FOREST OWNERS ASSOCIATION

22 August 2014

Ministry of Business, Innovation and Employment
PO Box 5762
Wellington 6145

Dear Sir/Madam

NZ Forest Owners Association Submission to MBIE on the Draft National Statement of Science Investment

The NZ Forest Owners Association (FOA) represents the interests of the owners of New Zealand's commercial plantation forests. We welcome the opportunity to comment on the Draft National Statement of Science Investments.

The forestry industry generates around $5.1 billion of exports per annum, and this is targeted to increase to at least $12 billion by 2022. Forestry also underpins broader economic activity, supporting one of New Zealand's largest manufacturing industry groups with the potential for substantial growth.

Our sector also has a very diverse stakeholder base, ranging from a few large international organisations to a plethora of small organisations, family firms and Iwi trusts. About half of the commercial forest estate land is owned by Māori trusts.

Within the primary sector, forestry holds a unique position in that it delivers economic, environmental, social and cultural outcomes which are independent of forest/land ownership. For example commercial forestry provides free ecosystem services to New Zealand; improving air quality, protecting our land and waterways; and supporting recreation and tourism. What happens in commercial forests can also affect amenity, urban and conservation forests. Insect pests, diseases and fire do not discriminate between these different forests. Consequently there is a requirement for "public good" research to be undertaken to maximise benefit and minimise risk across the entire forestry, both planted and natural, estate.

The sector invests $3.5million per annum directly into research and development through the Forest Growers Levy Trust Board (FGLTB) which administers the recently introduced forest growers' commodity levy. Many member companies also make their own company-specific investments into R&D over and above their levy contributions. We estimate that this additional direct investment in R&D by forest owners is in the order of $2.5 – $3.0 million. In conjunction with the NZ Farm Forestry Association, FOA has developed a Science and Innovation Plan that outlines our strategic priorities, and is the basis of our research investment. This strategy is currently being updated and revised to ensure it reflects current priorities and is well focused. We therefore have a vested interest in ensuring that New Zealand has the best possible, fit-for-purpose, science system which is able to maintain scientific and technical capability in support of our sector's needs.

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We estimate that there are at least 4,000 different forest owning entities investing in R & D through the levy they are paying when harvesting their forests. In total there are estimated to be 14,000 forest owners in NZ who will ultimately pay the levy. We suspect the statistic quoted in the Draft National Statement, that about 8% of firms in New Zealand invest in R&D (Page 20), does not account for firms who group their investments to work through a single investment vehicle in the way the forest industry does. Our constituent companies also make their forests and land available for research trials, many of which are long term trials extending over a full rotation. Whilst this is not recognised as a cash investment in R&D it is a very significant contribution. The value of this should not be under-estimated and it is not captured in any records anywhere.

Our industry secures R&D capability through many organisations such as the University of Canterbury, Plant and Food Research and Scion. Scion however, is our major R&D partner. Scion has aligned its core funding to support our industry Science and Innovation Plan, which enables us to work collectively on matters of national importance such as biosecurity and forest health issues. These issues affect both commercial forest species, and amenity species such as Kauri.

Scion has also aligned core funding to co-support activities in forest diversification and industrial biotechnology. This work is important as it enables the industry to evaluate options to move further up the value chain based on a broader range of activities. These activities have substantial direct public benefit, such as enabling new participants to develop forests on marginally productive land, much of which is in Māori ownership. These public private partnerships are strategically important as they provide the critical mass to address issues that affect the viability of the industry as a whole.

In 2010 the Government confirmed the importance of forestry to New Zealand, designating Scion as the forest industry's main R&D partner through Scion's Statement of Core Purpose. Because of the nature of the industry – a few large forest owners, many small forest owners, and only a handful of vertically integrated entities – the alignment with Scion is important. Individually our companies cannot support large internal R&D capability but through collaborative arrangements and partnering with Scion we do have direct access to research capability of international standing.

On reading through the draft Statement of Science Investments we wish to make the following points.

Simplify the system. For a country with such a small research community (and population), we have a very complex research system. Each of these has its governance, funding and reporting requirements that collectively consume a lot of resources.

Stabilise the system. The system seems to be undergoing constant change. Like forestry, science and technology transfer is a long-term business; it needs to be built on a stable platform. Continually adding new schemes destabilises the system and makes it very confusing for industry to understand research mechanisms and to maintain relationships with key personnel. We need to be able to strengthen the relationships between ourselves and the key R&D providers such as Scion. As a country we need to focus on getting the system working, and then fine tuning it, rather than always adding new components to fill a perceived "gap".

Back our current firms to grow. We are proud of what forestry has achieved for New Zealand over the past 100 years, however we are also realistic that we must continue to evolve. We need to grow value for the forestry firms, family companies and Iwi that own and manage the forests in order to create value for New Zealand. The wealth created allows us to invest more in R&D, thereby extending our research portfolio and diversifying our product range along the value chain.

It is always tempting for government to focus on horizon three activities, when what is needed first is to improve profitability in a firm's core business. The existing core businesses provide the basis for developing export growth. The time, difficulty and size of investment needed to build new international markets is usually grossly under-estimated. If speed and value is important it is better to grow an existing pipeline by 5% than attempt to build a new pipeline to a new market.

We are concerned that the Government appears to "pick winners" by following the trends set by other nations (such as moving more into ICT). A small improvement in an existing industry such as forestry has a huge direct benefit to New Zealand through increased exports, spilling over into improved regional development.

Make it simple for firms to invest in R&D. To get support for our R&D initiatives we have to engage with MBIE, MPI and Callaghan Innovation depending on the focus of the activity. And research providers such as Scion, Universities and other CRI's. As these entities are all Crown owned it begs the question as to whether this is the best way to operate.

If a big driver is to see firms invest more in R&D then we suggest the Government again explores tax incentives. Many countries successfully employ this approach. Currently for a company to invest in R&D it must meet the same criteria as investing in capital, and must therefore meet some very stringent return-on-investment hurdles. As gains from R&D typically occur over a long timeframe and are riskier, such hurdles are difficult to overcome.

Technology transfer. The difficulty (and cost) of transferring science results to industry outcomes is too easily under-estimated. The document seems to infer that putting more ideas at the front of the science pipeline will automatically lead to increasing returns. Although new ideas are needed to challenge our paradigms, the biggest challenge is transferring information into firms and then securing the returns. Effective technology transfer requires very strong and stable partnerships, and trust. These relationships take time to develop, generally not in the timeframe of a competitive science system.

Conclusion

In conclusion, if the focus of reviewing the science system is to drive greater wealth for New Zealand then we would suggest investment needs to focus on:

1. Increasing investment which reinforces existing partnerships, enabling them to grow value from our current industries and build more industries.

2. Stabilising and simplifying the science funding system.

Thank you for the opportunity to comment on the draft statement.

Yours sincerely

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