

**Submission to the Inquiry into the Australian Forestry
Industry**

Private Forests Tasmania

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Executive Summary

This paper intentionally focuses on farm forestry issues and opportunities. This is because it is PFT's view that farm forestry now provides one of the greatest opportunities available to the Australian forestry sector to increase resource supplies for current and future processing industries.

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 benefiting 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 and where many of these issues have been addressed and overcome. It is essential that we 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 development option provides this truly sustainable “triple bottom line” opportunity.

Introduction

Private Forests Tasmania (PFT) is a State Government Statutory Authority established in 1994 by the *Private Forests Act 1994* with governance and responsibilities that recognised the economic, environmental and social importance of Tasmania's private forests. The roles and responsibilities are spelled out in detail in the Act but in summary the objectives of PFT are:

"...to facilitate and expand the development of the private forest resource in Tasmania in a manner which is consistent with sound forest land management practice."

PFT's stakeholders include government, industrial and non-industrial (farmers) private forest owners. There are in the order of 1,600 private forest owners who, together with the industrial forestry companies, manage a forest estate that comprises approximately 30% of the Tasmania's forests – at no cost to the community. In the recent past private forests have contributed upwards of 40% of the State's forest products production but this contribution has dropped over the last two years due to the market place impacts of the global financial crisis (GFC). As the expanded private hardwood plantation estate becomes fully productive, and market conditions improve, it is expected that the historical trend of increasing private contribution will be re-established.

While considerable areas of plantation exist on non-industrial private land the majority are owned and managed by industrial forestry companies. This estate covers in excess of 200,000 hectares, or nearly 66% of Tasmania's plantation area. Conversely, private native forests are primarily owned and managed by "farmers" and this estate, of some 850,000 hectares, comprises 27% on the native forests in Tasmania.

Private Forests have made a considerable contribution to the viability of the Tasmanian Forestry industry for many years and are destined to make an increasingly important contribution in the future through ongoing production of conventional forest products and expanded product ranges associated with new industries around carbon and sustainable energy production. Importantly, private forests play a significant role in underpinning the viability of rural communities and many individual farming enterprises while contributing significant positive environmental outcomes to the benefit of the community as whole.

It is no news to anyone that the forestry sector in Tasmania is going through considerable turmoil at this time and that, combined with reduced markets, is causing considerable pain all along the forestry value chain. However, it is PFT's strongly held view that our forests, and in particular our native forests, provide our community with opportunities for true "triple bottom line outcomes" that we must strive to protect. No other resource has the capacity of our forests in this regard.

We note that the terms of reference have a considerable focus on plantation forestry but it is PFT's view that the sustainable management of our native forests must also be considered as native forest management is very much a part of "farm forestry". Sustainably managed native forests, together with plantations (block plantings, woodlots, shelter belts) sensibly integrated with other farming activities can enhance crop and livestock production, increase farm income, enhance farm amenity, control salinity and soil loss and contribute other positive environmental outcomes. Importantly, private land provides the only option for an increase in our forest estate – farm forestry is fundamental to the future of forestry in Australia.

PFT welcomes the opportunity to participate in this Inquiry into the Australian Forestry Industry and will make comments, in most cases, specific to the private forestry scene in Tasmania and in particular to the “farm forestry” sector. However, this does not mean that these comments are not relevant outside Tasmania and / or across forest tenure boundaries. We refer you to other submissions by organisations such as the Australian Forest Growers (AFG) and the Forest Industries Association of Tasmania (FIAT), with whom we share a common group of non-government stakeholders and the Tasmanian Government.

Opportunities for and constraints upon production

- **Estate expansion – the sleeping giant**

Private land provides the only opportunity for the expansion of our forest estate through the wise integration of newly planted trees into farming systems. It is often accepted that at least 10% of every farm could be planted to trees resulting in no loss, and in many cases an improvement, in overall farm production. This is an outstanding, and still considerably unrealised, opportunity to increase the sustainable resource of raw materials for processing industries, enhance farm incomes, provide employment opportunities in rural communities and contribute positive environmental outcomes.

