

*Timber recycles carbon*



**Timber Queensland Submission to  
The House of Representatives Inquiry into the  
Australian Forestry Industry**

**Timber Queensland Limited  
P O Box 2014  
Fortitude Valley Qld 4006  
8 April 2011**

**Recommendations:**

- 1. The Committee acknowledge the regional socio-economic advantages of the domestic forest growing and timber processing sector compared with imported timber.*
- 2. The Australian Government work with the timber industry to undertake an economic assessment of medium and long term domestic timber demand and supply scenarios.*
- 3. The Australian Government work with the timber industry and other stakeholders to develop and implement strategies to improve the financial viability of plantation establishment, including the direct investment in carbon associated with production plantations.*
- 4. Industry and Government develop and implement land supply models for commercial plantation forestry that better integrate with existing communities.*
- 5. The Australian Government assist the forestry and grazing sectors to roll out improved native forest management on private land to deliver improved environmental, economic and social outcomes.*
- 6. The Australian Government adequately recognise and support the opportunities for bio-energy to help address a future carbon-constrained economy.*
- 7. The Australian Government work with the forestry industry to ensure that the CFI and Australia's emissions trading scheme delivers real opportunities for the forest and timber industry to participate in addressing Australia's carbon liabilities.*
- 8. The Australian Government as a priority promote the recognition of harvested wood products in international carbon accounting frameworks*
- 9. The Australian Government as a priority re-instate the Forestry and Forest Products Group within CSIRO, ensuring adequate base funding to allow for proper R&D support for the forest and timber industry.*
- 10. Support private enterprise through grants such as the Forest Industries Development Fund to encourage innovation in timber conversion, use and manufacture of timber products.*
- 11. Governments implement a 'wood first' / 'carbon lite' policy to ensure that options for using wood in public buildings is maximised.*

## **Background**

Timber Queensland Limited (TQ) is the state industry body representing the interests of the full timber value chain; from forest growers, through timber processors and merchants, to fabricators, builders and associated building professionals. We welcome the opportunity to make a submission to the House of Representatives Inquiry into the Australian Forestry Industry.

Queensland's \$2.7 billion forest and timber industry makes a strong and vibrant contribution to the State economy. Central to the ongoing prosperity of numerous local communities, the Industry employs more than 20,000 workers who inject \$1 billion into rural and regional Queensland.

A study undertaken in 2005 found that Queensland's softwood plantation processing sector alone - comprising 26 processing operations across Queensland - generated over \$570 million in direct sales from 2.25 million cubic metres of log timber processed (Meynink 2005). These businesses directly employed almost 1,800 people, with a further 670 employees in contracting businesses.

## **Demand versus Supply**

In the past Queensland met almost all of its own timber needs, yet today there is a growing imbalance in supply and demand. Queensland produces around 85% of our timber needs with the remainder coming mostly from imports.

Population projections indicate the disparity between Queensland's demand and supply will worsen. Queensland expects to grow by 1.7 million people over the next 20 years, requiring almost a million new private dwellings. In the medium term, Timber Queensland expects that by 2020 demand for wood will have increased by 33%. Local production is unlikely to increase significantly over that time, with Queensland-sourced timber expected to fall to only 65% of our local timber needs.

Overseas imports are set to rise to meet this growing demand, and whilst there is a legitimate role for imports to maintain price pressure and supply unmet demand, the further expansion of imports comes at the expense of potential jobs and investment in Australian regional communities. The recent highs in the Australian dollar have already seen expansion of timber importing and distribution facilities here – all within a depressed domestic housing market. These facilities will be a springboard for importers as market conditions improve, even if the Australian dollar eases.

Yet increased imports deliver limited benefit to the Australian economy; adding to the 2.2 billion dollar trade deficit in forest and wood products, and delivering neither regional socio-economic benefits nor any environmental services to Australia.

Overall the Queensland industry is resource constrained - there is more than adequate capacity to process the total projected volumes of plantation and native forest resource. However ongoing investment in innovative new wood products and efficient processing is essential if the industry is to even maintain current competitiveness against imports.

