

# Submission to the House of Representatives Inquiry into the Australian forest industry

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## Summary

Heartwood Plantations is a vertically integrated forestry organisation that establishes, manages, processes and markets high-value, durable hardwood timber in Victoria. We have some key areas of concern for the future of our business and the broader Australian Forest Industry:

1. A lack of direction within the native forest industry;
2. A lack of investment in plantations for durable sawlog production;
3. An over dependence on managed investment schemes for plantation expansion;
4. An over dependence on export chip markets for minor products;
5. A poor track record on private forestry and farm forestry;
6. Poor government support and promotion for an industry that is uniquely carbon absorbing and sustainable.

The following document expands on these issues and provides a range of suggestions on tackling them.

Signed



Jon Lambert  
General Manager, Heartwood Plantations

## Submission

Heartwood Plantations is a vertically integrated forestry organisation that establishes, manages, processes and markets high-value, durable hardwood timber in Victoria. Our product division, Radial Timber Sales, currently sources its timber from VicForests. We have one innovative radial sawmill operating in Yarram, South Gippsland that processes approximately 5000 tonnes year<sup>-1</sup>. The majority of our resource is transformed into feature products such as decking, screen boards and flooring. We have a 20 year plan to transition from native forest sawlogs to predominantly plantation resources. To date we have established approximately 1,500 hectares of resource in southern Victoria. Our primary plantation species are yellow stringybark (*Eucalyptus muelleriana*), spotted gum (*Corymbia maculata*) and southern mahogany (*Eucalyptus botryoides*). These species have been selected after many years of R&D exploring the ideal combination of durability, colour, sawing properties and growth rate.

We have some key areas of concern for the future of our business and the broader Australian Forest Industry:

### 1. A lack of direction within the native forest industry;

The native forest industry in Victoria has been badly damaged by a lack of leadership and vision for the future. Many sawmills are struggling financially. Most are using antiquated equipment, making value adding and high recoveries difficult. The lack of resource security has resulted in a loss of confidence in the industry, and therefore low levels of investment to enable diversification, value adding and product innovation. Consequently, the potential for processors to convert to future plantation resources is very low with their current equipment. We have a concern that if we cannot continue to access suitable native forest material for the next 15-20 years, our efforts to transition (or part transition) to plantation resources in the long term may be in vain.

**Suggestion:** Create a long term plan which provides confidence to the remaining innovative and passionate processors so that they can remain viable. Concurrently develop incentives and R&D support to make a transition (or part-transition) to plantation resources achievable.

## **2. A lack of investment in plantations for durable sawlog production;**

There is a general lack of investment in eucalyptus sawlog plantations in Australia, with perhaps the only exception being State Forests NSW. This is staggering given the area of public native forest that has been removed from timber production in the last 10 years. Of specific concern is the absence of R&D being undertaken for the production of durable (class 1 or 2) eucalyptus sawlogs, which could help drive future investment. The relatively small amount of R&D being undertaken by the forest industry for plantation sawlog production seems focused on low value species such as blue gum (*Eucalyptus globulus*), flooded gum (*E. grandis*), white gum (*E. dunnii*) and shining gum (*E. nitens*). We would question the wisdom of such an R&D focus as these species provide very little market versatility given their lack of durability, colour and character. There are two other concerns with this R&D focus; (i) These species will place us in direct competition with countries like Spain, Portugal, Chile and South Africa; and (ii) These species will do very little to relieve our dependence on imports (and illegal logging) from countries like Indonesia where darker colours and higher durability hardwoods are sought.

**Suggestion:** Develop an R&D strategy that has a component specifically focused on providing future durable hardwood sawlog supplies in Australia across several species (with varying colours and properties).

## **3. An over dependence on managed investment schemes for plantation expansion;**

This has been a very obvious weakness now realised by the industry. A new approach needs to be found. Managed investment schemes were fundamentally flawed because the market was driven by tax deductible schemes being sold rather than a genuine demand for the timber products. This regularly compromised the quality of the forestry and led to the establishment of un-researched plantation resources. These resources were developed based on their marketability to (largely ignorant) investors rather than on their viability as a forestry investment. Sadly, the demise of these schemes has impacted the entire industry, deflating confidence across the board. We are now faced with a situation where superannuation firms are the primary owners of Australia's plantation resources. They have little interest in plantation expansion.