Throughout the midlands of Tasmania many areas are suffering the ravages of tree decline as a result of grazing pressure, drought and induced attack by pests and disease. These areas provide opportunities for resource development, primarily at this stage comprising softwoods. In time, as the introduced trees progressively have an impact on microclimate conditions a more diverse range of vegetation types may be introduced.

As progressively more public native forest is removed from production and placed in reserves of various types, opportunities increase for privately owned native forests to play an increasingly important role benefitting industry, forest owners and the community as a whole.

No other resource provides this truly sustainable “triple bottom line” opportunity and with potential new industries emerging associated with carbon and renewable energy the opportunities are even more exciting. Every opportunity must be taken through supportive public policy, targeted and appropriate extension services, public education, the development of appropriate funding models and increased research focus, to realise this potential.

- **Constraint - lack of knowledge**

One of the major factors limiting the realisation of these opportunities, and hence constraining production, is the apparent lack of knowledge of many landowners of the potential that existing native forests or newly planted “plantations” (woodlots, shelter belts) have to make a positive contribution to their farming enterprise and their communities. Extension / advisory services to assist private landowners identify and understand these opportunities have now largely disappeared from most jurisdictions except in Tasmania where this role is performed by PFT. The PFT model is one that is often admired by others because it provides a catalyst that helps unleash these opportunities with the potential to create value disproportionate to its cost.

- **Constraint - cost of production**

The production opportunities for private forests are often reduced because of issues relating to resource fragmentation and lack of economies of scale. These factors increase costs all along the forestry production chain and as a consequence inhibit development and / or the ultimate sale of forest products. Over the years many forest growers who have taken a “leap of faith” and committed to tree planting developments on their property have become disillusioned by their inability to sell their forest products; these bad news stories spread quickly through rural communities.

To solve these problems, and hence stimulate development, there is a need to include the factors creating these problems in major research programs of organisations like the CRC for Forestry. The research priorities of these organisations are understandably more focussed on the challenges of large-scale forestry because the industrial forestry companies and government forestry agencies provide their primary financial support. However, as these ultimate customers for farm based forest products realise that the farm based private estate provides the only remaining option to expand their resource base, they are likely to support research into these farm forestry challenges.

That is not to say that all of these problems 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 and we simply need to open our eyes and learn from the experiences elsewhere.

Importantly, targeted extension services making landowners more aware of the many other benefits that accrue to their farming enterprise by the integration of trees with other farming activities, can often reduce the expectation of a financial return from harvesting activities as the landowner begins to appreciate the other tangible benefits that will be realised over time.

As all of these factors come together the costs of farm based forestry can and will reduce, the estate will grow and all stakeholders will benefit.

- **Constraint - market access**

Ultimately, private forests need to be an asset for their owner. While they remain an asset they will continue to contribute the many benefits that accrue to the landowner, his community, processing industries and society at large. While there are some direct and indirect on-farm benefits that accrue to the landowner from the integration of forests of various types into his farming enterprise, many of the benefits (additional flexible income stream, security of farm development loans etc) require the forests to have a commercial value – and to have a commercial value the landowner needs access to markets. Without markets, private forests become a liability for their owner and they will be neglected, become unhealthy and gradually disappear and all the benefits they provide now, and have potential to provide in the future, will be lost.

In Tasmania the private native forest estate differs in composition and scale to the public forests and are in general of lower quality. The production capacity of private native forests alone is insufficient to attract new industrial developments or underpin current processing industries. However, the private estate is an important supplementary resource that has helped underpin industries and employment in many regions, contributing to the stability of many rural communities typical of the Tasmanian demographic.

The current uncertainty around the future of native forest harvesting in Tasmania, and the potential impact this may have on the maintenance of markets, poses a serious threat to the asset value of these forests and hence their ongoing existence. One can only hope that this issue is resolved quickly with a positive outcome that will ensure sufficient resource supplies are maintained at a level sufficient to underpin viable processing industries and hence ensure the long-term survival of these valuable forest assets.

- **Constraint – funding**

Developing new forests requires considerable upfront investment and the maintenance and protection of these forests can also be expensive. Many landowners do not have the financial resources to sustain this type of development on their farms. For many years industrial forestry companies developed joint ventures with private landowners whereby proportional ownership of the forest crop was based on the relative value of inputs to the development by each party, including the value of the land. Importantly, the resulting link with a market gave the landowner some confidence to participate in this style of forestry.

