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Tasmanian Government

27 APR 2011

Inquiry Secretary
House of Representatives Standing Committee on Agriculture, Resources, Fisheries and Forestry
arff.reps@aph.gov.au

Dear Sir/Madam

Please find attached the Tasmanian Government submission to the Inquiry into the Australian forestry industry.

The Tasmanian Government welcomes this inquiry into the current and future prospects of the Australian forestry industry in what is a challenging time for the industry in Tasmania, and thanks the committee for providing an extension enabling us to make this submission.

The Tasmanian Government strongly supports the forest industry as both a key part of the State's economy and also as a way of life for many Tasmanians. The Government wants to maintain an appropriate balance between protecting our environment and maintaining a vibrant and innovative forestry industry, including large-scale value-adding processing facilities.

In this context, I hope this submission helps inform the Committee of some of the key opportunities and risks, and regulatory and social issues relevant to the committee's terms of reference with regards to forestry in Tasmania.

We would be pleased to assist with providing further information or arranging discussions with Committee members in support of this submission.

If you have any questions regarding the submission, or would like to arrange further discussions, please contact Mr Andrew Blakesley, Director, Forest Policy, Department of Infrastructure, Energy and Resources by phone (03) 6233 3567 or email at andrew.blakesley@dier.tas.gov.au.

Yours faithfully

Lara Giddings MP
Premier

CA353952

SUBMISSION FROM THE TASMANIAN GOVERNMENT TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON AGRICULTURE, RESOURCES, FISHERIES AND FORESTRY INQUIRY INTO THE AUSTRALIAN FORESTRY INDUSTRY

APRIL 2011

INTRODUCTION

The Tasmanian Government welcomes this inquiry into the current and future prospects of the Australian forestry industry in what is a challenging time for the industry in Tasmania.

The forest based industries are a key contributor to the Tasmanian economy with forestry and related processing estimated to have contributed 2.8 per cent of the total 2009-10 Gross State Product and 1.9 per cent of direct employment.

The industry provides both jobs and a way of life for many Tasmanians, but it is also an industry on which Tasmanians have a wide range of strongly held views. There have been many inquiries held over the past decades on different aspects of the industry, particularly in Tasmania' which have resulted in a range of agreements, changes and recommendations.

This current inquiry occurs at a point in time where we have another period of considerable challenge for the industry and an historic process in Tasmania to move this debate forward, and secure a more certain future for the industry and the community, an outcome this Government strongly supports.

The Tasmanian Government strongly supports the forest industry as a key long term part of the State's economy and way of life. The Government wants to maintain an appropriate balance achieved in protecting our environment for all to enjoy now and into the future while maintaining a vibrant and innovative forestry industry, including large-scale value-adding processing facilities.

Whilst the Tasmanian Government will leave it to the industry and private forest owners to present their interest in the inquiry matters, the aim of this submission is to inform the Committee of some of the broader policy issues that the Government sees as relevant to the Inquiry.

The Tasmanian Government would be happy to assist with providing further information to or arranging discussions with the Committee in support of this submission.

The remainder of this document addresses specific terms of reference of the inquiry.

OPPORTUNITIES FOR AND CONSTRAINTS UPON PRODUCTION

FUTURE RESOURCE OPPORTUNITIES

There are opportunities to increase the production of wood for industrial use in Tasmania, both in the native forest estate and from plantations, on both public and private land.

The Tasmanian Government brings to the Committee's attention the Intensive Forest Management (IFM) activities undertaken in the public forest estate by Forestry Tasmania over the past few decades, which when combined with the investment by the private sector, including the extensive plantations established under Managed Investment Schemes, has led to a significant resource of young eucalypt plantations which will provide future opportunities for establishment of new processing facilities.

The most obvious current example of this is Gunns Limited's proposed Bell Bay Pulp Mill, which will be able to utilise 100 per cent plantation feedstock, and will bring significant investment and employment opportunities to the State if it proceeds.

The latest independent economic report shows that this mill will contribute 250 direct jobs and over 3,000 ongoing jobs as well as making a significant contribution to the Tasmanian economy and State and Federal Government tax receipts[1].

