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The Hon Dick Adams MP
Federal Member for Lyons
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Dear ~~Mr Adams~~, Dick

VICTORIAN GOVERNMENT SUBMISSION TO THE HOUSE STANDING COMMITTEE ON AGRICULTURE, RESOURCES, FISHERIES AND FORESTRY - INQUIRY INTO THE AUSTRALIAN FORESTRY INDUSTRY

I am pleased to provide you with the Victorian Government's submission to the House Standing Committee on Agriculture, Resources, Fisheries and Forestry's inquiry into the Australian forestry industry. The submission is endorsed by the Premier of Victoria, the Hon. Ted Baillieu MLA.

This submission recognises the many positive aspects of the Australian forestry industry and highlights key issues to Victoria for specific consideration.

I look forward to the findings of the inquiry and trust that it will assist to underpin the long term future of Australia's forestry industry.

Yours sincerely

Peter Walsh MLA
Minister for Agriculture and Food Security

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Victorian Government's Submission to the House Standing Committee on Agriculture, Resources, Fisheries and Forestry - Inquiry into the Australian forestry industry

Victorian forestry industry

Victoria's timber industry has historically played an important role in the State's economic and regional development and it remains of major economic value and a significant source of employment. Managed under a world class system of sustainable forest management, Victoria's forest estate covers around 8.3 million hectares or 36 per cent of the State. Victoria's forest estate is diverse, managed for multiple goods and services and consists of nature conservation reserves, State forest, other Crown and leasehold land, private native forest and plantations. The industry employs approximately 23,700 workers throughout the State with a significant number located in regional Victoria.

Resource

Victoria is the largest producer of logs in Australia, harvesting over 6.1 million m^3 in 2008-09, which represented 24 per cent of the total national harvest (ABARES, 2010). Within this total, Victoria was the largest producer of softwood logs (3.9 million m^3), representing 29 per cent of Australia's total production.

Victoria's State forests comprise around 3.3 million hectares, almost 40 per cent of Victoria's total forest estate. Native forests are managed under the Regional Forest Agreements framework, for various purposes including environmental conservation and timber production. Victoria is currently engaged with the Australian Government in a comprehensive review of the progress of implementation for these 20-year agreements.

Victoria's hardwood plantations cover an area of approximately 229,400 hectares and are managed primarily for short-rotation plantations producing woodchips. The area of softwood plantations in Victoria is approximately 222,100 hectares and is typically managed over a longer-rotation for sawlog and woodchip production.

Processing

Victorian sawmills, comprising hardwood and softwood processors, produced approximately 1.09 million m^3 of sawn timber in 2007-08 (ABARES, 2010). Softwood sawntimber production accounts for approximately 75 per cent of this total.

Victoria is also a significant producer of pulp and paper, with the Maryvale mill (Australian Paper) producing more than 611,000 tonnes of paper and 494,000 tonnes of pulp each year – by far, the largest pulp and paper facility in Australia utilising softwood and hardwood fibre (sourced from native forest hardwood pulplogs and an increasing volume from hardwood and softwood plantations).

Victoria's forest industry encompasses a range of other processing and manufacturing enterprises, including the production of plywood and medium density fibreboard. The industry comprises investment from Australian publicly listed companies, international forest and wood product companies, and a diverse range of family and privately owned companies.

Socio-economic benefits

Employment in the Victorian industry is estimated to be around 23,700 (Schirmer, 2010). The majority of those employed in the industry (approximately 85 per cent) work in the primary or secondary processing sector (Table 1).

Table 1 Victorian forest industry employment by sector (2010)

Forest industry sector	Estimated employment, regardless of timber source	Percent of total forest industry employment*
Growing	610	2.6 per cent
Services to forestry	3,032	12.8 per cent
Primary processing	5,154	21.7 per cent
Secondary processing	14,950	63 per cent
Total	23,746	

Note that percentages do not sum to 100 due to rounding.
Source: Schirmer 2010.