However, over the last decade, Managed Investment Schemes (MIS) replaced the conventional joint venture approach with landowners simply leasing their land to investors for growing extensive plantation estates or selling their property outright for the same purpose. This model was underpinned by Australia's 2020 Vision targeting a tripling of the plantation estate by the year 2020. The MIS initiative saw Australia's plantation estate double during this period but the "feeding frenzy" of plantation development activity in some regional areas caused considerable concern for many farming communities. Ultimately the GFC spelt the demise of the MIS boom but the plantations remain as a resource for industry.

It is PFT's view that it is now an opportune time to return to the traditional joint venture style of share farming forestry whereby landowners and individual (or small groups of) investors enter simple, straight forward, collaborative arrangements comprising land lease and / or genuine proportional joint ventures. This style of forestry overcomes the hurdles of funding and market access and importantly avoids the massive investment momentum that drove the MIS era.

- **Constraint – community sentiment**

Plantation developments have often caused localised levels of concerns in rural communities due to concerns about the loss of agricultural land and social dislocation as farming families move from the area impacting on the viability of local community services. There is no doubt that the MIS phenomenon strengthened these concerns, to a degree with some justification.

It is PFT's view that the provision of education through targeted and appropriate extension services, helping farmers to understand the valuable role of trees in agriculture, and the reintroduction of genuine joint venture plantation forestry, many of these concerns can be overcome.

Opportunities for diversification, value adding and product innovation

- **Un-tapping forest biomass**

There is sound evidence in other parts of the world, and in localised developments in Australia, that evolving industries around bioenergy and biofuels offer new (value adding) opportunities by the creation of alternative and / or additional uses of forest products. At a recent conference in Melbourne (*Residues to Revenues 2011*) speakers presented data from case studies revealing that combined heat and power plants (CHP) running on biomass (including forest residues) are now viable alternatives for the production of heat and power for local communities. In the case of heat production there are many examples of community based projects providing cost effective heating for local swimming pools, office complexes and public buildings with large savings in running costs and reduced greenhouse gas emissions. Various countries in Europe have ambitious targets to produce the majority of their space heating energy needs and significant components of their power and transport fuel needs from biomass. For example, Sweden currently produces 32% of its primary energy requirements from renewable energy sources, primarily forest biomass, and is targeting 39% by 2025. There are many other similar examples.

The production of bio-fuels, bio-plastics and bio-char through various processes that break down the cellulose in plant material and release the various components in potentially useful forms, are receiving considerable research and development attention. Pilot plants now exist for the production of ethanol, bio-oil and bio-char and scaled up production plants are in the planning phases.

Other research is targeting the use of lignin, the “glue” that binds cellulose together in plant structures, as the basis of new age bio-plastics and “green” chemicals.

These innovations will provide opportunities to reduce our reliance on fossil fuel reserves and progressively provide increasing opportunities to use renewable, sustainable resources to underpin many of society’s needs.

- **Environmental services**

There can be no doubt that well managed forests of all types on private land improve the quality of the landscape and the environment in general. Some of the features of this improvement can be measured such as biodiversity values, carbon sequestration, salinity and soil loss control, but others are less tangible. As society becomes more environmentally aware these values become more important and progressively private forest owners are coming under increasing pressure to continue to manage their forests to provide these benefits to the community as a whole. But on occasions this expectation creates conflict with the needs of the forest owner to achieve commercial returns from the forest. This requires the development of an environmental services market in order to value these services and provide a mechanism for the community to “reward” the forest owner for providing them.

The environmental services market place has not reached this level of maturity as yet but the process of placing a value on a carbon, including the Carbon Farming Initiative, can be seen as the first steps towards the recognition of the value of the environmental services provided by forests. Further development of this market place will be challenging and complex as society faces the issue of determining a commodity value for these services that have traditionally been taken for granted. It is suggested that for some time yet “environmental services” will be seen as having a

supplementary value to the more conventional commercial values of forests but in time will command a presence in the market place.