Whilst some investment comes as a result of targeting alternative and more profitable products, efficiency gains are generally achieved through increased throughput. Without an increasing supply of raw material, increased throughput can only be achieved through industry rationalisation – resulting in fewer jobs and smaller socio-economic benefits. There is a clear case for supporting the enhancement of Australia's timber resources.

### **Recommendations:**

1. *The Committee acknowledge the regional socio-economic advantages of the domestic forest growing and timber processing sector compared with imported timber.*
2. *The Australian Government work with the timber industry to undertake an economic assessment of medium and long term domestic timber demand and supply scenarios.*

## **Timber Resource Issues**

Queensland's wood supply comes from a combination of plantations and native forest sources, with plantations generating around 80% of Queensland's supply. This proportion will increase as the Queensland Forest Agreements come into effect in the next 15 years.

### **Plantations are part of the solution**

Timber Queensland estimates that at least 100,000 hectares of new sawlog plantations are required to meet Queensland's future timber demand. These need to be both hardwood and softwood plantations, and need to be long rotation in order to produce solid wood and engineered wood products.

The lack of domestic pulp or paper processing facilities in Queensland means that the maximum benefit from plantations cannot be achieved through short rotation pulp plantations. Although pulpwood production should be acknowledged as a legitimate agricultural pursuit that can help Australia's balance of trade in wood products, Timber Queensland believes that the focus of any policy should be on supporting long rotation plantations primarily for domestic processing.

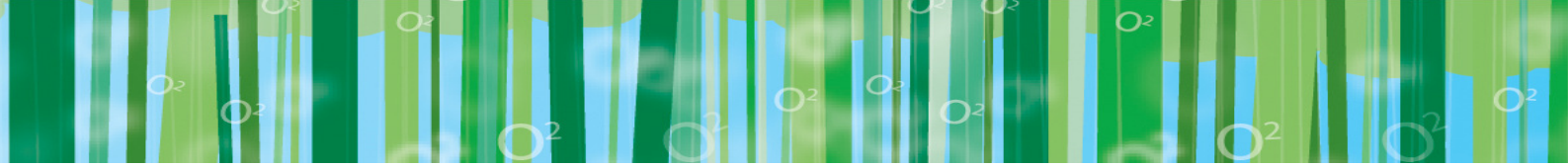
The Queensland Timber Plantation Strategy 2020 commits the Queensland Government to addressing a number of impediments to plantation establishment, including improving the relationship between the plantation sector and local governments while addressing inconsistent and in some cases excessive regulation of plantation development, facilitating a Code of Practice for Plantation Operations to help demonstrate the environmental credentials of plantations, as well as delivering the R&D needed to underpin a viable plantation industry in Queensland's unique climate.

Timber Queensland supports this Strategy and believes it will help to underpin future investment in this state. However more still needs to be done to attract the investment into sustainable long rotation plantations.

### **Financing Queensland's plantation industry**

The financial case for new plantation establishment has always been a challenge, with the long period between outlays on establishment and returns from harvesting being outside the scope of most private investors. Up until the 1990s, the only major investors in large scale plantations in Australia were governments, who recognised the impending need for a domestic source of timber. Much of this development was on land that was already owned by the Government, with clearing being the major cost associated with accessing land.

Managed investment schemes (MIS) have been the major source of funding for plantations in the last two decades. These attracted retail investors largely into short rotation hardwood plantations, or unproven but potentially lucrative high value long-rotation plantations. Unfortunately the Global Financial Crisis exposed some serious flaws in the operation of the MIS model, where future management liabilities were not adequately accounted for. Timber Queensland believes that MIS remains an important vehicle for investment in timber plantations into the future, however regulatory changes are required to enhance the security of investments in this sector. The industry itself also has a critical role to play here, as



investment will only be attracted if schemes are able to clearly demonstrate their long term sustainability.

