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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE

Reference: Plantation forests industry

FRIDAY, 21 FEBRUARY 2003

CANBERRA

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SENATE
RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES COMMITTEE
Friday, 21 February 2003

Members: Senator Ridgeway (*Chair*), Senators Buckland, Heffernan, McGauran, O'Brien and Stephens

Participating members: Senators Abetz, Boswell, Brown, Carr, Chapman, Colbeck, Coonan, Crossin, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Harradine, Harris, Hutchins, Knowles, Lees, Lightfoot, Mason, Sandy Macdonald, Murphy, Payne, Santoro, Tchen, Tierney and Watson

Senators in attendance: Senators Heffernan, Murphy, O'Brien and Ridgeway

Terms of reference for the inquiry:

To inquire into and report on:

The findings of the Private Forests Consultative Committee's review of the 'Plantations for Australia: The 2020 Vision' which is due to report to the Primary Industries Ministerial Council in November 2002:

- (a) whether there are impediments to the achievement of the aims of 'Plantations for Australia: The 2020 Vision' strategy;
- (b) whether there are elements of the strategy which should be altered in light of any impediments identified;
- (c) whether there are further opportunities to maximise the benefits from plantations in respect of their potential to contribute environmental benefits, including whether there are opportunities to:
 - (i) better integrate plantations into achieving salinity and water quality objectives and targets,
 - (ii) optimise the environmental benefits of plantations in low rainfall areas, and
 - (iii) address the provision of public good services (environmental benefits) at the cost of private plantation growers;
 - (d) whether there is the need for government action to encourage longer rotation plantations, particularly in order to supply sawlogs; and
 - (e) whether other action is desirable to maintain and expand a viable and sustainable plantation forest sector, including the expansion of processing industries to enhance the contribution to regional economic development.

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Committee met at 9.02 a.m.

CHAIR—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport References Committee. Today the committee continues its inquiry into the plantation forest industry and the 2020 vision strategy. Today's hearing is public and open to all. A Hansard transcript of the proceedings is being made. The Hansard will be available in hard copy from the committee secretariat next week or, alternatively, via the Parliament House Internet home page. It should also be noted that the committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990 concerning the broadcasting of committee proceedings.

Before the committee commences taking evidence, let me place on the record that all witnesses are protected by parliamentary privilege with respect to the submissions made to the committee and any evidence given before it. Any act by any person which may operate to the disadvantage of a witness on account of any evidence given by him or her before the Senate or any committee of the Senate is treated as a breach of privilege. While the committee prefers to hear all evidence in public, if requested the committee may agree to take evidence in camera and to record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present all or part of that evidence to the Senate. The Senate also has the power to order the production and/or publication of such evidence. Any decision regarding publication of in camera evidence or confidential submissions would not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing.

[9.04 a.m.]

CUMMINE, Mr Alan James, Executive Director, Treefarm Investment Managers Australia Branch, Australian Forest Growers

RAGG, Mr Warwick Charles, Executive Director, Australian Forest Growers

CHAIR—Welcome. I understand the committee has received from you an additional document. That document is being put forward as an attachment to the submission supplied by you earlier in the week. Is it the wish of the committee that the document be authorised for publication? There being no objection, it is so ordered. It is a prebudget submission. Copies of those documents are available from the secretariat. I invite you to make some opening remarks, then we will go to questions.

Mr Ragg—Thank you for the opportunity to give evidence today. Australian Forest Growers is the national representative body for private forestry. This includes farm forestry, private native forestry and managed investment scheme companies. We have 22 branches across Australia and we have a presence in all the major forestry regions as well as in many developing areas. Included is a national special interest branch, Treefarm Investment Managers Australia, which is serviced by my colleague Mr Cummine.

The recent history of the 2020 vision document is that it has just completed a consultative review at the behest of the Forest and Forest Products Council via the private forestry consultative committee. Its terms of reference included providing a strategy that is more relevant to the emerging needs of the industry; ensuring drivers other than taxation, such as regional development or environmental benefits encourage investment in plantations; removing remaining impediments, particularly related to uncertainty over rights to plant, manage, harvest and trade plantations; and providing a role for community participation in the ongoing development of the plantation resource.