As identified in Forestry Tasmania's third review into *Sustainable High Quality Eucalypt Sawlog Supply from Tasmanian State Forest* (*http://www.forestrytas.com.au/uploaded/File/pdf/SustSupply RevNo3 100.pdf*) carried out in 2007, current resource projections are for a continuing supply of both high quality eucalypt sawlogs, with an increasing supply of additional solid wood products which will be produced from eucalypt plantations. This solid wood plantation material could be suitable for new businesses such as rotary peeling or gluing and reconstitution as solid wood products (including laminated veneer lumber – LVL).

The smaller diameter logs derived from plantations may best be suited to processing in modern mills specifically designed to process small-diameter plantation logs. The bulk of these plantation logs are unpruned, but it is Forestry Tasmania's intent to produce a short pruned portion which falls below the current length and diameter specifications for Category 3 sawlogs. These low pruned logs are likely to provide high quality material suitable for face veneer.

The Tasmanian Government also brings to the Committee's attention that these opportunities are not limited to the eucalypt plantation sector.

Forestry Tasmania has advised that opportunities exist to increase the productivity and the value of standing native forests through more intensive management of the existing forest estate, and when combined with better log segregation practices, the native forest based sector can also grow and prosper.

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[1] Insight Economics (2011) : Building a Pulp Mill at Bell Bay - Economic Impact of a Major Investment available at
http://www.gunns.com.au/Content/uploads/documents/Building%20a%20Pulp%20Mill%20at%20Bell%20Bay%20Economic%20Impact%20of%20a%20Major%20Investment%20Report.pdf

Opportunities also exist for expansion of the private plantation estate, especially the softwood estate, into drier areas, but this may need supportive policies that provide investment certainty, given the longer time rotation lengths of these types of investments, which make them less attractive to most private investors.

Ongoing support from governments and industry for research into improved silvicultural and processing practices through organisations such as the CRC for Forestry is fundamental to achieving the best from our forest resources.

SHORT TERM RISKS & CONSTRAINTS

There are some very real short term risks to investment, particularly in the native forest sector. These risks arise from many factors including the uncertainties for resource, markets and future forest policy directions arising from the Statement of Principles process and the looming expiry of the Tasmanian Regional Forest Agreement (RFA) in 2017. The increasing restrictions and costs to wood production in order to achieve improved environmental outcomes; poor markets conditions for harvest and processing residues and the flow on impacts from this as financial institutions become less willing to invest in current and new businesses also contribute to this uncertainty.

The industry is going through a tumultuous period driven by Gunns Limited decision to exit native forest logging and focus its business exclusively on the development of a plantation based pulp mill.

For many of the 1,600 private landowners with native forest on their land, these forests are a form of savings, a bank, that can be managed and drawn upon when extra funds are needed, or when times are tough. Many landowners have invested in improving the future productivity and value of their native forests. However, with the growing uncertainty over future markets for native forest wood, particularly the lower quality material, this creates uncertainty and may lead to perverse outcomes such as landholders bringing forward planned harvesting or reducing management effort as forests become a liability rather than asset for these landholders.

However, with Gunns proposed exit from the native forest industry, the remainder of the sawmilling industry will require either major changes to forest management to supply the resource, or new customers to take the pulpwood product. This provides both a huge challenge and threat to the sector, but also a potential opportunity for new markets and industries.

In this context, the Government sees the current negotiations taking place around the Statement of Principles process as a key part of the way forward for forest management in the State.

While the final outcome of this process combined with market forces are unclear at this time, the Tasmanian Government firmly believes that there is a future for both native forest and plantation based industries in Tasmania's future.

The Tasmanian Government believes that the Australian Government has an important role to support this industry and minimise the impact of the uncertainties through measures such as a strong commitment to renew RFAs as soon as possible, maintaining the current legislative arrangements for RFA forestry operations under the *Environment Protection and Biodiversity Conservation Act*, resourcing a significant communication program in international markets on

Australia's native forest management and environmental credentials, and supporting a strong domestic education and market awareness program.

