Inquiry into Agribusiness Managed Investment Schemes

Dr Shona Batge
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Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
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Dear Dr Batge

The Institute of Foresters of Australia is a professional body with 1350 members engaged in all branches of forest management and conservation in Australia. The Institute is strongly committed to the principles of sustainable forest management and the processes and practices which translate these principles into outcomes.

The membership represents all segments of the forestry profession, including public and private practitioners engaged in many aspects of forestry, nature conservation, resource and land management, research, administration and education.

The IFA wishes to make a submission to this inquiry about the Managed Investment Schemes (MIS) which relate to timber plantations (henceforth referred to in this submission as "plantations").

The IFA is concerned that the appointment of Administrators and Liquidators in the case of Timbercorp Ltd and the appointment of Administrators along with Receivers and Managers in the case of Great Southern Limited might undermine the credibility of timber plantations in Australia to the detriment of the plantation and processing industries, associated rural and regional communities that are dependent on it and the Australian environment for which plantations provide many benefits.

The IFA is providing comments based on members' views relating to this issue. While some IFA members have been involved with the two aforementioned companies, and some comments have been included accordingly, the IFA has not been involved in any reviews relating to the two companies and does not have any specific knowledge of the company issues being investigated.

This submission includes three items (A, B and C) which are important to the IFA, with comments on other items as per the numbered Terms of Reference.

A. Role of Foresters

Forestry has been long established as a profession throughout the world. Within Australia forestry is taught at universities such as Melbourne University, Australian National University, University of Tasmania, University of Queensland and Southern Cross University as either a four year Bachelors or two year Masters degree. Integral to these degrees are subjects on plantation silviculture and other aspects of plantations in the social, economic and environmental landscape.

Many IFA members are either directly or indirectly involved in the plantations subject to this inquiry. Some of the roles that IFA members perform are:

- Forestry contracting, advice and consultancy services to managers of MIS plantations.
- Employees of MIS forestry companies as Directors, Compliance Committee members, plantation managers, land evaluation and acquisition managers, regional managers, inventory managers, Geographic Information System administrators, harvesting planners, supervisors and managers.
- Independent Forester services to MIS companies and investors.
- Forestry advice on MIS proposals to agribusiness research and ratings agencies.
- Forestry advice to Commonwealth and State Governments about MIS plantations and their operations.

B. 2020 Vision Strategy for forestry plantations

The IFA strongly supports the plantation industry strategy known as the "Plantations for Australia: The 2020 Vision" which was launched in 1997 and revised in 2004. This strategy has as its target the establishment of 3 million hectares of plantation by 2020. This requires some 85,000 hectares of new plantation development per annum to be undertaken to achieve that goal. Current area is approximately 1.97 million hectares of which 0.95 million hectares are hardwood (BRS 2009 – attached to this submission). This Vision has provided an important strategic framework for the development of national and State policies. The IFA strongly supports the social, economic and environmental benefits of expanding forestry plantations in Australia under the 2020 "Vision Strategy".

In the last National Plantation Inventory update (DAFF, Bureau of Rural Sciences, 2009) the proportion of Australia's plantation estate owned by managed investment schemes was 34% and was only second to those owned by Governments (including Joint Ventures) at 37%. Currently Forestry Plantations Queensland is embarking on a process for sale of the State owned plantations in that State, which if sold will reduce the proportion of plantations under public management to 26%.

We also note that over the past 10 years, plantation area increased by 55%, which was almost entirely hardwood. The softwood plantation increase over the same period was 8%. In 2008, 81% of new plantations were established by MIS projects, which is similar to the average of the past 5 years (BRS 2009). Importantly an increasing proportion of replanting of harvested plantations is now being funded by MIS for re-establishment of both State-owned plantations and those owned by Superannuation companies. This demonstrates the importance of MIS to the expansion of plantations and the critical role of federal taxation arrangements in funding such plantations.

Most plantation development in Australia prior to expansion from MIS was undertaken by State forestry organisations, using either taxpayer funds or loan funds from the Commonwealth government. The only major private investment in plantations up until the late 1990's was undertaken by vertically integrated pulp and paper companies such as APM in Victoria, North Forest Products, Boral and Australian Newsprint Mills in NSW and Tasmania and sawmill companies in South Australia such as Auspine and CSR Softwoods.

Existing State developed softwood plantations have led to Australia growing a significant softwood processing industry with major recent developments such as the Visy pulp and paper mill in Tumut, Hyne and Son sawmills in Tumbarumba and Tuan as well as established industries in New South Wales (Tumut, Orange, Albury), Victoria (Gippsland, Maryborough, Wangaratta), Mt Gambier and northern Tasmania. These developments would not have occurred without significant State and Federal investment in the softwood plantation estate through the middle of last century.

The availability of plantation forests in Australia has led to significant new investment in the timber processing industry in rural and regional Australia, with large infrastructure and development proposals and generation of new jobs Planned development includes a proposed world-scale pulp mill in Tasmania, significant modernisation of the Maryvale pulp and paper mill in Victoria and proposals for a pulp mill in the Green Triangle region. Much of this new investment is due to MIS plantations established over the past decade.

IFA is aware that such processing expansion and industry development is dependent on a secure, consistent supply of timber resources and a strong and viable market. This means that the existing plantations will need to replanted following harvest and preferably, the area of plantations continues to expand towards the 3 million hectare target to provide growth opportunities for the forest industries. The IFA believes that further expansion of Australia's plantation estate to realise the 2020 Vision Strategy is very much in the national interest. One important objective is to arrest an approximate $2 billion annual deficit in timber product imports. Plantation expansion on previously cleared land also helps Australia arrest soil degradation and increase carbon sequestration and increases knowledge and know-how in rural communities to manage trees and forests for other environmental services where appropriate.

IFA supports the sustainable development of the forest resource based industry for ultimate community benefit, with funding from the most appropriate sources at the time.

C. The unique feature of plantation forestry and funding

Compared to other agribusiness investments, which generally produce crops for annual harvest, plantations need investment for a high proportion of the cost at the outset, but the main returns to the investor come when the mature crop is harvested and sold many years later. Also, once established the plantations are long term, compared to other financial investments, with a minimum term of around 10-13 years for pulpwood plantations (including the blue gum projects) and up to 30 years for combined pulpwood and sawlog plantations, including softwood plantation and high value hardwood projects. There are ongoing costs throughout the life of the project including fire protection, planned and unplanned silvicultural operations. In addition the long-term nature of forestry exposes plantations to risk such as drought, pests and diseases.

History has shown that there are very limited ways of attracting funds for long term investments such as timber plantations. In Australia, in the past, investment has been largely confined to Federal and State governments and vertically integrated forestry and paper companies. Auspine (formerly SEAS Sapfor) were one of the few sawmilling companies that used a long-term forest investment model similar to current-day MIS schemes. State governments have made only small investments in new timber plantations in recent years, since Australian Government loan schemes to the States ended and

conversion of native forest on State-owned land ceased. This is against a backdrop of the largest planned plantation expansion (ie. the 2020 Vision) in the history of Australia.