The AFG submission deals with a range of these issues. I do not propose to replay them but I will just mention a couple. As the industry moves to a greater reliance on the private plantation sector, the imperatives of greater engagement with regional communities and the tradability of plantations' secondary markets loom much larger on the landscape. The cultural challenge of trees appearing in the landscape or, for that matter, disappearing continues to be an important component of the acceptability of forestry within the communities that afforestation seeks to embrace. For many, the changing status from a pastoral to silvan landscape is difficult to positively respond to. Intriguingly, the reverse is also true—that is, the removal of trees is not well supported. The only conclusion that can adequately be drawn is that the change is difficult to accept.

The challenge is to undertake education processes, such as tours to established forestry regions or video presentations of the change process to help communities accept the challenge. For many, the uncertainty also relates to the impact on communities from land use change. As those new industries develop, the flow-on effects to communities have been quite positive. Places like Portland and Albany are now very vibrant as the positive economic effects of forestry flow through these communities. Another important issue is the tradability of plantations

or secondary markets. One of the major difficulties faced by investors, even patient capital providers, is how they could resell an investment under current arrangements. Importantly, the Forests and Forest Products Council have identified that this needs resolving, and we look forward to a scoping study being completed as the first step.

We need look no further than New South Wales to see how not to encourage private forestry investment. The legislative, regulatory and philosophical environment is making it quite difficult to hold any certainty over planting, harvesting, managing or trading plantations. The most recent example of this is a ban on waste from native harvesting being used for electricity generation, despite the acknowledged benefits of the use of renewable forest resources over fossil fuel dependent generation mechanisms. The unfortunate consequence of this is that the markets for plantation thinnings so desperately required by the small private forester simply will not exist with the removal of the major resource base for such project. As we develop the 2020 vision, we will no doubt seek to ensure that there is a consistency in the treatment of forestry products nationally that will underpin the confidence of the industry.

Markets for thinnings are, of course, the first step in the whole market access complex that bedevils small foresters. We also look to the vision to help facilitate the development of market access for small parcels of product that will stand alongside larger production units as a diversified resource. We have identified one of the major mechanisms that will assist this process is to ensure transparency in log pricing and in other market indicators, at least on a national basis. As a former agriculturalist, I am constantly bewildered by the lack of market information available. The solution to this that seems to have little opposition is to have nationally significant data collected and made more widely available as the first step towards injecting greater transparency into an opaque market. We have submitted to the Treasurer—and it is just been accepted into evidence—that a range of data should be collected by the Bureau of Rural Sciences and by ABARE that not only will respond to the above issue but also will continue the work of the national plantation inventory's wood and forest product and social sciences data collection, in addition to new regimes of international competitiveness and market access. An important development under this program will be to measure aspects of the vision's performance beyond the growth data that currently measures the vision's success.

My colleague Mr Cummine is the Executive Director of TIMA. Since 1994, he has held the roles of National Policy Director and then Executive Director of AFG. In that context, he has a good sense of the small growers sector during that period. Mr Cummine will make some additional comments. Subsequent to that, we will be more than pleased to answer some questions.

Mr Cummine—I would like to add a bit of background to the 2020 vision from the viewpoint of somebody who was there at the start and before its existence. I was involved in 1994 with Australian Forest Growers. I only went to the new arrangement with TIMA in 2000. It is important to understand the political context in which the vision had its origins. Some of you will recall that through the late eighties and the early nineties, the forest industry at large was embroiled in quite a lot of tension, mostly about the use of woodchips from native forests for export. Plantations were also getting some serious attention, particularly after the One Billion Trees Program was launched, which was not related to plantations but was part of that concept of what you do with cleared agricultural land.