The gross value of Victoria's total (hardwood and softwood) log production was $400 million in 2008-09 (ABARES 2010). This was the highest of any State and represented 23 per cent of Australia's total value over this period. Furthermore, Victoria's combined sales and services income from wood, paper and paper products was just over $6.5 billion in 2006-07, also the highest of any State (ABARES, 2010).

A large proportion of forest industry production is driven by the domestic building industry. In 2009-10, Victoria had the largest number of housing commencements (37,800) in Australia and total dwelling unit commencements were approximately 54,400, or 33 per cent of the Australian total. These estimates indicate that Victoria is one of the largest markets for sawn timber, which is consistent with construction trends over the past decade.

Forest policy in Victoria

In the 2010 State election, the Victorian Government affirmed its commitment to guarantee the future of Victoria's timber industry principally through providing long-term security for the industry by:

- guaranteeing long-term access to current supplies of native timber;
- supporting ecological thinning of native forests to ensure their future;
- the renewal of Regional Forest Agreements every five years to provide 20-year resource security; and
- ensuring the Department of Primary Industries is responsible for managing areas of public native forest set aside for wood production.

In addition, the Victorian Government has made a clear commitment to ensuring world standard forestry management practices are adopted throughout the industry and providing strong support for industry innovation and forestry education centres.

Key issues for the Victorian forestry industry

The Victorian Government has committed to the forest policies above to assist the Victorian forestry industry to address a range of challenges and key issues. Some of these are common across all states and jurisdictions in Australia. These include, for example, competition for land use, new models of plantation investment, international competitiveness, integrated management of water resources and also carbon as part of a national or global framework to address climate variability.

The Victorian Government would like to highlight five key issues for specific consideration under the Inquiry (Table 2). Following is an outline of these key issues.

Table 2 Alignment of key issues with terms of reference

Terms of reference	Key issues				
	Clear separation of commercial and regulatory functions	Maintaining or expanding the resource base	Increasing production and utilisation efficiency	Establishing market-based approach to pricing	Maintaining or enhancing competitive position
Opportunities for and constraints upon production	✓	✓	✓	✓	✓
Opportunities for diversification, value-adding and productive innovation		✓	✓		✓
Environmental impacts of forestry		✓			
Creating a better business environment for forest industries	✓	✓		✓	✓
Social and economic benefits of forestry production	✓		✓		✓
Potential energy production from the forestry sector			✓		
Land use competition between the forestry and agricultural sectors		✓			

1 Achieving separation of commercial and regulatory functions

The clear separation of commercial and regulatory roles is a cornerstone of good public policy. Victoria has been at the forefront of industry reform in terms of the separation of commercial functions from the development of native forest policy and regulation, for example, through the sale of its softwood estate (1996) and the creation of VicForests (2004). Some other States have followed similar processes for privatisation of plantation resources and also the separation of commercial interests in native forests.

These processes have contributed to greater transparency, accountability and have created the opportunity for the social and economic benefits of forestry production to be more fully captured.

The Victorian Government is committed to improving and strengthening these processes, and in particular VicForests' role in the commercial management of Victoria's public native hardwood estate.

Opportunities exist for the creation of a better business environment for forest industries throughout Australia through greater adoption of the national Competition Principles Agreement, particularly with respect to competitive neutrality policy and principles.

The Victorian Government encourages the Inquiry to recognise the importance and benefits of the clear separation of forest policy, regulatory and commercial functions, especially in relation to State-owned forestry resources and businesses.

2 *Maintaining or expanding the resource base*

The terms of reference cover the opportunities for and constraints on production. A fundamental requirement for maximising industry production is maintaining or expanding the forest resource base. In its 2010 election commitments, the Victorian Government committed to improving the security of native timber supply to the industry. There are a range of aspects to consider in relation to this objective, including the drivers for plantation investment, farm forestry and biosecurity that the Victorian Government would like to draw to the Inquiry's attention. These selected aspects are outlined below.

Plantation investment

Australian Government policies to promote the expansion of the plantation estate have increased in the establishment of short-rotation hardwood plantations for pulplogs. However, these policies have not resulted in a significant increase in the area of hardwood or softwood plantations for sawlogs. Lack of expansion for plantation sawlogs represents a major constraint on national production. Coupled with the decline in supply of sawlogs sourced from native forests over the past decade, there is likely to be a further tightening of supply that will constrain future development.