OPPORTUNITIES FOR DIVERSIFICATION, VALUE ADDING AND PRODUCT INNOVATION

With the significant volumes of logs becoming available within the next 10 years from maturing eucalypt plantations, there is an opportunity to attract new industries to process this resource into innovative products.

In addition there will be many opportunities in a carbon constrained economy and with new carbon market to take advantage of the critical positive role carbon and wood products can have in reducing carbon emissions. These opportunities may include forest management to enhance forest carbon storage; use of more wood in long life products and constructions; and increased use of wood as a renewable energy source.

In 2009 the Tasmanian Government supported the Forests and Forest Industry Council of Tasmania (FFIC) to look into potential value adding options in Tasmania and the steps that can be taken to achieve this. In February 2010, the FFIC released a report titled *The New Forest Industry Plan (http://ffic.com.au/ literature 56423/The New Forest Industry Plan)* which brings together much of this work. It is recommended that the Committee consider this report to gain a better understanding of the possible opportunities for forestry in Tasmania.

As identified in this report, new industry can be encouraged through investment in research and development to access processing knowledge for plantation wood and appropriate promotion, incentives to attract capital, including continued Government support and resource security and positive rules/system for carbon credits/trading.

The Tasmanian Government believes that continued government and industry support for the CRC for Forestry is essential to continue to drive innovation in the industry.

In the more immediate future, with Japan shifting to plantation based wood sources and with the Chinese market for woodchips expected to be very price sensitive, the future of further investment in eucalypt plantations will be much more certain if it is driven by industry resource needs such as Gunns' proposed Bell Bay Pulp Mill.

The emerging opportunities for increased use of wood in major building construction throughout the world are of particular area of interest. Wood is increasingly being used in multi-storey commercial construction, large span applications and modular housing. This is partly driven by consumer recognition of the value of wood in its technical (for example in earthquake prone areas) and aesthetic qualities and of the value of wood as a renewable, low embedded energy resource that stores carbon. It is also in many other parts of the world facilitated by government regulation and policy prescribing use of wood in procurement policies and building codes as part of an overall climate change strategy. Such policies warrant the attention of the Committee as a means of facilitating forest industry growth and high value product innovation.

ENVIRONMENTAL IMPACTS OF FORESTRY

The environmental impact of forestry is a very extensive topic to consider and this submission does not attempt to provide any detail on this. All forests have environmental values and "forestry", as in the practice of the management of forests for a range of uses and benefits, can have a range of impacts, both positive and negative, on any particular environmental value, depending on how activities are managed.

What is important is the systems that are in place to identify, consider and manage the impacts of forestry and an appropriate balance is implemented between the protection of environmental values and the realisation of economic and social values obtained through the productive use of forest resources.

Tasmania has a well developed, sophisticated and comprehensive system that is applied to all "forestry" practiced in the State through the Forest Practices System. The Forest Practices system provides guidance on how to practice forestry while minimising impacts on a comprehensive range of natural and cultural values in the land, air and water environments. The system also has a comprehensive set of education, compliance checking and enforcement components. The Tasmanian RFA accredits the forest practice system as part of the forest management systems that deliver the economic, social and environmental outcomes required under national and State legislation and policy.

The forest practices system is being continuously reviewed and updated to reflect the findings of the latest science and research. The values of the forests themselves were comprehensively studied and reported as part of the Regional Forest Agreement process in 1996. The Committee is referred to the 1997 Yale Review titled *"A Global Comparison of Forest Practice Policies Using Tasmania as Constant Case"*[2] which outlines the relative strength of the Tasmanian Forest Practices Code in a global context.

Tasmania has developed both a world class forest reserve system and a world class forest practices system to ensure a balance between environmental protection and economic opportunities.

The Forest Practices Authority (www.fpa.tas.gov.au) has a range of publications available which outline both the forest practices system and the forest reserve system.

Members of the committee are particularly referred to the *State of the Forests Report 2006* (http://www.fpa.tas.gov.au/fileadmin/user_upload/PDFs/General/SoF_2007_17_Nov_small.pdf) and the *Sustainability Indicators for Tasmanian Forests 2001 - 2006* 9 http://www.fpa.tas.gov.au/fileadmin/user_upload/PDFs/General/2007_INDICATORS_REPORT_FINAL_24_May_2007.pdf) reports for an overview of forests and forest management in Tasmania. These reports are prepared on a five yearly basis, with the next due in 2012.