- **Certification**

The forest products market place is giving signals to forest owners and forest products processors alike that evidence is required of sustainable management and production practices and processes all along the forestry value chain in order for products to gain and maintain access to the market place. Most of the major industrial forest growers and processors, and government forest management agencies, are seeking certification under the AFS and / or FSC certification schemes and it is appropriate that private forest growers join them in order to retain market access.

It can be a time consuming and expensive process for private forest owners to achieve certification but because of the importance of the ongoing active management of this estate to the community as a whole government at all levels should encourage and support this initiative. The Tasmanian Government has taken positive steps in this regard by providing funding for PFT to assist private forest owners down the certification pathway. Again, showing the value of the PFT model.

Environmental impacts of forestry

Tasmania's has a highly regarded forest practices system that applies to all forestry activities across all land tenures in the State. The system is constantly reviewed and updated based on the findings of ongoing research. The system grew out of, and is well supported by, "the industry" as forest operations staff carry a dual role as Forest Practices Officers with responsibilities controlled by the Forest Practices Act. There can be no doubt that this regulatory system has had a positive impact on the environmental standards achieved in forestry operations in public and private forests throughout Tasmania and this was echoed by the findings of a recent review of forestry regulatory systems carried out by the CSIRO.

In the farm forestry sector the environmental benefits of forestry are well recognised if the forestry development is well planned and integrated into the farming landscape. Under these circumstances trees can be used to enhance overall farm production through shelter for crops and livestock in addition to providing additional sources of income from the sale of forest products. On the other hand poorly planned forestry developments can have a negative impact in particular through competition for water and shading.

In some regions water use by plantations has become a contentious issue, made worse by considerable periods of drought. Again, this issue can be managed by appropriate planning at the catchment level.

The range of species available for incorporation into the farming landscape provides a multitude of opportunities to have positive environmental impacts. Corridors of native vegetation can be planted linking existing forests for habitat connectivity while also providing shelter and erosion control. In the wheat belt in Western Australia native species are being planted, linked with remnant patches of vegetation around waterways, in order to lower the water table and arrest salinity, enabling unproductive land to be returned to production. With emerging carbon markets these plantings are likely to become more valuable as long-term carbon sinks.

Once again, the importance of appropriate and targeted extension services in order to assist landowners properly plan and integrate trees into the farming landscape, becomes apparent. If this is achieved more farmers will see forestry as an opportunity rather than a threat, developing win-win outcomes.

Creating a better business environment for forest industries

- **Sawlog production**

Investment in processing industries requires a positive business environment, resource suitability and long-term resource security in order to underpin the substantial investment required. Currently there is some uncertainty in Tasmania around the security of future resource supplies from native forests (both public and private) and until there is more clarity in this regard investment in new infrastructure will not occur. This is an important issue for the Tasmanian community to progress as the options for the renewal of the forestry industry in the State are considered.

The hardwood plantation resource in Tasmania is largely unsuitable for sawlog production. The majority of the private estate was grown specifically to supply resource for the pulp and paper industry with the underpinning tree breeding programs targeting fibre yield and other paper making characteristics. To create a plantation hardwood resource suitable for sawlog production will require a refocussed tree breeding initiative with a long lead-time and ongoing focus by research organisations on engineering and silvicultural solutions for the problems associated with sawing fast grown plantation hardwoods. That said, the economics of growing hardwood plantations for sawlogs is problematic with little investment being attracted for resource creation even during the MIS era.

The existing native forest based sawmilling infrastructure in Tasmania is not suited to the processing of plantation grown logs from either a scale or technology perspective. This sector is focussed on the production of high quality appearance grade timbers that can only be economically produced from larger native forest saw logs. The continuation of this sector will require an acceptance by the community of the ongoing sustainable active management of the State's native forests (public and private) at a scale sufficient to underpin a viable industry sector. The private native forest estate alone could not underpin this sector.

There is limited softwood resource on private land in Tasmania. Softwood sawlog supplies come primarily from public owned forests but even this estate has stagnated in recent years due to the focus on hardwood plantation development.

So in Tasmania the future of hardwood sawlog supplies, and the capacity to satisfy increased demand for softwood sawlogs, is uncertain. The future of native forest sawlogs supplies lies somewhat in the hands of the community whereas the future of plantation grown sawlogs supplies requires an injection of capital and a research and development commitment targeting the challenges of sawing fast grown hardwood plantation logs. Attracting patient capital from investors to underpin the expansion of a sawlog focussed plantation estate has proven to be problematic in the past. However, farmers often have a different perspective on capital management and can add value through their own labour resources and for this reason private land once again offers an ideal opportunity for resource expansion.