A lack of supply security is also likely to affect the viability of the downstream processing businesses, which are major employers. Primary processing is estimated to account for almost 22 per cent of total forestry industry employment in Victoria, most of which occurs in regional locations.

Farm forestry

The Victorian Government also recognises the role that farm forestry can play in securing resource supply, improving farm sustainability and delivering broad scale environmental benefits to the community. For farm forestry to be adopted on a sufficiently large scale to generate these benefits a number of issues need to be addressed. These include;

- lack of capacity of service providers to meet grower needs (especially grower associations);
- difficulty of accessing the latest research in a form suitable for farm forest growers;
- poor community recognition of the potential benefits of farm forestry at both a farm and catchment level; and
- lack of commercial markets for farm forestry sourced timber.

The Carbon Farming Initiative is still under development and it is not yet clear whether it will provide incentives to foster the further development of farm forestry on a wide scale.

Another issue that needs to be addressed to foster the wide scale establishment of farm forestry is consistency of land use determinations. Recognising that farm forestry is intended to be part of an agricultural system, land use policies should be consistent across rural sectors and across local government areas.

Biosecurity

Biosecurity is an issue that needs to be taken into consideration for securing the productive resource base for industry. For example Victoria, along with other Australian states, is currently facing a serious biosecurity threat in the form of Myrtle Rust (*Uredo rangelii*), which attacks actively-growing leaves and shoots of the Myrtaceae family, including many Eucalyptus species.

The Victorian Government acknowledges the serious threat that Myrtle Rust poses to the forestry industry and is contributing to the national response that is being coordinated by the Myrtle Rust National Management Group.

The Victorian Government encourages the Inquiry to recognise the importance of the development of an environment that encourages plantation investment, farm forestry and biosecurity with the objective of maximising industry production.

3 Increasing production and utilisation efficiency

A key focus for the Victorian Government is increasing production and efficient utilisation of its forest resources. The Victorian Government recognises the key contribution made by industry research and development (R&D) to meeting this objective. It also recognises the potential contribution to bioenergy production through enhanced resource utilisation.

R&D investment

Investment in R&D is critical to enhancing both Victoria's and Australia's production and utilisation efficiency. Historically, CSIRO has undertaken primary research to support productivity gains throughout the industry; however, investment in research of this nature has declined substantially in recent years. Forest and Wood Products Australia (FWPA) contributes to the body of industry research as does the Cooperative Research Centre for Forestry, but more investment is needed to underpin the industry's ongoing efforts to achieve greater efficiency.

Without continued investment in national R&D, further productivity gains in the forestry industry can be expected to slow and, hence, the competitiveness of the Australian industry will begin to decline.

The Victorian Government encourages the Inquiry to review the status and contribution of R&D to industry production.

Bioenergy

The forestry industry in Victoria has potential to provide feedstock for renewable energy production in niche circumstances, and yet this opportunity has been constrained to date.

One of the key constraints facing the industry is limited community understanding and acceptance of the sustainable use of native forest wood waste for production purposes including bioenergy.

The Victorian Government encourages the Inquiry to review the constraints to bioenergy development using forest industry feedstock and consider the impact this has on production and utilisation efficiency across the industry.

4 Facilitating the operation of market mechanisms

Another cornerstone of good public policy is enabling the use of market mechanisms to maximise the benefits to society from the use of its forest resources.

Victoria has adopted market-based approaches to assist the competitive development of its forest industry. It is the only State to have introduced a system for competitively allocating and selling timber from its native forest estate. The use of an online auction system to sell hardwood sawlogs to sawmills, coupled with tendering processes for harvest and haulage contracts, and regeneration works, has resulted in a reduction to the barriers to entry and exit within the industry, greater transparency, greater competition, and enhanced allocation of resources.

The Victorian Government encourages the Inquiry to recognise the desirability of national consistency in adopting market based mechanisms for log sales, governance and cost recovery for timber from *public native forests.*

Related to this, the efficient operation of any market-based approach critically rests on the symmetry of information available to buyers and sellers, for example about price trends and forest area and yield estimates.

