board (Minister appointed chair and Government representative; others appointed by the Minister on the advice of a Selection Committee). Government may, for example, direct the composition of the Board; tenure and re-appointment conditions Advisory committees to the Board, usually a committee for each industry/group	Board (appointed by members) with Board structure, size, tenure, etc. as specified in the constitution Advisory committees to the Board, usually a committee for each industry/group
FUNDING	Statutory levies and matching funding (can accept voluntary levies/contributions)	Statutory levies and matching funding (can accept voluntary levies/contributions)
ACCOUNTABILITY: GOVERNMENT	Commonwealth Authorities and Companies Act Annual Report to Parliament Minister to answer questions in Parliament in regard to all aspects of corporation	Corporations Law Report to Parliament on the use of statutory funds Legal agreement with Government for accepting statutory funds. Accountability includes submission of corporate and business plans and annual report and assurances as to their implementation Minister to answer questions in Parliament on accountable expenditures (statutory levies and matching funds)
ACCOUNTABILITY INDUSTRY/MEMBERS	Annual Report to Parliament through Minister Consultation with, and scrutiny by, peak industry bodies and by making an annual presentation to industry May have AGM to discuss the corporation's financial position and performance, and to vote on prescribed matters: <ul style="list-style-type: none"> Levy payers and contributors would be automatically eligible to vote but would have to register to vote Levy payers/contributor voting is directly proportional to levies contributions paid Levy and other contributors voting at AGM usually restricted to changes in levy rates and votes of no confidence in the Board 	Annual Report to members Consultation with, and scrutiny by, peak industry bodies and, as a minimum, by making an annual presentation to the AGM AGM of members to discuss the company's financial position and performance, and to vote to prescribed matters: <ul style="list-style-type: none"> Member voting rights are determined by the constitution of the company. Different classes of members may have different voting rights Where levy payers and contributors are members with voting rights they would need to register to be able to vote While defined by the constitution, members likely to vote on election of directors, levies, director selection process and responsibilities, consistent with Corporation Law

Source: Horticultural Industry Alliance Steering Committee Green Paper, February 1999, p.30

The key advantages the industry identified from moving to a company structure were:

- industry ownership and control – members of the company (industry and levy payers) control the company and direct the strategy and delivery of services through the Board and the Industry Advisory Committee (IAC) structures
- more direct accountability and feedback to levy payers through the operation of the IACs and the peak industry bodies
- flexibility in developing through-chain programs that integrate R&D, marketing and promotion
- lower cost structures
- greater efficiency, profitability and sustainability across all sectors of the industry.

Following the release of the Green Paper and a round of further industry consultation, the Steering Committee prepared a White Paper recommending the establishment of a company structure to deliver services to the industry. The White Paper was presented to the Government with the recommendation it be implemented. Following further negotiations between the industry and Government over a 12 month period, Horticulture Australia Ltd was established under Commonwealth legislation in February 2001. The company is now successfully operating.