In about 1990, the National Plantation Advisory Committee published a report about plantations on cleared agricultural land. The committee had on it a representative from the conservation movement, among many others. The national forest policy statement was signed in 1992 after a couple of years of very hard work putting it together by the Prime Minister, the Labor government, all the state governments and the Australian Local Government Association, who all signed that document. It contained some strong recommendations about plantation expansion as well. The Resource Assessment Commission conducted a very long inquiry called the forest and timber inquiry and produced tomes of documents, and they had some very strong recommendations about expanding the plantation estate.

In 1994, the Wood and Paper Industry Strategy was launched. In 1995, after we had the annual punch-up over woodchip licences around Christmas, the Prime Minister stepped in and decided that in that year he was going to have another document for the federal government to focus on. It had a whole chapter devoted to plantations and farm forestry.

That was the context in which this was taking place. During 1995, Plantations Australia was formed as a breakaway group from NAFI, which had spent a lot of time focused on the native forest debate. Some of the plantation companies saw that it would be in their interests to be separate. Around that time, there was quite a lot of talk about incentives for plantation establishment. As I recall, the Australian Democrats had a policy of a 110 per cent tax deduction for plantation establishment.

CHAIR—Thanks for that reminder!

Mr Cummine—I think it is still there! I remember having some discussions with them about the greater importance of removing anomalies and other barriers within the tax system rather than having an incentive just to establish the plantations. With that background, a decision was made by the ministerial council at the time to have a national plantation strategy. The beginnings of it were in 1996, when the Centre for International Economics was engaged to develop all the background work that would underpin the strategy. The strategy team comprised all the state governments, the Commonwealth government and three major national groups representing the forest industry.

During that time, Australian Forest Growers was especially interested in making sure that farm forestry and small growers were able to participate in this strategy. We were also particularly interested to engage local government and the community, and to use commercial trees for multiple purposes, for environmental benefits. All those things did get addressed to some degree but I cannot say, being only one voice in that process of assembling the strategy, that we were very successful. I think we are more successful in the revised vision that is out now.

We had the support of environment groups at the time. We had a lot of people saying, ‘We need a lot of trees in the landscape.’ Since that time we have had the ACF and the National Farmers Federation produce a document saying that we need 18 million trees, plantations, in the landscape, mostly in lower rainfall areas. We also had the Wilderness Society tell us only last year that we need more plantations and to focus our effort on plantations as the source of wood for the forest industry. Everyone thought that they were doing the right thing by putting lots of plantations in the ground and supporting that. The managed investment sector particularly thought that they were doing the right thing—they took to it with a vengeance once the

plantation strategy was released. Some people would say that giving it a notional target of three million hectares, which was a decision of the ministerial council, was a bit of a distraction—a bit like the One Billion Trees Program was a bit of a distraction. There was quite a comprehensive strategy underpinning that program, but no-one paid any attention to it; it has been similar with the 2020 vision.

There were the rapid changes that Warwick alluded to and that you have heard a lot about. In previous hearings there was testimony about some dramatic changes. A lot of them were not anticipated. There was a big planting spike when the 13-month rule was removed midseason in 1999. As a consequence we have had some social impacts and a lot more attention paid to the plantation sector. That was one reason why a major review has taken place. Whereas the first version of the 2020 vision was about expanding the plantation estate, raising awareness, removing impediments, getting land and getting on with the job, the revised version which we now have before us takes account of a lot of things that came forward during a wide and extended consultation process during 2000 and 2001: the natural resource management benefits, the environmental services, the social impact, engaging with communities and local government, and making sure that small growers are able to participate and get the market access on which we as an organisation focus.

Finally, it is an evolving strategy; it is not locked in. It has moved on from when there was no strategy at all. It has raised a lot of awareness and created some adverse impacts but it has also done a lot of good things in rural Australia. It has raised a lot more concerns about the impact of plantations on water balance, communities and so on, and those concerns are being addressed. We now have a framework to go forward to allow the plantation sector to make a great contribution to the health and wealth of rural Australia.

CHAIR—Thank you. On pages 1 and 2 of your submission you talk about the One Billion Trees Program suffering a similar fate by having a notional target, and you go on to talk about the current strategy suffering a similar fate. What do you mean by that? Does it mean that a notional target should not be set?