- **New business and investment models for plantation production**

There are adequate, tried and tested business and investment models available to underpin plantation development.

Despite developing a bad reputation due to the tax driven “feeding frenzy” style development that occurred in some regional areas and the ultimate collapse of numerous MIS companies during the GFC, the MIS concept offered an excellent opportunity to use “city money” for regional development projects. Unfortunately, the concept became over developed, which ultimately lead to its demise. In addition, there is no doubt that a proportion of the plantations established under this initiative were planted on unsuitable sites and are unlikely to be re-established after harvest. However this situation is less common in Tasmania because of the long history of hardwood plantation establishment in the State and as a consequence most MIS plantations are likely to be re-established given the right business environment. It is unfortunate that this experience has soured the attitude of many investors and farmers towards plantation development.

However, as mentioned elsewhere, it is PFT’s view that now is the time to return to conventional land lease and / or joint venture style collaborations between individual (or small groups of) investors and farmers. This style of scheme offers flexibility for all parties in order to suit individual needs and importantly the parties have a greater level of control over the development. Investors should still be offered simplified taxation incentives to encourage participation. Managed properly, with appropriate advice and planning, a return to this style of plantation development should progressively overcome the negative impact of the MIS saga. In addition, this type of development requires input from a facilitator to bring interested parties together. The PFT model is ideal in this regard.

- **Superannuation investment in plantations**

Many plantations have been established over the years by individuals in anticipation that ultimate returns will provide a type of “superannuation” payment. Obviously this is an incorrect use of the term “superannuation” – it would be more appropriate to describe this as an investment in order to produce a “retirement income”. Regardless of the terminology, some plantations established with this intent have yielded appropriate returns and others haven’t. This simply reflects the fact that investing in a plantation development is somewhat a “leap of faith” because it is difficult to predict what the market situation will be when the plantation reaches harvest age. To minimise the risk in these circumstances investors would be well advised to focus on the production of high quality products which provide more flexible sales opportunities and seek professional advice to assist them in them in the decision making process.

In terms of true “superannuation investment” in plantations through the Self Managed Superannuation Fund (SMSF) environment, PFT is not in a position to make comment. It is understood that taxation and investment rules governing the development of plantations through this environment are complex.

Social and economic benefits of forestry production

Farm forestry production makes a considerable contribution to the social and economic well being of rural communities through the generation of additional and diversified sources of income for farmers and the creation of jobs. In addition, forests that have a commercial value become valuable assets that can be used to secure development loans for other agricultural developments on farms. There are many examples throughout Tasmania of farming enterprises that owe their very existence to the income generated from actively managing forests during times of depressed markets for other farm products. In addition, there are many examples where, through the integration of trees into the farming landscape, production from crops and livestock have been enhanced adding strength to the farming enterprise.

Potential energy production from the forestry sector

This topic has been referred to elsewhere in this submission. It is complex and could form the basis of a lengthy submission. Suffice to say here that the use of forest biomass to produce energy, bio-fuels, bio-plastics etc. provides outstanding opportunities that must play a role in the future of Australia's forestry industry. There are now many examples, primarily outside Australia, revealing that technology is progressively becoming available to underpin commercially viable developments in this regard and reduce the dependence on fossil fuels. The presence of a carbon tax will further strengthen these opportunities.

Land use competition between forestry and agriculture

There will always be competition between alternative land uses and market forces and commodity cycles will largely determine the outcomes, unless skewed by selective and targeted incentive programs as was the case with the MIS saga. However, from a general farm forestry perspective it is PFT's view that well planned farm forestry developments, appropriately integrated with other farming systems, can enhance the production of food and fibre not reduce it through competition. This fact is still not widely appreciated throughout rural communities and deserves further promotion.

The use of agricultural land to grow crops for bio-energy and bio-fuels production, as is the case in Brazil, is a classic example of potentially unacceptable land use competition. The use of forest residues for this purpose provides an appropriate and viable alternative.