Price indices for Australia's softwood sector and for sawn timber and other wood products are now contributing directly to the transparency of the Australian forestry industry. They also reduce the transaction costs associated with price negotiations.

The Australian Bureau of Agriculture and Resources Economics and Science (ABARES) and the National Plantation Inventory (NPI) provide important publicly available information regarding Australia's plantation area and yield. The research undertaken by these organisations is an important source of information and requires on-going investment to ensure the accuracy and timeliness of the data.

The Victorian Government encourages the Inquiry to consider opportunities for creating a better business environment for forest industries through the development of additional market intelligence, for example, by facilitating the establishment of a national hardwood log price index, and through the provision of publicly-available information about forest area and yield estimates.

5 Maintaining or enhancing competitive position

As outlined above, the Victorian forest industry has faced significant institutional reform designed to improve its competitive position. National forest policy and government initiatives also have a role in enhancing the competitiveness of the industry through, for example, creating an environment that is conducive to investment across the States.

Attracting ongoing investment

Victoria has attracted considerable capital investment over time including, for example, the establishment of one of the leading major pulp and paper manufacturing facilities in Australia, the privatisation of State-owned softwood resources, and numerous sawmill and panel production facilities across the State. Maintaining or enhancing industry's competitive position will require ongoing investment, right across the supply chain.

The Victorian Government seeks to provide long-term security for the industry, through a policy and regulatory environment that facilitates ongoing investment. This position needs to be complemented with clear statements on national forest policy from the Federal Government.

The Victorian Government encourages the Inquiry to consider how the Australian Government and industry can facilitate and enhance the investment environment in which the forest industry operates, recognising the imperative for ongoing investment and industry renewal over time.

Recognition of trade exposure

In relation to the regulatory environment, a key issue is exposure to imported products, some of which may be from illegal sources or from countries with lesser regulatory requirements.

Victoria is the home of a number of key primary and secondary wood and wood product processing operations in Australia, for example the Maryvale mill (Australian Paper) in Gippsland. This mill makes a significant contribution to regional employment and expenditure in Victoria and Australia. It is also exposed directly to international competition from countries with different regulatory environments.

The Victorian Government encourages the Inquiry to consider how the Australian Government can *ensure the national regulatory environment enhances the competitiveness of the Australian industry, including those businesses that trade internationally.*

Another key issue relating to regulation and industry competitiveness is illegal logging of forests in other countries, and the impact of illegal timber imports on domestic producers. The Australian Government is leading on the development of legislation to combat illegal logging, however it is important that all states are fully engaged in the design and operation of these regulations as they are introduced over the next two years.

The Victorian Government encourages the Inquiry to recognise the national illegal logging policy development process will require significant State Government and industry consultation and input to ensure policy settings are consistent and facilitate a competitive forest industry.

SUMMARY

The Victorian Government encourages the Inquiry to:

- recognise the importance and benefits of the clear separation of forest policy, regulatory and commercial functions, especially in relation to State-owned forestry resources and businesses;
- recognise the importance of the development of an environment that encourages plantation investment, farm forestry and biosecurity with the objective of maximising industry production;
- review the status and contribution of R&D to industry production;
- review the constraints to bioenergy development using forest industry feedstock and consider the impact this has on production and utilisation efficiency across the industry;
- recognise the desirability of national consistency in adopting market based mechanisms for log sales, governance and cost recovery for timber from public native forests;
- consider opportunities for creating a better business environment for forest industries through the development of additional market intelligence, for example, by supporting the establishment of a national hardwood log price index, and through the provision of publicly-available information on forest area and yield estimates;
- consider how the Australian Government and industry can facilitate and enhance the investment environment in which the forest industry operates, recognising the imperative for ongoing investment and industry renewal over time;
- consider how the Australian Government can ensure the national regulatory environment enhances the competitiveness of the Australian industry, including those businesses that trade internationally; and
- recognise the national illegal logging policy development process will require significant State Government and industry consultation and input to ensure policy settings are consistent and facilitate of a competitive forest industry.

References

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