It is not uncommon for States to seek to exit plantation ownership to generate funds for other important needs. The Victorian government sold its plantation estate to Hancocks, Tasmanian government sold a 50% share in its softwood plantations to GMO - both Timber Investment Management Organisations (TIMO). The Queensland government has recently announced it is putting Forestry Plantations Queensland on the market and Forests NSW has also explored sale of the softwood resource.

Forests NSW and Forestry Tasmania, Government Trading Enterprises, have entered into arrangements with MIS plantation companies to have plantations established on leased public land, funded through MIS projects.

TIMO's have large ownership of plantations in Australia, for example Hancock in Victoria, GMO in Tasmania, Hume (Global Forest Partners) in NSW and Victoria These companies mainly acquire plantations at a semi-mature or mature stage when cash flow is positive and do not give priority to establishing new plantations. TIMO's may re-establish plantations after final harvest to sustain an ongoing business. This has resulted in area of the softwood estate remaining largely static over the last decade. Some TIMO's have also entered into land leasing and wood buy-back arrangements for the establishment of second rotation plantations through MIS funding.

Government may be able to provide incentives for TIMO's to invest in new plantations as an additional way of getting more plantations established. Longer rotation plantations require “patient capital” because significant returns may not be obtained for 20 to 30 years after establishment.

The other major method of attracting such investment funds for new plantations has been through MIS and other forms of private sector investment, with governments putting in place taxation arrangements to facilitate such investment.

The contributions by the MIS industry have generated most of the new plantings in Australia in the last decade.

The taxation structure provided for forestry plantations under MIS mean that expenditure for the long term investment can be paid for by the grower “up front”, as an allowable deduction from income, while all returns from sales are taxed when received in the normal way. Of particular note is the taxation of gross receipts from investment in the financial year immediately following investment. This was an off-set to maintain tax symmetry under the prepayment timing provision.

The IFA supports the policy decisions that were made in 2007 following the extensive review of plantation MIS tax arrangements, and resulting in changes to the Federal legislation. The IFA acknowledges and supports the need to define what is forestry expenditure versus an administrative or financial expenditure (the 70% rule).

Similarly, the IFA supports the legislative change, which enables the sale of an MIS plantation investment after 4 years, allows a grower to exit a scheme before the end of the rotation. This secondary market has not been strongly taken up to date. Indications are that

interest is growing and secondary trades will become more popular in line with other timber trading throughout the world.

IFA believes that, in principle, the current taxation arrangements for plantation forestry do not provide a tax subsidy and do not give an unfair advantage to forestry.

Terms of reference (items 1 to 12)

1. Business models and scheme structures of MIS
2. The impact of past and present taxation treatments and rulings related to MIS
3. Any conflicts of interest for board members and other directors
4. Commissions, fees and other remuneration paid to marketers, distributors, related entities and sellers of MIS to investors (including accountants and financial advisors)

Items 1, 2, 3, 4 are not addressed in this submission as these are matters outside the scope of IFA.

5. The accuracy of promotional material for MIS, particularly information relating to claimed benefits and returns (including carbon offsets)

Agribusiness research houses review, analyse and rate MIS projects with the aim of providing guidance to investors and financial advisors. There are different rating approaches. At least two organisations allocate from one to five stars for projects based on a number of parameters, including an assessment of the likely rate of return to investors. Another research house will judge whether or not a project is recommended to investors or not. Ratings are based on corporate governance, past performance with older projects and the details of the proposed scheme. Rating reports assess prospective performance.

Ratings agencies are partially funded by MIS proponents, leading to a perception of conflict of interest. The proponent may then choose to publish or not publish the research report depending on the outcome of the review. Research houses also have their own clients (generally financial advisers) who pay for access to the research reports and may base their advice to their clients within their group on those reports. Most financial planning groups will use the research reports and their own internal review to determine whether the Product Disclosure Statement (PDS) will be on their Approved Product List and then able to be promoted to clients as an investment. It would not be necessary for MIS proponents to fund assessment if investors or Government were prepared to fund this work.

There is no independent appraisal of MIS projects following establishment, although research houses have played an important role in recent times in reviewing the track record of a proponent – not only in terms of management inputs and silvicultural technologies, but also from a plantation performance point of view.

Some MIS projects make provision for an Independent Forester to carry out periodic inspections and report directly to investors including an assessment of the likely success or otherwise of the plantations. The Research Houses also conduct field inspections with qualified foresters and this provides additional independent verification. A number of Forestry MIS companies have Environmental Management Systems and quality control systems where third party contractors will check and map survival and other establishment

criteria. As the MIS companies also fund this work there could be perceptions of self-interest, the validity of which has never been examined.

Forest Certification programs such as Forest Stewardship Council (FSC) and Australian Forestry Standard (AFS) have been taken up by most forestry companies in Australia and they require third party audit of activities. Therefore there is a high level of control and independent analysis of management structures and capabilities of companies.

IFA has developed with government assistance a Registered Professional Forester™ scheme, which requires a reviw by peer professionals, a high level of competence, commitment to continuing professional development and adherence to a strong code of ethics. This formalises an approach that has been taken by the Association of Consulting Foresters of Australia (ACFA) for a number of years. ACFA has merged with IFA to form a separate Division within the IFA.

IFA suggests that the Registered Professional Forester™ scheme could provide a degree of regulatory control and comfort to proponents and investors in plantation projects, especially in relation to Independent Forester reporting. The RPF scheme is administered by the IFA, it is an open and transparent process, available to anybody who meets registration criteria. IFA has previously offered the RPF scheme to ATO and DAFF as a means to increase accountability of Independent Forester activities.

IFA understands that no Federal government or agency such as ASIC or ATO, and no State government agency in any Australian State has shown interest in funding independent forestry analysis to date, either for prospective MIS schemes or for past projects. IFA is also not aware of any serious academic analysis of the economic performance of forestry plantation MIS projects.

It is difficult to criticise the claimed benefits of plantation MIS schemes at start-up. There are established markets for forest produce although there is a distinct lack of transparency across the industry in Australia compared with other countries such as New Zealand. This is due to confidential contractual arrangements between suppliers and processors, which is a feature of forestry in Australia. IFA considers that investors and their advisers need to be better educated on the realities of forest economics and markets for forest produce. Proponents of forest MIS projects cannot be blamed for optimistic predictions for future markets, that is the nature of any promotional campaign.

6. The range of individuals and organisations involved in the schemes, including the holders of relevant Australian Financial Services Licence.

This item is not addressed in this submission.

7. The level of consumer education and understanding of these schemes

A significant benefit of MIS has been the large number of small investors who have become involved in forestry, and thus increased their knowledge of the subject. Nevertheless, the IFA is concerned that there may be a general lack of understanding of forestry MIS projects by the public at large, which means that many potential investors do not have a good understanding of the financial product and the underlying forestry project.