[2] McDermott C, Cashore B & Kanowski P (2007): A Global Comparison of Forest Practice Policies Using Tasmania as Constant Case, GISF Research Paper 010, Yale Program on Forest Policy and Governance

The Committee has two specific terms of reference with respect to environmental impacts of forestry.

IMPACTS OF PLANTATIONS UPON LAND AND WATER AVAILABILITY FOR AGRICULTURE

Comments on the impacts of plantations on the land availability for agriculture are made in the *Land Use Competition* section later in this submission.

In regards to water availability, the Committee's attention is drawn to reports released by the CSIRO in 2009 on its "Sustainable Yields" project, containing a comprehensive range of projections on future water availability for Tasmania and major catchments across Tasmania.

The CSIRO report found that most of Tasmania's ground water and surface water resources are relatively under-allocated and that the existing plantation estate and even under a significantly enlarged estate scenario will have a small impact on current and future water yields in most catchments, even under a drying climate scenario.

In terms of future management, the Tasmanian Government supports the National Water Initiative (NWI) signed on 2 June 2005, and as part of the NWI commitment to evaluate the impact on interception by plantation tree crops, the Tasmanian Department of Primary Industries, Parks, Water and Environment has developed a sophisticated water planning tool on Water Availability and Forest Landuse which can be used to evaluate different water usage scenarios and manage these appropriately based on good science.

WIN - WIN OUTCOMES TO BALANCE ENVIRONMENTAL COSTS WITH ECONOMIC OPPORTUNITIES

Tasmania has experience with several formal attempts to achieve this outcome for forests in Tasmania. These have included Environmental Impact Statements, Management Plans, a Judicial Inquiry, development of Forest Industry plans and strategies, and the Regional Forest Agreement. All have attempted to look at and balance the environmental costs with economic opportunities. All have involved the investment of large amounts of public funding and resources from both the Tasmanian and Australian Governments and large amounts of the community's time and emotional capital.

While there have been wins and losses from many perspectives in each of these processes, none has delivered an outcome that can be viewed as a win-win outcome that is supported by the broad community for more than a few short years. This failure is largely due to the difficulty of reaching a common community consensus of where the balance between environmental, social and economic values lies and the changing community views over relatively short periods of time. The failure to deliver certainty is particularly debilitating for the forestry industry as the industry requires decades long resource development and planning to produce the necessary forest stocks to underpin industry development.

The Committee will be aware of the *Statement of Principles* process that started in 2010 and is continuing to attempt a different way of reaching a long term agreement on forests in Tasmania. This process is being driven by representatives of the key stakeholder organisations representing environmental, industry, unions and community groups, and not by Governments. It remains to be seen how successful this will be.

CREATING A BETTER BUSINESS ENVIRONMENT FOR FOREST INDUSTRIES

Including:

- *investment models for saw log production;*
- *new business and investment models for plantation production; and,*
- *superannuation investment in plantations.*

Achieving a business environment that encourages investment in sawlog production from native forests and plantations is both complex and problematic.

Existing native forest sawmills in Tasmania are not suited to process plantation grown logs resource. This section of the industry, which is focused on the production of high quality appearance grade timbers from native forests, can only continue as long as there is a sustainable native forest management ethos in place focused on the production of these high quality sawlogs. A similar position applies to the large number of special species users and secondary users in the furniture and craft industry. A viable market for residues from the harvesting and processing of sawlogs is also essential to underpin the economic viability of forest growers, the harvesting and haulage sector and sawmillers.

Forestry Tasmania is the Government Business Enterprise responsible for the management of State Forests. A key part of their legislated function is the ongoing supply of a defined sustainable annual quantity (currently 300,000 cubic metres) of eucalypt sawlogs suitable for processing into high quality timber products.