There has been a recent influx of institutional investors in plantation forestry in Australia, with international timber investment company Hancock Natural Resource Group purchasing Forestry Plantations Queensland from the Queensland the Government in 2010. Most of the failed MIS plantation assets have also been purchased by institutional investors, although some are now under new management on behalf of the original MIS investors. The longer term outlook of these investors is likely to mean that the plantation estate will contract and consolidate, focussing on long term sustainability within the most viable growing areas.

Timber Queensland believes that any significant expansion of the plantation estate will come from the private sector, but will require facilitation by Government. In particular, governments will need to address remaining impediments to plantation expansion; however addressing the financial viability is the key issue.

A recent report sponsored by Forest and Wood Products Australia (de Fegely, Stephens & Hansard 2011) investigates a range of options to support plantation investment, and highlights the need for policies to fundamentally address the financial viability of plantation investments by augmenting the high up-front costs and limited cash flows in the short to medium term. It notes three key areas where there are opportunities to improve the overall profitability of long rotation investments, being:

- lower costs (e.g. cheaper land access options),
- higher productivity (increased growth rates) and
- additional sources of revenue (higher log prices or revenue from the externalities of forests such as carbon sequestration).

The report recommends that pursuit of these opportunities be facilitated by a partnership between Government, industry, landholders and the community. It also identifies a range of criteria that would need to be adopted in any policy settings to ensure that they achieve a high level of community acceptance and do not unduly distort the market, including:

- low cost to the tax payer;
- minimal distortion to related markets and sectors;
- commercially driven market based outcomes
- well defined 'exit' strategy for government involvement to facilitate long term commercial sustainability
- ability to leverage sustained private sector investment; and
- capture of other benefits of plantations (e.g. carbon).

The report also noted that direct Government investment to secure the carbon associated with timber plantations is one of the more promising opportunities for Government to support expansion of the plantation estate.

***Recommendation:***

- 3. The Australian Government work with the timber industry and other stakeholders to develop and implement strategies to improve the financial viability of plantation establishment, including the direct investment in carbon associated with production plantations.*



## **Integration with regional communities**

The sustainable development of the forestry sector in Queensland will require that the industry retains the general support of local communities. Recent expansion of the plantation estate in some regions has caused friction with other traditional industries and resulted in generally poor community acceptance of plantations. These conflicts have been particularly prevalent in north Queensland, where plantations have been established on former cane land.

The failure of a number of MIS companies and recent cyclones have caused most new activity on traditional cane lands to cease, and it is unclear at this stage whether there will be any further expansion on this land.

New land for plantations in Queensland over the last decade has come from a combination of land rentals and land purchase, with the latter being the predominant model. However the rental model addresses a number of community concerns about plantation expansion driving demographic change in regional communities, and mechanisms to encourage this approach to land acquisition should be explored.

### ***Recommendation:***

- 4. Industry and Government develop and implement land supply models for commercial plantation forestry that better integrate with existing communities.*

## **Queensland Forest Agreements**

The South East Queensland Forests Agreement and Western Hardwoods Statewide Forests Process are both built on the Queensland hardwood sector transitioning from a supply based on native forests on State-owned and private land, to wood sourced from hardwood plantations and private native forests.

The Queensland government has committed to establishing 20,000 ha of hardwood plantations to replace the resource currently being sourced from State land. This will now be delivered by the recently privatised Forestry Plantations Queensland as part of their sale conditions. Timber will continue to be sourced from State forests at the current rate until the transition to plantations, which will be finalised by 2025.

Importantly the processors of the hardwood plantation resource will use very different technologies and approaches to the current native forest sector. Large volumes of consistent resource from reasonably concentrated supply nodes will be essential to enable efficient transport systems and the high throughputs required to support new investment in this sector.