The IFA believes that there is a need for more public education and information on plantations so that investors can assess the merits of Product Disclosure Statements (PDS). It is interesting to note that investors seek the advice of financial planners but there is little demand for advice from forestry professionals. Consumer understanding can only increase through seeking professional advice or through gaining experience over time. Feedback loops on investment performance, costs and returns reported in the public domain also serve to increase consumer understanding.

Local government officers and staff, land use planners and the community also need information and education to properly address the costs and benefits of plantation forestry as a land use. IFA notes that a number of studies carried out by CRC Forestry over the past few years have pointed to positive economic, social and environmental benefits to regional Australia from plantation developments.

Australian Forest Growers (AFG) has a voluntary Disclosure Code for Afforestation Managed Investment Schemes which is JASANZ accredited. IFA strongly endorses this Code. ASIC did not put any weight on its use and it has now been withdrawn. AFG also provided information in the form of an Investor's Short Guide. Other information resources include the Vision 2020 plantations planning web-site and a joint forestry industry web-site which have considerable information on forestry and plantations. There are sufficient intellectual resources to offer training courses for financial advisers.

IFA members observe that the problem is to get the investing public to read and understand the information that is available. While ASIC requires that the PDS's have to include all information that an investor could reasonably expect to find, there would be benefits if investors and their advisors were better informed about the plantation business. Investors should be encouraged to seek advice of professional foresters, as well as financial advisors.

8. The performance of the schemes

Private investment in plantations has been a part of Australian forestry since the 1930s.

Expansion of MIS plantations under the present format started in the early to mid 1990s, with the bulk of MIS plantations having been established over the last 10 years due to a focus on eucalypt plantation projects aimed at producing pulpwood on about 10 year rotations. These projects did not enter the Managed Investment Scheme structure until after the MIS Act was passed in 1998 and this structure later became part of Corporations Law.

Harvesting of MIS plantations commenced several years ago, with many of the early blue gum plantations being scheduled for harvest at around age 10 to 12 years. Whilst there have been a number of earlier plantation projects harvested to date the potential performance of many of the current projects in terms of harvest returns is not yet known. As a general comment the IFA notes that most early schemes did not achieve projected growth rates, but in most cases the stumpages paid to investors exceeded projected stumpage prices.

Normal market fluctuations for commodity products, such as export woodchips for pulp and paper, will have significant impacts on the financial performance of plantation MIS schemes. These are normal business risks.

An important aspect of the PDSs for forest plantation projects, relating to performance of the schemes, is the difficulty of providing forecasts or projections of growth, yield and returns for investors, for the long period of investments involved, ranging from 10 years for pulpwood, up to 30 years where sawn timber is the final aim. Not only is it difficult to forecast future movements in prices for commodities such as export logs or woodchips, the dynamics of the industry at a local level can change considerably over time. Major investment in processing infrastructure near a plantation resource can bring unprecedented economic growth to a region and change the pricing dynamics of locally grown produce. Furthermore, ASIC restricts the extent of forecasts or projections which may be included in PDSs. Most PDS's explain the risks of loss or impact to plantations through drought, fire, windstorm, hail etc, of which some risks cannot be insured against.

IFA is aware of several reports comparing the actual harvest yields of MIS plantations against projected yields**.** One report commissioned by an MIS company in 2007 to compare pooled eucalypt timber investment growth rates showed that several MIS companies had lower than forecast yields and another company had higher than forecast yields. The report mentioned that those companies experiencing lower than forecast yields have acknowledged that growth rates are lower due to climatic (10 year rainfall below average for some areas) and site issues which led to changes in field practice. Revised lower forecasts were then included in documentation of new projects for those companies.

IFA acknowledges that independent information about growth and yield of MIS plantations (and for some other plantations) is not as readily available as should be expected of such an important industry sector.

The majority of MIS plantations over the past ten years have been established on cleared agricultural land – land that has not supported plantations in the past or even had a recent history of forest cover. As a result, the ability to accurately predict plantation productivity of a new species (eg. Tasmanian blue gum), planted in a new area (eg. South Western WA and the Green Triangle of SA and Victoria) is difficult and was generally based on process based growth models (like CSIRO's ProMod and CABALA models) or limited empirical data. IFA encourages the use of substantial research which has been undertaken by CRC Forestry, CSIRO and other institutions in developing plantation site selection decision support systems and growth models. This is a complex area of forestry science and further research is encouraged. IFA notes that some MIS companies including Timbercorp and Great Southern have been strong supporters of such research and have sought to apply these tools in their operations.

As the industry matures and more information becomes available, the ability to more accurately predict plantation yields based on actual results will improve – this is no different to the challenges foresters have faced over the past 75 years.

Traditional forestry plantation schemes started by State governments in the early part of the 20th century were based on many years of work on site selection and species trials. There were some spectacular failures and successes. The choice of exotic species such as radiata pine for southern Australia, slash pine and later Caribbean pine for Queensland were based on these research programs. We now have nearly a century of background knowledge to support the softwood plantation program in Australia.

Eucalypt plantations are a relatively recent phenomenon. Rapid expansion into new areas, not previously tested for plantation growth has led to a degree of speculation on the part of plantation developers. IFA is concerned that some schemes are thus using investor funds to conduct broad scale experiments for plantation suitability. Examples include areas in the Wimmera region of Victoria, Esperance region of WA far north east of Tasmania and some parts of northern NSW. In addition, tropical forestry schemes such as for African mahogany and teak plantations may demonstrate high growth, but markets are uncertain compared to established markets for blue gum woodchips or pine sawlogs.

In regard to the above issues, the IFA is aware that there have been some instances where growth rates forecast and then verified by Independent Foresters for MIS plantations have not been based on sound empirical data but have relied on a degree of personal judgment. IFA supports a more rigorous approach to justification of plantation projects in new development areas.

The IFA is also aware of claims that in some areas some MIS companies have established plantations on sites where either the soil type is inappropriate or the long-term average rainfall is below what is required to achieve adequate commercial rates of growth for the species being planted. It is difficult to quantify such claims without a comprehensive assessment of plantation performance. This issue could be addressed by improvements to the structure of MIS schemes and the regulation of their operation. A rigorous approach to provision of performance monitoring to inform investors of plantations should be adopted.

IFA also believes that the qualifications and experience of professional foresters who are providing Independent Forester services is very important. There should also be a degree of legal and financial separation from the project proponents. It should be clear that the Independent Forester and other Independent professional reports are truly separate from the proponents. Any conflicts-of-interest should be declared.

9. The factors underlying the recent scheme collapses

Those IFA members with knowledge of the two companies under administration have advised that in their opinion the collapses are a result of a wide range of factors more attributed to those companies' management structures, debt levels and earlier decisions to diversify away from forestry and into other agricultural enterprises. These factors were common to those entities now in voluntary administration or liquidation. The yield information from respective plantations and standard of forest practice has not had a direct impact on the collapse of these companies. IFA recognises that the plantations have generally been established using standard industry practices and that a large and valuable wood resource that has been created by the companies that have recently collapsed. There are many other companies operating forestry MIS schemes which are operating successfully and continue to attract investment funds.