Plantation grown timbers provide a significant potential base for future wood composites and fibre based industries, although these markets are not without challenges. The Committee is referred to the extensive research published by Prof. Greg Nolan[3] and the CRC for Forestry[4] looking at the technical and production challenges and prospects for plantation developed timber.

Almost unique to the forest industry however is the attribute that investment in any new plantations or native forest management to support a new forest industry or product has to occur anywhere between 10 and 100 years before the industry exists. This creates a market uncertainty, which when coupled with the uncertainty that generally surrounds investment in forestry in Tasmania, will work against long term investments in forestry.

The Tasmanian Government supports any initiatives that remove this uncertainty, and points particularly to the role that the Australian Government can play in providing certainty by making the extension of the existing Tasmanian Regional Forest Agreement a priority, including rolling renewals of the agreement to provide ongoing 20 year certainty.

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[3] In particular : Nolan, GB and Greaves, B and Washusen, R and Parsons, M and Jennings, S (2005) Eucalypt Plantations for Solid Wood Products in Australia - A Review 'If you don't prune it, we can't use it'. Project Report. Forest Wood Products Research and Development Corporation, Melbourne.

[4] Refer: http://www.crcforestry.com.au/research/programme-two/index.html

The Tasmanian Government also again points to the important role of the CRC for Forestry and the research programs undertaken by Forestry Tasmania as a multiple-use forest manager, which provides a crucial investment catalyst for new industry in this state.

SOCIAL AND ECONOMIC BENEFITS OF FORESTRY PRODUCTION

Forestry is a significant industry in Tasmania, with forestry and related products estimated to have contributed 2.8% of the total 2009-10 Gross State Product of $22.3 billion and 1.9% of employment[5].

Forestry products account for approximately 40.7% of interstate exports and 14.5% of international exports by value making this the largest Tasmanian exporting sector. Minerals, processed ores and food and agriculture are the only sectors to have a higher international export value[6].

While total expenditure by the forestry sector grew by between 5% and 8% from $1.42-$1.60 billion to $1.49-1.73 billion during 2006 to 2008, it has declined by at least 35% since 2008 and more likely by 40-45%[7].

Since 2008, forestry sector employment has fallen from an estimated 6 960 people to 4 650 (a decline of 33.3%). The greatest fall in employment has occurred in the native forest industry with a decline in jobs of 41% between 2006 and 2010 (1426 jobs lost)[8].

The northwest region of the State has been most affected with 43.6% of forest industry jobs lost in this region since 2008. The higher decline in jobs numbers in northwest is largely attributable to the closure of two paper mills in 2010[9].

Finally, what is not captured by these figures is that forest workers are a key part of our communities, particularly our smaller towns, where the forestry industry may be the only source of permanent employment. There is a real risk that if this industry collapses then many of our smaller towns will go past their ability to continue, leading to unemployment and family and social stresses. The forest industry is a critical part of our regional economies, and this importance needs to be recognised.

[5] DEDTA Draft Economic Development Plan – Overview of Focus Sectors, unpublished
[6] ibid
[7] Schirmer J (2010) Tasmania's forest industry: trends in forest industry employment and turnover, 2006 to 2010. CRC for Forestry Technical Report 206.
[8] Ibid.
[9] Ibid.

POTENTIAL ENERGY PRODUCTION FROM THE FORESTRY SECTOR

- *biofuels; biomass; biochar; cogeneration; and carbon sequestration*

The Committee is referred to a report *Markets and Market Prospects for the Forest Products Sector in Tasmania (http://ffic.com.au/_literature_56457/Markets_And_Market_Prospects_For_The_Forest_Products_Sector_In_Tasmania)* prepared by URS Australia Pty Ltd for the Forests and Forest Industry Council of Tasmania in 2009. This paper provides a comprehensive summary of the then existing industry, its markets, emerging international and national market trends and identifies potential market opportunities for the Tasmanian industry. The report also identifies factors that will influence industry competitiveness over the next 10 years. Chapter 10 of this report focuses on the emerging markets of biofuels, bio-electricity, biochar and carbon.

Whilst the development of these industries will ultimately be driven by private industry, the Tasmanian Government notes the widespread acceptance and growing importance of biofuel and biomass energy in Europe and elsewhere in the world and supports these industries as a potential future uses, particularly for plantation timbers.

