



17 August 2020

Committee Secretariat
Standing Committee on Agriculture and Water Resources
Timber Supply Chain Constraints
PO Box 6021
Parliament House
CANBERRA
ACT 2600

By email: agriculture.reps@aph.gov.au

Dear Committee Secretariat

New Forests Asset Management Pty Ltd Submission: Timber supply chain constraints in the Australian plantation sector

New Forests Asset Management Pty Ltd (**New Forests**) is a forestry investment manager, headquartered in Sydney. We manage forestry investments in Australia, New Zealand, Southeast Asia and the United States. In Australia, New Forests manages approximately 380,000 productive hectares of plantation forests, located on approximately 520,000 hectares of land – making New Forests the largest plantation forest manager in Australia. Approximately 30% of our forest area under management is softwood plantations, and 70% is hardwood plantations. The forests we manage are primarily located in three key forestry regions; southwest Western Australia, the Green Triangle and Tasmania.

In addition to these plantation forests, New Forests manages an investment fund which owns Timberlink Australia Limited (**Timberlink**). Timberlink is a major wood processing and timber distribution business in Australia. Operating two sawmills – one in Bell Bay (Tasmania) and one in Tarpeena (Green Triangle) – Timberlink supplies timber into the key Australian markets via its national distribution network with centres in Adelaide, Melbourne, Perth and Sydney plus a sales team in Bell Bay.

New Forests is a key participant in the Australian forestry sector and welcomes the opportunity to make this submission. New Forests is also member of the Australian Forest Products Association (**AFPA**), which we understand has separately submitted on behalf of its membership base.

Overview

New Forests believes in a world where the forestry sector is leading the transition to a sustainable future. We expect that demand will continue to grow for wood products in both traditional and emerging markets, and in new products such as engineered wood products, biomaterials and bioenergy.

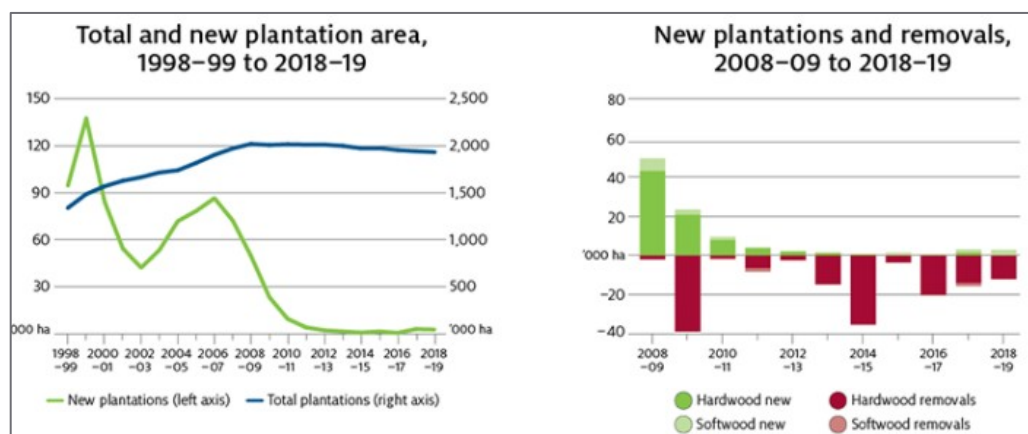
We believe the market is currently operating well and there is limited need for additional Government intervention, however we have outlined some areas where Government could stimulate new plantation forest development, and summarised the key barriers to greenfields expansion.

We address the relevant Terms of Reference (**TOR**) briefly below.

TOR 1 - The nature of wood supply from Australia's plantation sector, including projected timber volumes available over the next 30 years and the potential grades of logs available.

The Australian plantation forestry area is decreasing. This is primarily due to the reversion of hardwood plantations that were established during the Managed Investment Scheme (MIS) growth period through the late 1990's, through to 2008. The return of this area to its highest and best land use (HBU) – mostly to pasture - is an appropriate use of the land. Much of the land should not have been established with trees initially, which occurred as a result of the size of the market distortion created by the MIS legislation, and demand for the tax benefits associated with these schemes during a period of strong economic performance for Australia more generally. The rationalisation of the ex-MIS plantations is largely complete, however new plantation forest establishment is not occurring elsewhere, as shown in Figure 1 below.

Figure 1: Australian Plantation Area Trend (source: ABARES)



Genetic improvements and improved forest management will continue to increase the productivity of Australia's existing plantation forest base, however, there is a real need to find ways to expand the supply of timber from plantation forests in Australia, as Australia is a net wood products importer. We outline possible options available to achieve this below.

Overall, New Forests considers that the data made available by ABARES addresses this TOR with respect to volumes and grades of logs available from Australia's plantation forests.

TOR 2 - The plantation wood supply available for domestic softwood processors including: Current and future demand for logs for domestic processors; and any shortfall in current processing industry demand for logs.