There are many individuals who are interested in forestry investments, which the managed investment schemes have proved. However, outside of managed investment schemes, the investment pathway is poorly understood. Tax deductibility is available to most individuals who would desire to 'do it themselves', but the process is complicated with the Tax

Commissioners discretion often required. In addition, the tax on returns is restrictive for many. Forest investors often don't qualifying for Farm Managed Deposits, therefore paying high levels of tax at clearfall. Most financial advisers and accountants are poorly educated in the area of forestry. This leads to many interested "high net worth" clients turning to alternative industries for investment opportunities.

**Suggestion:** Look at making it easier for individuals to participate directly in forestry. This should still be done through experienced forestry organisations with viable markets, however, a clearer financial pathway needs to be developed for individuals to invest directly. This will not provide the scale of investment seen through the managed investment schemes but has the potential to provide a useful alternative model, which is highly successful in many European countries.

#### **4. An over dependence on export chip markets for minor products;**

Australia's over dependence on Japan for its minor product markets is a major weakness. Even in sawlog focused sectors of the industry, the dependence on these markets for substandard wood is large. There is also a poor reward for effort in this market, where slower growing more dense (and usually more durable) species are generally of significantly lower value. In addition, these markets penalise forestry investments if they are located too far from export facilities or domestic paper/particleboard markets.

**Suggestion:** Look at assisting in the creation of alternative minor product markets which can create income for species of low pulp yield and those located too far from export facilities or domestic pulp/particleboard markets.

#### **5. A poor track record on private forestry and farm forestry;**

There have been a range of schemes and initiatives provided by governments over the years to try to encourage farm forestry and private forestry. Most of these have been short-sighted and very few have resulted in a worthwhile return on investment. The major problem is that governments have continued to assume that farmers can grow trees given a few financial incentives and some extension support. The managed investment schemes have demonstrated that, even with major financial backing, growing trees is difficult and requires experienced professionals with a platform of R&D. Farmers rarely have the knowledge and experience to establish and manage timber plantations. Furthermore, financial incentives in the form of grants are often counterproductive because they create a handout mentality and those that have received them generally skimp on management requirements further into the investment term. Notwithstanding, farm forestry and private

forestry are very important components of the industry. With the right initiatives and incentives they have the ability to provide a small percentage of quality resource and a range of on-farm and environmental benefits. More importantly, however, they have the ability to keep individuals involved in forestry rather than just corporations. This provides valuable support to the industry across a broader cross section of the community. Improvements in local council support will be needed for this sector to be successful.

**Suggestion:** Continue to support farm forestry and private forestry through quality extension services. Look at avenues to link landowners and plantation companies in joint venture partnerships for timber production. Provide incentives for plantation companies to invest (via joint venture or lease arrangements) in smaller plantations and those integrated into farms (such as wind breaks, etc). Introduce national or state legislation for forestry on private land to eliminate inconsistencies between shires.

## **6. Poor government support and promotion for an industry that is uniquely carbon absorbing and sustainable.**

The forest industry is unique in its credentials of being carbon absorbing and sustainable. In this area it out-competes all rivals. It is also an industry with the ability to provide massive environmental benefits in areas such as water quality, salinity, erosion and wildlife. Remarkably, however, it is an industry that is struggling. In recent years there have been a multitude of major companies collapse, sawmill closures on a scale never seen in our history, R&D divisions massively downscaled at both federal and state levels and enrollments for forestry courses dwindling. There has been some positive marketing undertaken through the 'Wood Naturally Better' initiative but more needs to be done. Negative campaigns run by green groups have successfully deceived many voters into believing that forestry is environmentally unfriendly.

**Suggestion:** The federal government should get behind forestry. Involve more of the community in forestry through private forestry and farm forestry opportunities. Dramatically increase the level of education about the benefits of forestry starting with primary school children right through to the general public sector. Expand the Wood Naturally Better initiative. Use the carbon debate to launch a new wave of support for the industry.