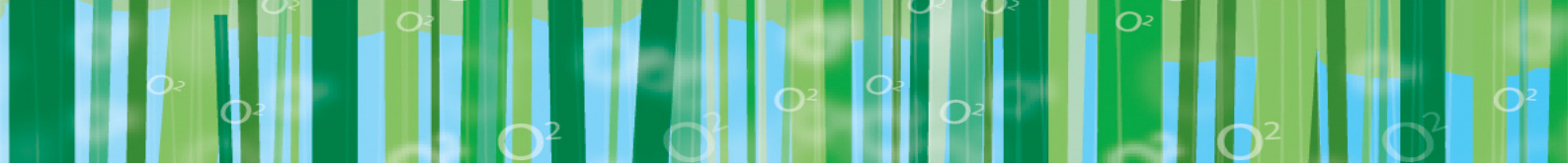
Private native forests currently supply over 50% of Queensland's hardwood resource, and they will continue to play a critical role in supply into the future. These forests provide a unique opportunity to enhance the supply of wood to the Queensland industry, delivering social, economic and environmental gains along the way.

The future of the Queensland hardwood sector relies on the establishment of a long term sustainable hardwood plantation estate, combined with effective management and good stewardship of native forests on private land.

## **Native Forest Resource**

Private native forest will continue to play a critical role in wood supply to the industry, and possibly the only source of wood to some mills after access to State-owned native hardwood forests ceases in 2024.

Private native forests in Queensland are extensive, generally low yielding, and often an integral part of a grazing enterprise. Selective logging is almost universally applied, however



a history of crop tree harvesting without follow up silvicultural treatment has tended to leave these forests in a relatively low productivity state. Excessive regrowth has further caused many stands to 'lock-up' (cease growing) and reduced understory and grass cover, leading to increased erosion during Queensland's high intensity rainfall events.

Management of the extensive private native forests could be significantly improved through silvicultural treatment to improve forest condition and productivity, delivering both economic and environmental gains, and helping to diversify landholder incomes. There are further opportunities to increase the private native forest estate by active management of natural regrowth, thereby increasing carbon stocks, whilst maintaining the land in a 'productive' state that will generate ongoing income to landholders.

More active management of private native forests addresses a range of the impediments facing plantations. In particular, the forests are already there so establishment costs are minimised, the land doesn't need to be purchased, and its management does not generate the sort of social upheaval that can be associated with land use change. If done properly, it also delivers improved environmental outcomes.

Improving the knowledge of Queensland landholders about forest management is one of the key needs, and could pay significant dividends by delivering better environmental and economic outcomes, and supporting both landholders and the timber industry which is reliant on this resource.

***Recommendation:***

- 5. The Australian Government assist the forestry and grazing sectors to roll out improved native forest management on private land to deliver better environmental, economic and social outcomes.*

## **Other opportunities**

### **Bioenergy**

Timber Queensland believes that there are significant opportunities for the forest and timber industry to help address climate change through bioenergy. The industry generates a number of potential feedstock sources, including primary forest products, processing residue and end of life wood waste.

Integration of bioenergy systems into production facilities in Queensland is currently limited, with heat generation for timber drying being the major application. However, extension of this application to the generation of power makes sense due to the co-location of both a feedstock and energy demand at processing facilities.

The industry also has the capacity to supply feedstock to other users such as bio-energy facilities and coal fired power stations, pellet manufacturers, as well as second generation fuels. The lack of adequate resource mapping and uncertainty about regulatory regimes for carbon emissions are serious impediments to progress in this sector.

Despite comparative cost and technological advantages, the bioenergy sector has also had limited government support in comparison to other forms of bioenergy, such as solar, wind or geothermal. This appears to be largely a result of the cleaner image of these alternative sources, irrespective of the carbon intensity of the technology.

***Recommendation:***

- 6. The Australian Government adequately recognise and support the opportunities for bio-energy to help address a future carbon-constrained economy.*

## Carbon storage

Carbon sequestration by timber plantations offers another significant opportunity for the timber industry to help address climate change. Commercial plantation forestry was the major carbon positive land-based activity over the last decade, sequestering 23 Mt of CO<sub>2</sub> in 2008, equivalent to 4% of Australia's total emissions (DCCEE 2010). Production plantations, under the right framework, offer significant opportunity for the long term sequestration of carbon and delivery of commercially viable abatement.

