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11 April 2019

Hon Dr Megan Woods
Minister of Research, Science and Innovation
Parliament
WELLINGTON

Hon Grant Robertson
Minister of Finance
Parliament
WELLINGTON

Dear Ministers

Thank you for the opportunity to outline Scion's strategic issues in responding to the draft Letter of Expectations (received on March 5).

The board is confident that Scion has critical capability to support delivery of the Government's goals for the future through the circular bioeconomy and our top-quality research. We strongly believe that the circular bioeconomy, a new economic approach with global uptake, has significant opportunity for New Zealand. Not only will these principles be central to our transition to a low emission economy, this approach will also bring environmental, regional and social benefits to our country. We are keen to play our part in these transformative opportunities for New Zealand and are working closely with MBIE to see how best to do our part for the benefit of all New Zealand.

For some years, we have signalled that Scion faces the risk of a significant decline in MBIE Crown revenue of around \$10m (over the current two-year period). This represents a significant percentage of our revenue as shown in Appendix 1. Unfortunately, recent funding decisions have resulted in an even greater decline than anticipated, and we are working to avoid having to choose options that are likely to significantly impact both Scion's research capability and forward capital expenditure programme.

At this point, the most credible option we see (while the MBIE discussions are still progressing) is where we are successful in winning around \$3m in the current MBIE contestable round. Even then, we have a funding gap of ~\$11m for our research programmes addressing public good outcomes. In this scenario, we face the prospect of reducing our staff levels by approximately 20% (71 people). We are, and I believe you would agree we should be, extremely reluctant to take such action because it would result in losing people who hold our entire capabilities in **bioproducts, additive and distributed manufacturing, cleantech and bioenergy**. These capabilities are critical to delivering on several important government goals.

The board and management, therefore, continue to discuss a range of options, working closely with MBIE. Currently these options focus on the 2019/2020 year to provide an interim holding position with one scenario including an increase in SSIF of \$5m. In parallel, the longer-term aspirations and the related programmes of works as submitted to your office last year are being discussed. Each of the interim options involves delays in upgrading our research infrastructure, other than the recently contracted Innovation Hub and constraints on operating expenditure.

Given the significant uncertainty in funding, we have agreed with MBIE that we should prepare an interim Statement of Corporate Intent. In that document, we will indicate continued commitment to our "Right tree, right place, right purpose" strategy in which Scion plays a key role in delivering research to underpin the Government's social, environmental and economic goals, including sustainable regional development, climate change, and the One Billion Trees programme.

In our interim SCI, we will outline the financial scenario for 2019/2020 that directors can report against with greatest confidence. Decisions on reducing capability will be deferred for as long as possible because talented and highly skilled researchers, a core asset held on behalf of the Crown, are not easily replaceable.

With MBIE, we will revisit these decisions for our short term and long-term projections in October, aiming to return to delivering our strategy and the aspirations for New Zealand that fit with government priorities. We firmly see that Scion is central to, and a natural choice as leader of, a National Circular Bioeconomy Strategy that aspires to enable positive transitions for New Zealand in responding to the world's climate change challenges.

Within this upcoming, financially uncertain operating context, we present our response to the four specific 2019/2020 expectations for Scion in your Letter of Expectations.

- Scion's strategy:** We remain committed to achieving successful outcomes in relation to the opportunity for New Zealand and government priorities. We agree with a collaborative approach across government. To reinforce our approach, we have adopted a principle of collaboration not duplication. Our strategy remains as published in the current *Scion Strategy to 2030* as encapsulated in three impact areas shown below.

Enhancing New Zealand's prosperity, well-being and environment through trees <i>Kia piki te ora, te taiao me te whai rawa o Aotearoa mā te ngāherehere</i>		
Imperatives	2030 Impact Areas	Impacts
Grow New Zealand's exports	 Forests and landscapes Development of healthy, resilient forests that are planted primarily for their standing-forest benefits	<ul style="list-style-type: none"> • Strong Treaty-based science partnerships • Increased value from land managed for wood and fibre production and ecosystem services, including carbon sequestration
Meet climate change commitments		
Reduce environmental stress and land erosion and enhance water quality	+	
Accelerate Māori economic development	 High-value timber manufacturing and products Development of products, manufacturing, high-value trees and healthy, resilient forests that capture an increasing share of the global high-end market for timber	<ul style="list-style-type: none"> • Increased resilience of forests to biotic and abiotic risks • Diversified forests supporting local and distributed manufacturing and regional growth, leading to healthy and flourishing communities
Increase disposable household incomes		
Build more affordable homes in our cities and regions	+	
Meet consumer demand for products that are sustainable and do not harm the environment	 Biobased manufacturing and products Development of products, processes, manufacturing, trees, other biomaterials and healthy, resilient forests to replace petrochemicals and non-sustainable materials	<ul style="list-style-type: none"> • Increased use of timber and fibre in the built environment • Growth in manufacture of biobased products including energy • Maintained licence to operate across the value chain and export markets
Respond to global trade changes and competition		