Mr Cummine—It is a phenomenon that happens not only with the media in particular but also with certain segments of the population. I was around during the launch of the One Billion Trees Program and I worked in Greening Australia for two years, from just after it had been announced, in July 1989. It came under very heavy attack in its first 12 months because the focus of media attention and indeed foresters was this: how much will it cost to put in one billion trees? With \$4.7 million they will never do it. Where are they going to go in the landscape? How will we make sure that they survive? All those questions were asked without anybody taking the trouble to look at the strategy on which that had been based. There was a very comprehensive strategy underneath it.

The media and the critics just wanted to have a go at Richo, who was the one who dreamt up the title, and in Greening Australia we were doing damage control for the next few years after that. I have drawn a parallel with the 2020 vision, because for the last several years I have seen so much attention focused on trebling the plantation estate but very little attention given by its critics and others in the community to all the things that it is trying to achieve and to the strategy that actually underpins the target. The target is the thing that gets mentioned over and over again and, while it has been valuable, there is a downside to it. It can be a distraction from

the real game, which is about developing a viable, vigorous plantation growing and processing sector.

Mr Ragg—The comment I have made in reference to the submission to the Treasurer alludes to us needing to be able to measure the other actions in the vision and get a sense of how they are performing, not only the three billion hectare target.

CHAIR—One of the things that follows on from the issue of what you see as laziness in how the notional target is set and then how it is viewed is this: doesn't that put the onus back on the industry to look at how it markets its own strategies or the image of the industry? If so, what things are being done to try to deal with that perception, if that is what you see as being part of the problem in relation to not only the strategy but how that is being implemented?

Mr Ragg—There are two things. Firstly, there is the national regional plantation committee program, whose committees are charged with the responsibility of providing a facilitation role to help integrate the plantation industry into communities and the landscape. More recently and in response to the review of the 2020 vision, the partners in the vision—that is, the Commonwealth, the states and industry—have moved to support the appointment of a 2020 vision coordinator whose principal role is to progress the actions in the reviewed vision. The point you make about an industry responsibility is well taken. What I am saying in my submission in terms of data collection is: let us put a mechanism in place that can discover that, and our goal with government is to achieve the benchmarked outcomes that we need to have.

Mr Cummine—With the first vision there was a communication program that was funded by the partners, and there is intended to be a communication program with the revised vision as well. It will probably take a slightly different form and, rather than focus on why we need to have a much bigger plantation estate, it will focus a lot more on, I imagine, engaging with the communities and ensuring that there is a lot of flow backwards and forwards among all the players, all the stakeholders. That will be an effort by the partners in the vision to communicate and so overcome some of the problems that have arisen and come to our attention during the review process.

CHAIR—I note that you have had the opportunity to look at all of the other submissions that have been put forward to date and that you sat in on all of yesterday's hearing, so you would have a good grasp of the views that are being expressed. There seems to be conflicting evidence over the future supply of wood resources and the future profitability of wood itself as an investment. Do you have any particular views about that conflict in the views being put forward?

Mr Ragg—One of the reasons why we have that conflict is that we do not have nationally transparent data of any substantial depth against which we can make those judgments, which is why we are asking for some more comprehensive and independent data so we can make those judgments.

Mr Cummine—We do not do our own research, as you heard other industry bodies say yesterday, but we take notice of research that is done by others. Yes, there is conflicting evidence being put forward and I dare say it does not make your job any easier. One of the other witnesses today, Judy Clark, has done her own work and she certainly questions the accuracy of a lot of projections done by the Food and Agriculture Organisation, Jaakko Poyry and a number

of other organisations in Australia, such as URS Forestry, that do major forecast studies on what the demand is, where it is, what it is for, what the supply is going to be.

To add to that confusion—I do not think it is going to clarify it for you—the companies themselves, certainly the ones we represent but also those represented by the Plantation Timber Association and NAFI, all do their own work as well. They do not always reveal it to everybody else. Because of their own commercial competitiveness, they try to take advantage of it. They certainly indicate a level of confidence that they have markets, will have markets and will be able to supply the right product at the right specifications at a competitive price into those markets. On balance, we tend to take more notice of those. Maybe it is wishful thinking, but we believe that there are openings and will continue to be openings for Australian product. Australia has a lot going for it as a source of wood into the international markets.