It appears that one of the major contributing factors to the collapses relates to the issue of debt associated with land upon which the plantations (and other MIS projects) are established. While the level of debt for any private company is rightly a matter for the Board of that company, it is problematic that MIS investors are vulnerable in situations whereby their investment (eg in trees) is jeopardized if the security over the owner or lender associated with the land upon which the trees are grown does not match the duration of the MIS investment. MIS companies should only be able to offer schemes, where they

can clearly demonstrate they have guaranteed access to the land upon which the trees are to be planted for the entire duration of the scheme.

It is difficult to ascertain how much the collapse of the schemes is related to the unit price the schemes were sold for in an environment where future costs are not well known. The administrators for Timbercorp are claiming that the revenue received from investors does not match the costs of the schemes. Given that there was a competitive market operating among the MIS operators with comparable unit prices and other MIS companies have not collapsed, it is possible that the collapses are related to the amount of money the companies took as operating profit and their cost structure, than to inadequate initial funding. Unfortunately there is no transparent information available either to investors or the public about how much of the unit MIS price has been used for plantation establishment and management and how much has been taken by the companies as profit. IFA is of the opinion that many schemes charged high establishment costs to projects, which should have been adequate to cover all future costs associated with the plantation investment.

In respect to the current inquiry and comments provided above, the IFA would like to see the Committee distinguish between:

- factors relating to forestry practices and forest industry issues (plantation establishment, management, fire protection, harvesting, timber production, processing, export, infrastructure development and regeneration),
- those directed at managerial/financial arrangements of the companies, and
- the claims/projections of promoters, sales managers and financial advisers.

There are three very different sets of people involved.

The IFA would also recommend an investigation into whether natural factors, including drought, played a part in the scheme collapses, and if so, could these factors have reasonably been anticipated.

10. The projected returns and supporting information, including assumptions on product price and demand.

Comments provided under item 5 relate to this item.

11. The impact of MIS on other related markets.

IFA has also observed the impact of MIS projects on rural land procurement and pricing activities. MIS companies often do not have sufficient land under ownership or lease when they publish their PDS. Therefore, if the PDS is fully subscribed there is a rush to secure the necessary land to establish the area of plantations bought by the investors. This has led to the choice of buying marginal properties at inflated prices or very high lease payments. There have been positive and negative effects in rural Australia. High demand for marginal cropping or grazing land has allowed some farmers to exit their land at a good price and “retire with dignity”.

In other instances the purchase of land by MIS companies at higher than expected market prices has restricted ability of local farmers to compete and thereby expand their own farming enterprises. This has led to conflict. Forestry plantations have been blamed for decline in rural communities where often they are just the symptom of an already declining

rural population. This is a complex area and involves issues of private property rights, free markets and competition – well beyond the scope of IFA.

Plantation MIS has had a positive impact on rural economies and increased diversification. In south west Western Australia there is strong evidence of the positive benefits of a new industry establishing in the area. It has brought new infrastructure to the region which benefits many other related and unrelated primary industries in the region.

There is a common cry that plantations are taking up good agricultural land. However, there is no reason that such land cannot be returned to agriculture in future. In fact a rotation of trees on degraded agricultural land could have a number of benefits including increased soil organic matter, addressing soil structural decline and reducing water tables. It has been shown that market forces prevail in the allocation of commercial, primary industry land use.

12. The need for any legislative or regulatory change

The IFA is aware that there is already a framework of regulation for MIS projects including extensive environmental planning criteria and regulations determining plantation design and location. For most projects MIS managers must also provide or observe:

- an Independent Forester Report
- an Independent Accounting Report
- the Australian Securities and Investments Commission regulations
- the Australian Taxation Office Product Rulings, including the 70% Direct Forestry Expenditure test.

A key issue is the need for appropriate protection of investors in longer term plantation forestry and protection to service providers and customers for the industry. From a forest management perspective there are necessary works which need to be done through the life of the plantation and funding needs to be secured to allow this plantation work to occur.

IFA would encourage an investigation to verify that funds provided by investors are being used by the MIS companies for the purpose they were intended, i.e. the establishment and management of plantations and securing the land on which the trees are grown for the length of the crop. The management works include fire protection, weed control, fertilisation and control of noxious pests. This expenditure may have been paid "up front" by investors in plantation MIS projects. If the managing companies do not have adequate provisions for putting aside such funds to carry out required works the plantations will not realise their expected returns and there are risks of plantation loss or reduced yields. As we have seen, in the case of Timbercorp the investors are also exposed to lack of security of tenure over the land on which the trees are being grown.

IFA considers that it is necessary to improve the arrangements for plantation MIS in order to provide better protection for investors. These changes should focus on three areas:

- Improving the protection for MIS investors for the life of the project;
- Improving the transparency of the operations of MIS companies;
- Ensuring claims and forestry operations of MIS companies are independently checked and audited by properly qualified foresters.

IFA considers that there needs to be improved arrangements to protect the rights of

investors in the MIS schemes over the life of the scheme. IFA points out that investment in forestry projects require a deal of confidence and patience compared to other investment vehicles. Forest assets held by investors are not as liquid or as easily transferable as alternative investment options.

IFA argues that investors in forestry need to be encouraged and that the decreased liquidity and transferability of such investments needs to be recognised. It is paramount that investors also have security over the land and the trees for the life of the investment project and that adequate provision is made for ongoing management costs. If these arrangements are not in place it will be difficult to attract the required level of investment in forestry plantations to meet the 2020 Vision target in the future. It has been shown that plantation MIS is an important contributor to this target.

IFA members are familiar, through the nature of forestry as a profession, that it is a long-term business, which requires stable management structures, and continual guaranteed funding.

IFA is concerned that a MIS company, such as Timbercorp, can report a 14% profit in 2007-08 and then have an Administrator find that the company's forestry MIS collectively have costs of $170 million in excess of revenue in the following year. Clearly something has been very wrong here and at present the individual investors have no way of knowing what the MIS company is actually doing with the funds that they have invested in a MIS scheme. The IFA acknowledges this an issue relating to accounting and audit. The IFA also recognizes the complexity and potential for conflict of interest by the Administrator between protecting and auditing the projects on behalf of the growers and looking after the secured creditors. This may be a situation for a temporary Responsible Entity being made responsible for protecting and auditing the projects on behalf of the growers without becoming liable for all the liabilities and responsibilities of the original Responsible Entity.

There are various options to achieve a higher level of protection for investors which may include a mandatory sinking fund which will survive the collapse of the managing company, or a credible forestry services contract with a substantial entity which is independent from the managing company.

IFA considers that there also needs to be greater control and oversight of the Trust funds under which MIS investors funds and the proceeds of any harvesting are managed. These funds should only be able to be used by MIS companies in accordance with the arrangements clearly set out in the PDS. Financial statements related to these Trust funds need to be available for investors to examine so that they can transparently monitor what is going into the funds and what is going out of the funds. This is also an accounting issue where the form of accounts may need to be improved.