The inquiry will need to consider the inherently regional nature of demand for logs. For example, Australia is a net importer of sawn wood and wood-based panels. The value of imports (\$5.9 billion) exceeded exports (\$3.9 billion) in 2018-19 by more than 50%.¹ ABARES data shows that Australia's imports of sawn wood and wood-based panels increased to \$1.155 billion in 2018-19, whilst roundwood exports increased by 3.1% to \$664 million. However, despite Australia being a net timber importer, softwood logs are exported from the Port of Portland. This indicates that the supply of softwood logs in the Green Triangle region exceeds domestic processing capacity for certain log grades, which are exported.

Overall, New Forests expects that there will be a transition in the use of timber resources from a focus on traditional timber products and manufacturing processes, towards increased demand for engineered wood

¹ ABARES, *Australian forest and wood products statistics, March and June quarters 2019*, published November 2019, https://daff.ent.sirsidynix.net.au/client/en_AU/search/asset/1029841/0.

products such as cross laminated timber (CLT), as well as production of bioenergy and wood pellets and biomaterials. This is likely to shift the nature of demand for different log grades.

TOR 3 - The competitiveness of log pricing between domestic and export market.

The free flow of logs and woodchip to international markets provides critical market diversification to encourage additional plantation establishment, as well as an outlet for smaller logs and woodchip surplus to domestic needs, and enables the customisation of feedstock to support specialised domestic value adding processing. Where many Australian domestic markets have limited local competition for parts of the harvested tree, the export market provides an important alternative market. This is especially critical for new plantations because small diameter log and woodchip are generally produced from early thinnings, providing forest owners with early cash flow.

TOR 4 - The term of log supply contracts needed to support the processing sectors.

Log supply contracts will vary in term and conditions depending on the nature of the supply arrangement and the capital investment in plantation establishment and timber processing. There is no specific answer to what duration is necessary to support domestic processing. Contracts of between one month and 60 years currently exist in the industry. Generally, processors will prefer longer term contracts, but only where there is some form of price protection. This competes with the economics for forest owners, who also prefer the security of long term off-take agreements as part of a portfolio approach to management, but often prefer mechanisms where price certainty is either secure, or includes potential mechanisms to capture and share the benefit of broader market price rises.

TOR 5 - Opportunities to increase Australia's wood supply, including identifying and addressing barriers to plantation establishment.

To have a meaningful impact on Australia's wood supply, the Government should consider:

1. Make the carbon sequestration pricing signal internationally competitive for all post 1989 plantations established.

This could be achieved by:

- Increasing the Emission Reduction Fund (ERF) auction price reserve for plantation sequestration projects to A\$30 per CO₂e tonne (i.e. ACCU); and
 - Allowing ACCU's to be traded internationally to access more lucrative global sequestration markets i.e. EU and New Zealand. New Zealand (Australia's largest direct regional competitor for wood products market) has a CO₂e pricing signal which is 100% higher than Australia.
2. In the ERF, carbon sequestration calculations for plantations recognise the benefits/costs of:
 - the life cycle carbon stored in wood-based end products, not just in standing forests; and
 - the low embodied energy of wood products compared to other building materials be recognised in in wood product company tax exemptions.
 3. Specify the preferential use of wood products from domestic sources in all Federal government sponsored projects.

(Note: there would have been a 4th bullet here, regarding the so called "600mm rule" which relates to approval of plantation forests on land that receives above 600mm of rainfall. The Government is to be commended on the progress made in streamlining this artificial market constraint in the key Forestry Hubs.)

The key barriers to entry:

- A free market carbon pricing mechanism.
- A method for calculating and recognising the carbon stored in wood products during their life cycle, not just the permanent carbon stored in planted forests.
- Mechanisms for the incentivisation of wood products manufacture given their lower embodied energy compared to other building materials.

TOR 6 - The role that state governments could have in assisting in addressing any problems identified by the work of this committee.

Various options that should be considered include:

- Remove State-based water licensing arrangements in South Australia that limit the area of plantation trees that can be established.
- Remove stamp duty payable on forest land, or streamline the stamp-duty regulations to allow for more efficient trading in forest land. For example, stamp duty often acts as a major dis-incentive to certain corporate restructuring that lead to more optimal forest management outcomes.
- Change State building codes to more explicitly favour use of timber and wood in construction.
- Specify the preferential use of wood products from domestic sources in all State government sponsored projects.

TOR 7 - Make any recommendations around any code of conduct or management mode that could assist in addressing any problems identified by the work of this committee

The free flow of fibre through exports must continue. It operates as a relief valve when domestic markets are unable to consume either the volume or specifications, and where there is no commercial domestic alternative for what are essentially low value products. However, the priority is to supply timber and fibre to domestic facilities to underpin competitive existing and new investments, and to capitalise on the downstream regional economic development and jobs which this generates.

Yours faithfully,

Mark Rogers
Managing Director, Australia New Zealand
New Forests Asset Management