The planned framework for giving effect to this is the Carbon Farming Initiative. However it would appear that the CFI fundamentally fails to embrace the potential abatement opportunities associated with production forestry.

The timber industry also naturally stores carbon in timber products, with around half the mass being carbon. Recognition of the carbon contained in harvested wood products would better reflect the true fate of carbon, and provide an important opportunity for the timber industry to actively participate in the carbon market.

### **Recommendations:**

- 7. The Australian Government work with the forestry industry to ensure that the CFI and Australia's emissions trading scheme delivers real opportunities for the forest and timber industry to participate in addressing Australia's carbon liabilities.*
- 8. The Australian Government as a priority promote the recognition of harvested wood products in international carbon accounting frameworks*

## Diversification and innovation

The future of the timber industry is reliant on continuing to diversify and innovate. The progressive development and marketing of engineered wood products sees them now representing a significant proportion of the timber market. Engineered wood products are frequently marketed as part of integrated timber-based building systems which are faster and easier to build, and have improved technical specifications and reliability.

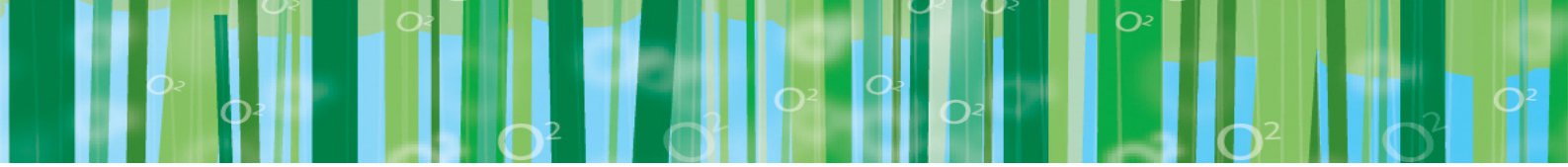
The development of new building systems that make use of the unique structural properties of timber, such as cross laminated timber, rely on the ongoing development and testing of gluing systems, structural assessments etc.

The recent restructuring of CSIRO has significantly reduced their capacity to deliver leading edge research in this area. Base funding for forest and timber industry research should be made available in addition to funding via Forest and Wood Products Australia to ensure that Australia retains the skills and knowledge required to facilitate innovation in the timber industry.

The support of innovation and business development through schemes such as the Forest Industry Development Fund can deliver the stimulus required for adoption of emerging technologies. In particular, they help to move industry to the next step in technology and raise the industry benchmark for efficient and cost-effective processing and manufacturing.

The carbon storage characteristics and environmental credentials of timber are superior to almost all other building products. Development of new and innovative timber based building products and systems should be supported with funding similar to that made available to the car industry to move towards hybrid and low emission vehicles.

Governments should also take the lead with policies promoting the use of wood (or low embodied energy building products) for all of their own buildings to ensure that they take the greatest advantage of wood's unique structural properties and environmental credentials. Such policies have been successfully implemented in a number countries and states



including France and British Columbia, and are actively being considered in New Zealand, Japan, Canada and various states in the US. Such a policy would not only take advantage of wood's properties and credentials, but also stimulate investment and growth in the forest and timber industry.

**Recommendations:**

9. *The Australian Government as a priority re-instate the Forestry and Forest Products Group within CSIRO, ensuring adequate base funding to allow for proper R&D support for the forest and timber industry.*
10. *Support private enterprise through grants such as the Forest Industries Development Fund to encourage innovation in timber conversion, use and manufacture of timber products.*
11. *Governments implement a 'wood first' / 'carbon lite' policy to ensure that options for using wood in public buildings is maximised.*

## References

- de Fegely, R; M Stephens & A Hansard (2011) Review of Policies and Investment Models to support continued Plantation Investment in Australia. *Forest and Wood Products Australia*
- Department of Climate Change and Energy Efficiency (2010) Australian National Greenhouse Accounts - National Greenhouse Gas Inventory May 2010
- Meynink, R (2005) A Socio-economic Assessment of the Plantation Processing Sector in Queensland. *Report to Timber Queensland*

## Further Information

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