- **Māori economy:** This continues to be a strategic focus for us. The recent appointment of a General Manager Māori Forestry Futures is our next step in delivering future opportunities with Māori through building deep relationships and by increasing Māori research capability, capacity and innovation. We are ideally positioned - here in Rotorua, in forestry and in circular bioeconomy thinking - to be a leader in supporting a thriving Māori economy.
- **Achieving sustainable revenue growth:** We have strongly focussed on identifying the opportunities for New Zealand and providing a compelling narrative around this. This has achieved a level of recognition central to several government priorities. We work closely with industry, MPI, Te Uru Rākau, MfE and the Interim Climate Change Commission. All provide strong support for our strategy, direction and capability.

Many government objectives involve significant change for New Zealand and, we believe, offer extensive opportunity. To realise the benefits, however, will require sustained programmes. Scion has been invited to participate in five Provincial Growth Fund initiatives owing to our highly valued and sought-after capability in applied research. To continue such participation, this capability must be supported through long-term research addressing emerging research areas. These are complex problems that do not match short-term projects or the definitions of the contestable science funds. We are keen to discuss SSIF, or any other options, that could put Scion on a more sustainable footing for this public good research. We believe that this is aligned with your thinking on reviewing the science system and look forward to participating in, and contributing to, that process.

- **Realise redevelopment benefit:** Scion is committed to delivering the benefits from its investment at its Te Papa Tipu Innovation Park, including improved opportunities for collaboration and innovation to foster circular bioeconomy initiatives. This is demonstrated by the increasing number and variety of companies wanting to be co-located on site. Additionally, we have had wide interest and support for the establishment of a circular bioeconomy hub as part of Scion and the establishment of related bio-pilot facilities enabling development of new manufacturing industries.

Employment and workplace relations

We are proud of the diversity (gender and race) that we enjoy at Scion and we will continue to provide an environment that encourages diversity in accord with the “MBIE diversity in science statement”. We are the third-largest employer in Rotorua, making a considerable contribution to the Bay of Plenty economy. We are fully committed to meeting the Government’s expectations in these areas including our Good Employer obligations and Gender Pay Principles. No employees are on the minimum wage.

Expectations regarding finance and investment

In our reporting to MBIE we have consistently demonstrated a prudent approach to our business. Scion has delivered major impact for the New Zealand economy and will continue to do so. One example is the increase in value of the plantation forestry estate by \$3.5b that will rise to \$8.5b by the time the gains have rolled out across the entire estate. (Moore, J. et al (2017) “Proof of Genetic gain: An Analysis for the RPBC”. Unpublished report for Radiata Pine Breeding Company p.1.)

Our investment focus has been on supporting our ability to undertake high-quality and relevant science, in collaboration with universities, CRIs and other research organisations. We currently collaborate with seven National Science Challenges, all the CRIs and Otago, Canterbury, Auckland, Waikato, Massey and Lincoln universities. We share facilities with NIWA in Christchurch, and NIWA, DoC, MfE, MPI and Te Uru Rākau are co-located with us in Rotorua. International examples of our collaborations and use of others’ facilities are extensive and include joint research programmes with VTT in Finland, Fraunhofer in Germany and arrangements with facilities like the Synthetic Biology Institute in Queensland.

In closing we wish to reinforce our confidence, once funding is stabilised, in Scion's future as a Crown Research Institute that plays a critical role in supporting regional growth and Māori aspirations as well as delivering great research outcomes for New Zealand in the decades ahead. Our knowledge, capability and global reach reinforces our belief in future opportunities for New Zealand that are highly aligned with government priorities. We do want to assure you that the issues outlined here are receiving our full attention and that we will continue to work collaboratively to play our part in enabling truly positive transitions to the new economy.

Yours sincerely

A handwritten signature in blue ink that reads "Helen Anderson," with a comma at the end. The signature is written in a cursive style.

Dr Helen Anderson
Chair