There will also need to be improved arrangements to ensure that the investors' interests in the growing trees can not be jeopardized by the arrangements governing access to the land upon which the trees are growing. MIS products should not be able to be marketed unless the MIS entity can guarantee it has secure access or ownership to the land for the length of the rotation of the plantation. These arrangements preferably need to be audited at the time the scheme begins to accept money from investors or, at least, at the time the site preparation operations begin. These arrangements relate to tenure and guaranteed access to the land being used for the project. If proponents are not able to secure sufficient land

for their woodlot sales, that is a different issue, and relates to refund of moneys in such circumstances as stated in PDS's.

In addition, IFA considers that there needs to be appropriate mechanisms for corporate watchdogs, such as ASIC, to monitor the operations of MIS schemes and to enable investors in a MIS scheme to collectively request a review of the operations of a MIS and, if needed, to enable another manager of the scheme to be appointed.

IFA considers that greater use could be made of the Independent Forester role through annual reporting and the content of such reports.

Regarding the need to improve the transparency of the operations of MIS companies, the IFA considers that annual financial reports provided to investors need to provide verifiable and intelligible information about the income and expenditure received by the project. The financial reports provided to growers for Timbercorp did not alert them to any matters that may significantly affect the operations of the project, the results of those operations or the state of affairs of the project in future years. Where income was received there was no intelligible information about where the expenditure had actually occurred and items recorded as distribution to growers was either not matched by payments to grower investors or any statement indicating that the growers collective interests in the Trust fund had increased by this amount. Neither do the statements provide any information about any payments made to the MIS company from grower funds.

The IFA considers that when MIS plantations reach maturity, the MIS entities need to regularly inform the investors about the quantities of wood harvested from the woodlots, the area that has been harvested, the average yield per hectare, the costs of harvesting and hauling the harvested wood, and the average prices received per sales unit. The MIS entity should inform the investors six months prior to harvest of their woodlot that it is going to occur and outline the expected prices that it hopes to obtain and the markets that have been investigated. The IFA acknowledges that some of the information may be commercial-in-confidence so provisions need to be considered for such protection of information, otherwise full public disclosure could harm grower returns.

IFA points out that it is not unusual in the forest industry for there to be long term supply arrangements between growers and buyers. This ensures processing industries can make major industrial and infrastructure investments with guaranteed supply of raw materials. Where project proponents seek to enter into long term contracts for supply of wood to a buyer, the investors in the project need to be involved in the decision making process.

At present all that is provided is a quarterly statement of income distribution to the investor in a form that meets GST Business Activity Statement lodgment requirements without any information about performance of the woodlot or what proportion of the total investment to which the information applies. MIS companies should be required to have this information independently audited by a properly qualified and independent forester, such as a Registered Professional Forester.

IFA would like to see improved independent appraisal of project PDS claims (prior to their release to investors) and also the actual performance of completed schemes, both on a periodic basis through the growing cycle and at the end of the rotation.

The IFA suggests that if such independent audit was adopted that Registered Professional Foresters, accredited by the Institute of Foresters of Australia, or appropriate professionals with expert knowledge of the plantation industry in the region, should be required to certify the reports of all such audits. There may be other ways in the engagement of research houses on independent briefs.

IFA considers that Governments collectively have a role to play in providing impartial information to potential investors as one of the key activities they can do to support the implementation of the 2020 Vision.

The IFA considers that there is a need for legislative or regulatory change which provides more protection to investors in forestry plantations under MIS, and protection to service providers and customers for the industry, while at the same time continuing to provide a framework of incentives for private investment in forestry plantations.

IFA also cautions against over-regulation or misguided regulation resulting from an over-reaction to the collapse of two companies which may unnecessarily dampen future investment in forestry plantation projects in Australia. There are many other examples of successful plantation MIS companies which continue to enjoy strong support from the investment community and are making substantial contributions to the Australian economy. Many of these companies have invested or are planning to invest in downstream processing, creating regional employment opportunities and improving regional social and economic outcomes.

The IFA is prepared to assist Government, in areas where we have expertise among the membership, such as review of qualifications and certification of forestry professionals, organising seminars and continuing professional development, in relation to outcomes resulting from this inquiry. There is a number of IFA members with a high level of knowledge about the plantation MIS business, including aspects other than forestry, who could be approached by the Committee for relevant advice. The IFA could assist in this regard.

Dr Peter Volker FIFA RPF
National President
30 June 2009

Australian Government
Department of Agriculture, Fisheries and Forestry
Bureau of Rural Sciences

Australia's PLANTATIONS

2009 INVENTORY UPDATE

KEY POINTS

- The National Plantation Inventory provides an annual update of timber plantation areas in each state and territory to highlight trends in plantation development.
- In 2008, the total area of Australia's plantation estate increased to 1.97 million hectares, comprising about 0.95 million hectares (48%) of hardwood species, 1.01 million hectares (52%) of softwood species and a small area of mixed plantings.
- 72 319 hectares of new plantations were reported established in 2008, 20% less than in 2007. The new area comprised 66 011 hectares of hardwoods and 6 308 hectares of softwoods.
- In the past ten years the total plantation area has increased by about 55%. The increase is almost entirely hardwood plantations, the area of which nearly trebled. The softwood plantation area increased by 8%.

Further information is available at **brs.gov.au/plantations**

TOTAL ESTATE

Australia's timber plantation estate continues to expand (Figures 1 and 2). In 2008, the total recorded area of timber production plantations was 1 972 535 hectares (Table 1) compared with 1 902 903 hectares in 2007. The increase of about 70 000 hectares (3.7%) results from new planting of 72 319 hectares and updated data on previously planted areas. The updated data are the result of factors including re-measurement of recently planted sites and change of land use after harvesting or wildfire.

In 2008, the total area of softwood plantations was 1 013 776 hectares, about 0.4% more than in 2007. The total area of hardwood plantations was 949 505 hectares, 7.5% more than in 2007.

Hardwoods now constitute more than 48% of all plantations, compared with 41% in 2003 and 25% in 1998.

Figure 3 shows the proportions of hardwood and softwood plantations in each state and territory in 2008.

Plantations established for wood production cover a small proportion (0.25%) of Australia's total land area and the plantation area is smaller than that of several agricultural crop and land uses (Table 2).