A critical part of this is the recognition that sawmills need a market for the 60-70% of the log volume that enters a sawmill that does not end up as sawn timber. The potential future use of this resource as renewable biofuels should not be lost in the larger debate about native forest logging practices, especially in light of the potential loss of export woodchip markets for these waste products.

LAND USE COMPETITION BETWEEN THE FORESTRY AND AGRICULTURE SECTORS

- *implications of competing land uses for the cost and availability of timber, food and fibre*
- *harmonising competing interests*
- *opportunities for farm forestry*

Since 2000 the Tasmanian Government has had a *State Policy on the Protection of Agricultural Land* [10] for the purposes of conserving and protecting agricultural land so that it remains available for the sustainable development of agriculture, recognising the particular importance of prime agricultural land.

The Policy acknowledges plantation forestry as a legitimate agricultural activity, allowing landowners to decide if and where to establish plantations on their land. In 2009 the Policy was amended to prohibit the establishment of new plantations on prime agricultural land, defined as Class 1-3. Exemptions were provided for small woodlot plantings. This policy change was in recognition of public concern over the possibility that the land most suited to growing high

[10] Available at http://www.dpac.tas.gov.au/divisions/policy/state_policies

value food crops could be lost to tree plantations. The reality was that very little of this land had been planted due to high land prices.

Due to the collapse of several managed investment schemes and the withdrawal of a major plantation grower from the MIS business, the area of plantations established on cleared agricultural land in the last couple of years has declined substantially.

There is a possibility that as MIS plantations mature over the next 5-10 years that many of these will not be replanted and returned to other forms of agriculture. If this eventuates, then there will be implications for those forest industries relying on this resource and for carbon emissions.

Opportunities for farm forestry

The term "farm forestry" is often limited in its use to the management of planted trees on agricultural land. But it is much more than that – farm forestry also includes the management of private native forests. In Tasmania, farm forests of all types have historically contributed significant resource to the conventional forest products industry while contributing significant social outcomes, particularly in rural communities, and positive environmental benefits for the community as a whole. This does not take into account the potential that is now developing to expand the product-range from these forests to contribute to new industries around carbon and sustainable energy production with associated flow on benefits.

Farm forestry provides the only opportunity for the expansion of our forest estate through the well planned integration of trees into farming systems. This is an outstanding, and still considerably unrealised, opportunity to increase the sustainable resource of raw materials for processing industries, enhance farm productivity and incomes, provide employment opportunities in rural communities and contribute positive environmental outcomes. As progressively more public native forest is removed from production opportunities increase for privately owned native forests to play an increasingly important role benefitting industry, forest owners and the community as a whole.

However, there are considerable impediments to be overcome to achieve these outcomes including (but not limited to):

- lack of knowledge – many farmers are unaware of the potential contribution that native forests and "plantations" (woodlots, shelter belts etc) can make to their farming enterprises from enhanced production of crops and livestock to supplementary, flexible income streams
- costs of production – resource fragmentation, diseconomies of scale and challenging site conditions impacting growth rates increase costs along the forest management chain inhibiting forestry developments and the ultimate sale of forest products
- market access – the farm forestry estate is insufficient in terms of volume and product quality to underpin processing industries
- funding – many farmers lack the financial resources to undertake forestry developments that often require capital to be tied up for many years before tangible income streams occur
- community sentiment – unfortunately, mismanagement of the Managed Investment Scheme opportunity has created a negative sentiment among many rural communities

Many of these impediments can be overcome or at least their impact reduced by supportive public policy, targeted and appropriate extension services, public education, the development of appropriate funding models and increased research focus in the research priorities of organisations such as the CRC for Forestry. That is not to say that all of these impediments need the development of new technology or practices. There are many examples around the world where farm forestry underpins forest industries more substantial than that in Australia. It is essential that we take learn from the experiences elsewhere.

There can be no doubt that farm forestry has the potential to play an increasingly important role in the future of forestry in Australia. No other resource provides this truly sustainable "triple bottom line" opportunity.