FIGURE 1: TOTAL PLANTATION AREA BY TYPE, AUSTRALIA, 1995–2008

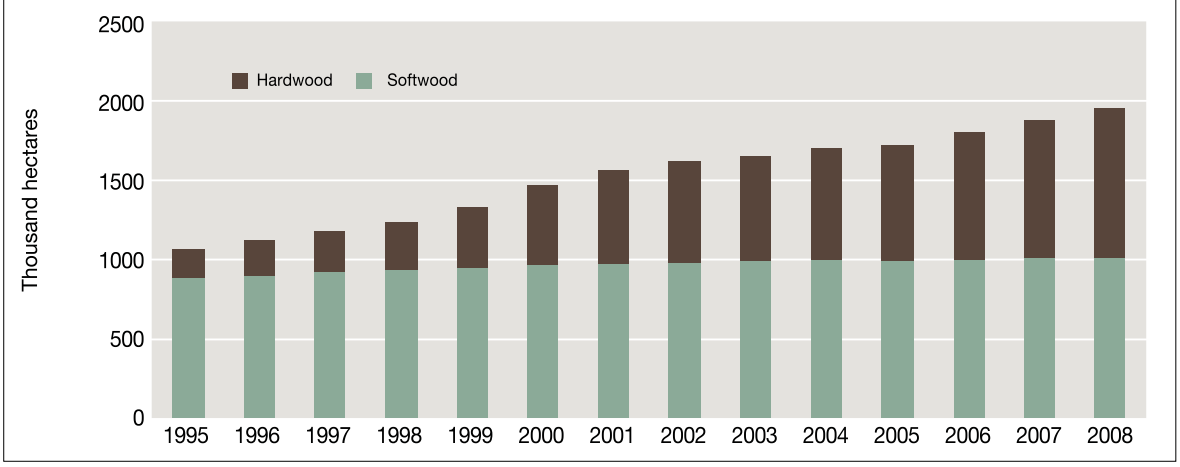


FIGURE 2: TOTAL PLANTATION AREA BY STATE AND TERRITORY, 1995–2008

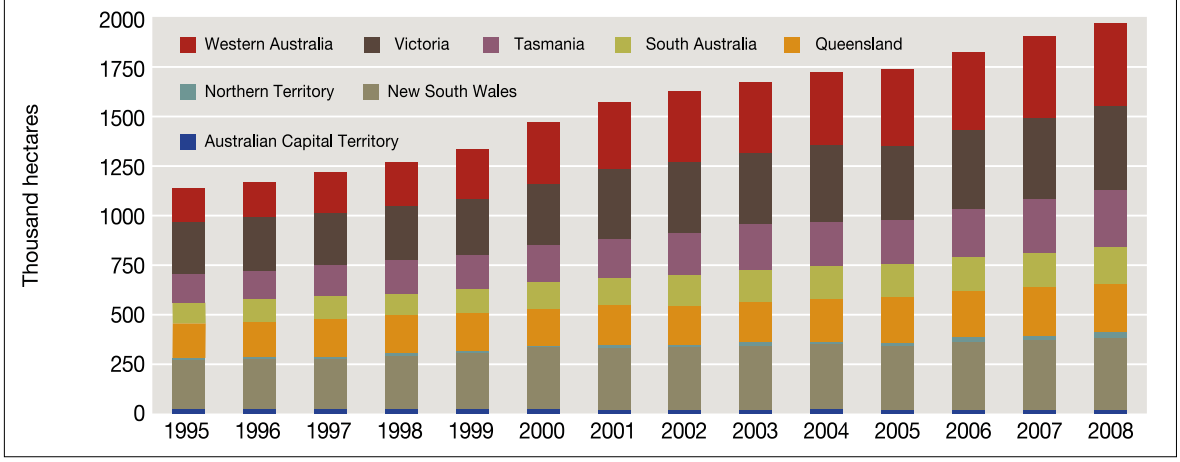


TABLE 1: TOTAL PLANTATION AREA, BY STATE AND TERRITORY, 2008 (HECTARES)

	Hardwood	Softwood	Other categories[1]	Total
Australian Capital Territory	0	7 870	0	7 870
New South Wales	81 667	285 566	2 821	370 054
Northern Territory	27 299	2 239	0	29 538
Queensland	59 298	189 191	2 108	250 597
South Australia	58 426	122 871	457	181 754
Tasmania	217 068	76 972	100	294 140
Victoria	200 739	219 910	1 463	422 112
Western Australia	305 007	109 158	2 305	416 470
Total	**949 505**	**1 013 776**	**9 254**	**1 972 535**
Change since 2007	**+7.5%**	**+0.4%**	**0%**	**+3.7%**

1 Includes areas of mixed hardwoods and softwoods and areas for which tree species were not reported.

FIGURE 3: TOTAL HARDWOOD AND SOFTWOOD PLANTATIONS BY STATE AND TERRITORY, 2008

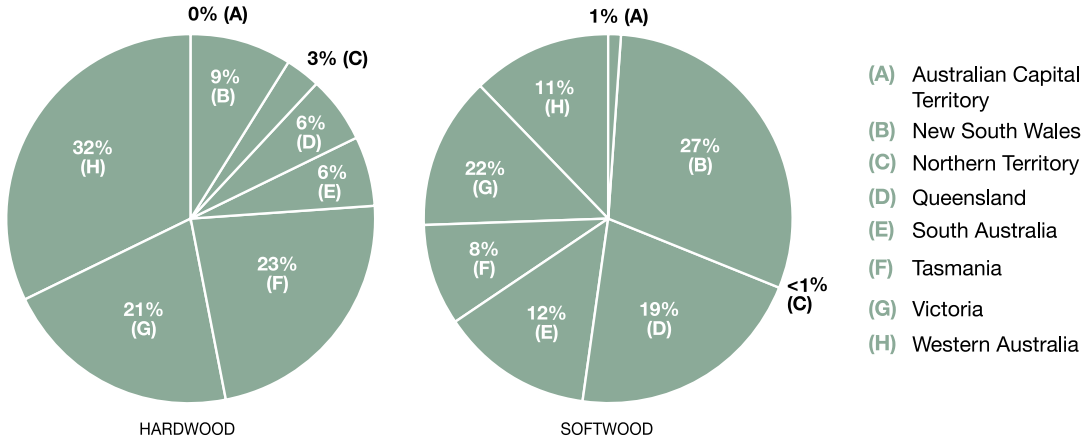


TABLE 2: PLANTATIONS AND OTHER LAND USES, AUSTRALIA

Land use	Area (million hectares)	Proportion of total land area (%)
Total land area	769	100
Plantation forests	**1.97**	**0.25**
Native forests and woodlands	147	19.2
Agricultural and horticultural crops		
- wheat	12.3	
- horticulture	5.7	
- barley	4.2	
- canola	1.2	
- others	6.0	
- Total	29.4	3.8
Grazing	385	50.0

Sources: Australian Bureau of Statistics 2005–06 Agricultural Census; National Forest Inventory.

OWNERSHIP

Public plantations now make up about 33% of the total plantation estate, private plantations 61% and jointly-owned plantations 5% (Table 3). The jointly-owned plantations include, for example, eucalypt plantations established by government agencies on farmland in New South Wales and Queensland for sawlog production and pine plantations established under salinity management programs on farmland in Western Australia. They also include some plantations established on public land using non-government sources of funding.

Figure 4 shows the total plantation area by ownership category that enables different sources of funding to be identified. The jointly owned plantations are apportioned to industry categories, leading to slightly different public and private ownership proportions than Table 3. The proportion owned by managed investment schemes increased from 33% in 2007 to 34% in 2008. The government-owned sector also increased marginally.

FIGURE 4: OWNERSHIP OF THE TOTAL PLANTATION ESTATE BY INDUSTRY CATEGORY, 2008

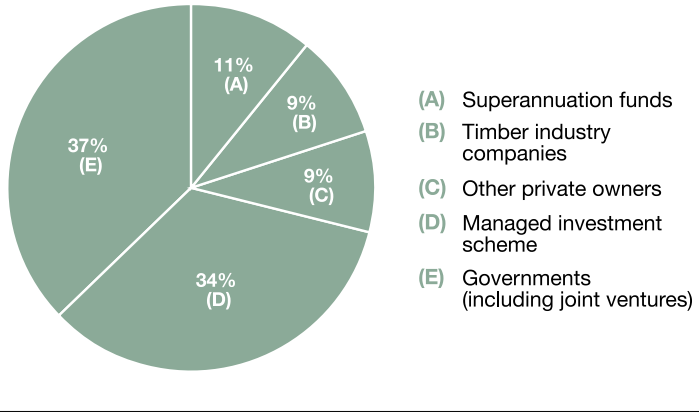


TABLE 3: TOTAL PLANTATION AREA BY STATE AND TERRITORY AND TREE OWNERSHIP CLASS, 2008 (HECTARES)

State	Public	Private	Joint[1]	Total
Western Australia	81 035	302 995	32 439	416 470
Northern Territory	0	29 538	0	29 538
South Australia	86 035	95 719	0	181 754
Queensland	197 074	50 752	2 771	250 597
New South Wales	246 815	118 434	4 805	370 054
Australian Capital Territory	7 870	0	0	7 870
Victoria	4 352	410 719	7 040	422 112
Tasmania	31 186	203 512	59 443	294 140
Total	**654 368 33.2%**	**1 211 669 61.4%**	**106 498 5.4%**	**1 972 535**

1 This includes some small areas for which ownership details were not reported.

NATIONAL PLANTATION INVENTORY REGIONS

The National Plantation Inventory (NPI) regions are geographic groupings based mainly on supply of timber to industries. Table 4 and Figure 5 show that, in 2008, Western Australia (which is a single NPI region) had about 21% of the total plantation estate, including 32% of all hardwoods. The Green Triangle had the next largest proportion with 17% (17% of all hardwoods and 16% of all softwoods). The Murray Valley had 18% of the total softwood estate, the highest proportion of any NPI region.

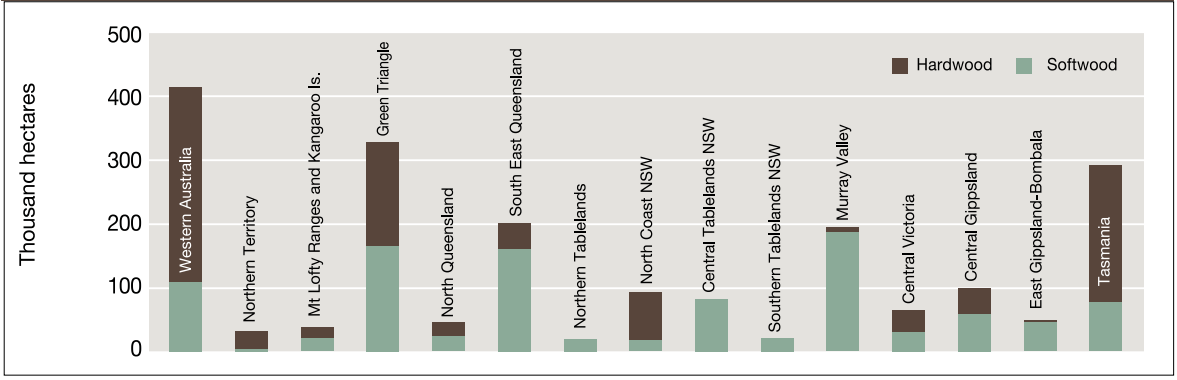
TABLE 4: TOTAL PLANTATION AREA BY NPI REGION, 2008 (HECTARES)

Region[1]	Hardwoods	Softwoods	Other categories[2]	Total
Western Australia	305 007	109 158	2 305	416 470
Northern Territory	27 299	2 239	0	29 538
Mount Lofty Ranges and Kangaroo Is.	17 653	19 445	144	37 242
Green Triangle	162 357	166 389	2 040	330 786
North Queensland	18 595	25 368	1 000	44 963
South East Queensland	40 602	161 410	1 108	203 120
Northern Tablelands	1 224	14 869	314	16 407
North Coast New South Wales	76 267	16 069	984	93 320
Central Tablelands New South Wales	984	80 274	0	81 258
Southern Tablelands New South Wales	416	21 602	1	22 019
Murray Valley	7 018	187 272	124	194 414
Central Victoria	31 620	31 311	40	62 971
Central Gippsland	39 066	58 803	828	98 697
East Gippsland–Bombala	4 330	42 594	266	47 190
Tasmania	217 068	76 972	100	294 140
Total	**949 505**	**1 013 776**	**9 254**	**1 972 535**

1 If the exact location of plantations is not known, in some cases it is difficult to assign them to specific regions. The data presented here are a reliable guide but might be revised later. The boundaries for these regions are shown in the report 'Australia's Plantations 2006'.

2 Includes areas of mixed hardwoods and softwoods and those for which tree species were not reported.

FIGURE 5: HARDWOOD AND SOFTWOOD PLANTATION AREA BY NPI REGION, 2008



NEW PLANTATIONS

New plantations are those established on land not previously used for plantation forestry. A total of 72 319 hectares were reported established in 2008 (Table 5), about 20% less than in 2007. This is the first decline in the new area reported since 2003 (Figure 6). Managed investment schemes funded about 81% of the new plantations in 2008, similar to the average for the previous five years. Government agencies planting on public land and in joint ventures on private land established 14%. Timber industry companies and other private owners established the remaining 5%.

Tasmania had the largest area of new plantations, with nearly 27% of the national total. New South Wales, Queensland, Victoria and Western Australia had 15–17% of the remainder each. The Northern Territory and South Australia had about 5% each.

Continuing the trend from the 1990s, most (86%) new plantations established in 2008 are privately owned. Ninety-one percent are hardwoods, most of which are short rotation crops managed primarily for pulpwood production. Softwood plantations established by a range of public and private sector organisations and companies accounted for the remaining 9% of new area planted in 2008. All of the softwood plantations are managed for sawlog production.

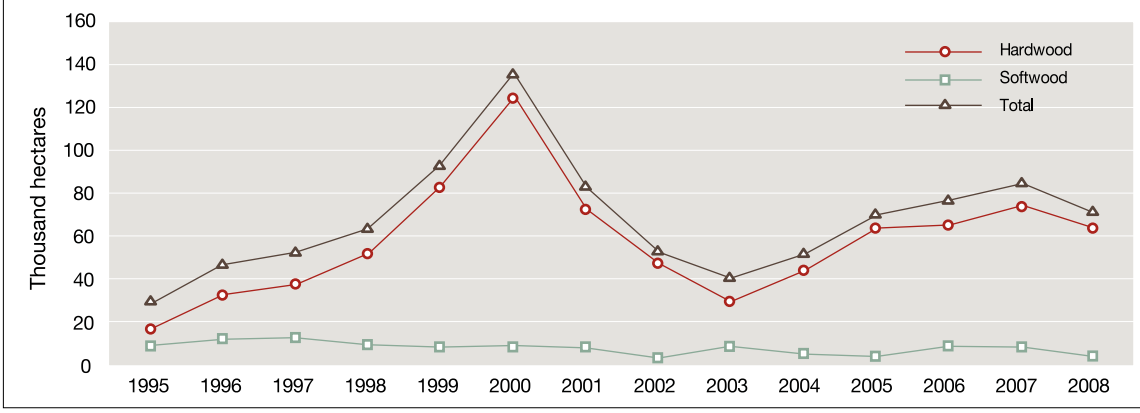
TABLE 5: NEW AREAS BY STATE AND TERRITORY, 2008 (HECTARES)

	Public		Private		Joint		Total	
	HW	SW	HW	SW	HW	SW	HW	SW
New South Wales	39	478	11 012	443	0	0	11 051	921
Northern Territory	0	0	3 610	0	0	0	3 610	0
Queensland	1 366	440	8 346	0	140	0	9 852	440
South Australia	128	0	3 325	0	0	0	3 453	0
Tasmania	2 325	0	14 981	1 967	694	0	18 000	1 967
Victoria	998	0	8 755	484	0	0	9 753	484
Western Australia	17	15	9 139	0	1 137	2 481	10 293	2 496
Sub-total	4 872	933	59 168	2 894	1 971	2 481	66 011	6 308
Total	**5 806**		**62 062**		**4 452**		**72 319**	
Proportion of Total	**8%**		**86%**		**6%**			

No new plantations were established in the Australian Capital Territory.

'Public' comprises plantations owned by governments; 'Private' comprises plantations owned by superannuation funds, timber industry companies, managed investment schemes and other private owners; 'Joint' comprises plantations owned jointly by public and private entities.

FIGURE 6: NEW AREAS PLANTED, 1995 TO 2008



REFERENCES AND FURTHER READING

Bureau of Rural Sciences publications:
Australia's Plantations 2006
Australia's Plantation Log Supply 2005–2049
Australia's State of the Forests Report 2008
Australian forest profiles – information sheet series of eight titles: Acacia, Callitris, Casuarina, Eucalypts, Mangroves, Melaleuca, Rainforest and Plantations; plus a poster: Australia's forests

Bureau of Rural Sciences publications can be obtained from:

P: 1800 020 157 F: 02 6272 2330
E: salesbrs@brs.gov.au
www.brs.gov.au/plantations

NATIONAL PLANTATION INVENTORY
The National Plantation Inventory (NPI), managed by the Bureau of Rural Sciences (BRS) as part of the National Forest Inventory, has reported on Australia's timber plantations since 1997. It publishes annual updates of the national plantation resource, presenting information on total plantation area, new planting and ownership to assist strategic forest industry planning and decision-making.

Data for NPI updates are collected by a survey of growers, grower representatives and state and territory agencies. The survey records the total plantation estate each year and plantations newly established on land that had not previously been used for plantations. Plantations are added if they had not previously been recorded, revised if earlier data were in error and deleted if the plantations have been permanently removed. A substantial area of plantations is harvested each year and some areas are destroyed. Replanting might not take place for some time after harvesting but, unless advised of a change in land use, the NPI records such fallow land as plantation. Although all care is taken to reconcile data, inconsistencies in the area reported from year to year are likely to occur.

Individual grower information submitted to the NPI is confidential. For reporting purposes, data from individual growers are aggregated within regions or states and territories and are not provided individually to other parties without the consent of the data owner.

The data presented here do not capture all small-scale, farm forestry planting, although they do include those farm forests reported in the BRS publication Australia's Plantations 2006.

All values in the tables have been rounded hence column and row totals may not tally exactly.

DESIGN WhiteFox communications

PREFERRED WAY TO CITE THIS PUBLICATION
Gavran, M. and Parsons, M. 2009. *Australia's Plantations 2009 Inventory Update*, National Forest Inventory, Bureau of Rural Sciences, Canberra.

ACKNOWLEDGEMENTS
The National Forest Inventory gratefully acknowledges the assistance and cooperation of plantation growers and grower representatives who contributed data for this report.

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ISBN: 978 1 921192 33 3

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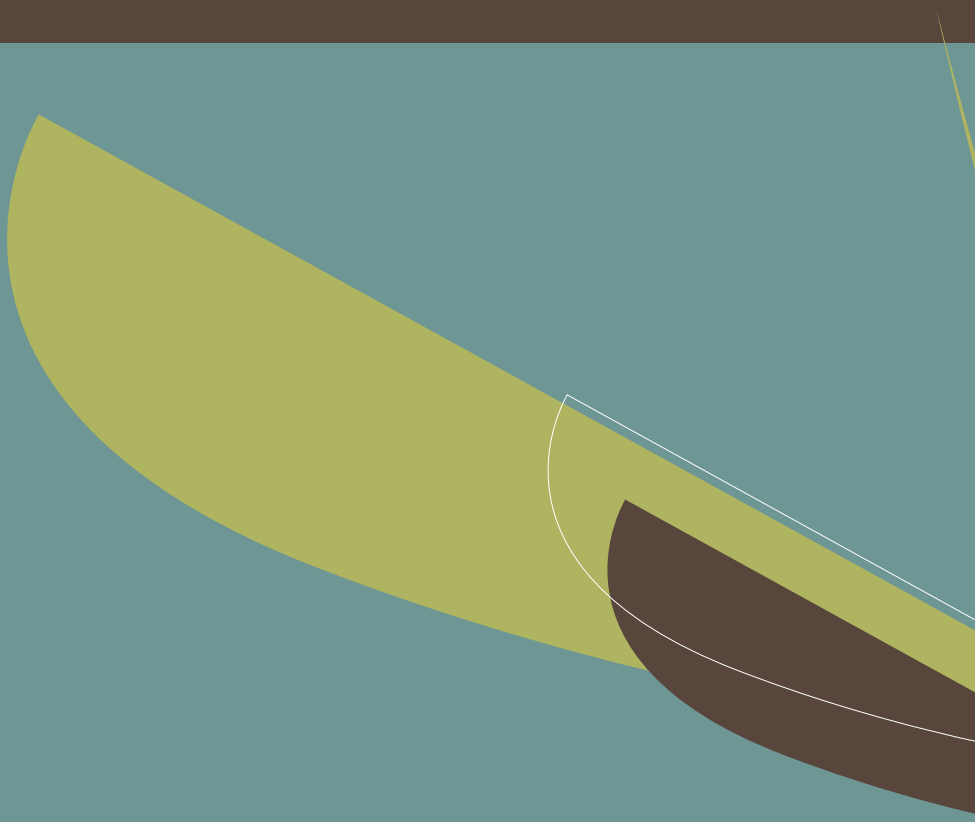

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