CHAIR—That leads me to the next question. Do you have a view then in relation to NAFI's suggestion that the capacity can be met or that the demand is there in relation to the establishment of anything from one to three pulp mills? Do you have a view on that?

Mr Cummine—Other work has been done that says a lot more than three pulp mills—18 greenfields and brownfields processing of some sort. Our view is that if someone says, 'Here's the work done by independent consultants whose job it is to analyse the international, national and domestic marketplace,' we are inclined to say, 'That's very useful information and we'll act upon it.'

Senator O'BRIEN—In your submission you talk about taxation not necessarily being an impediment to secondary markets for plantation. Can you give us some more detail about what in your view the impediments are?

Mr Cummine—You should have asked this question of Phil Townsend yesterday. Conventionally, the wisdom is that the reason that secondary markets do not exist in any sensible way in Australia is that the tax treatment of them is disadvantageous, and that has been the conventional view for at least a decade. By that I mean that, when you establish a plantation from the beginning, because it is an agricultural operation you are legitimately able to deduct the cost of that establishment. When you purchase a plantation that is already standing, the tax treatment is that that is a capital asset and, as a consequence, you cannot deduct the purchase price of that asset and you are not able to until you dispose of that asset later. The whole idea of having to hold on to an asset that is so illiquid for such a long time is the thing that has discouraged the people who would perhaps purchase such an asset. Without that, the people who are establishing the asset want to shorten the rotation link as much as possible so that they can get a return on their investment a lot sooner, rather than putting something in the ground that they could sell to somebody else, because the people are not there to buy it. Phil Townsend has done some work and we refer to a paper that he gave to the AFG conference in Albany.

Senator O'BRIEN—I believe he is going to supply a copy of that to the committee.

Mr Cummine—I cannot recall all the alternative scenarios, but Phil looked at the trading mechanisms that exist. It is not just a simple matter of a private grower to a possible private buyer later down the track; there are large corporations and state government forests are being sold. There are also problems with managed investment plantations where tax ruling TR 2000/8 on investment schemes specifically prohibits the selling of an immature plantation if there is a

trail or evidence that you intended to get out before final harvest. There is a range of different scenarios for moving plantations and for buying and selling and they all have different tax consequences. Phil was looking at all that and he pointed out that it was not necessarily only the conventional problem that has been viewed as the main reason for there being no secondary markets; there are other ways to look at it.

Senator HEFFERNAN—Wouldn't that alter the culture of the people who grow the forest in the first place? Wouldn't there be a risk that the carpetbaggers would move into developing forests as they did some properties? It was just liquid gold for various property trusts in the eighties which went bust because developers sold them developed property at a handsome profit and property trusts ended up with something that was probably not as good value as they thought. If people develop forests and then on-sell them, isn't there a risk that the person to whom they are on-sold becomes the bunny?

Mr Cummine—The bunny for what? Do you mean the plantations are not going to grow?

Senator HEFFERNAN—If it is a good enough investment at the start, why isn't it a good enough investment to hang on to for the finish?

Mr Cummine—Some do hang on. It is not that they will not hold on to the finish.

Senator HEFFERNAN—What sort of people will not develop and sell?

Mr Cummine—The institutional investors are being looked to to provide a lot of the investment resource for the expansion of the plantation estate and they have a very short-term focus. They have ratings they have to match. They need to be able to move into and out of the market. So we cannot get them interested.

Senator HEFFERNAN—If it is not good enough for them—

Mr Cummine—Those who are establishing are the ones who basically have to stay in until the end. Some are prepared to stay in for 30 years but most, as we have seen with the growth of the blue gum industry, the short rotation pulpwood industry, want to get out sooner.

Senator HEFFERNAN—But if they have the smart money which they want to rotate, doesn't that mean that the next person who takes it on is not as smart—the investment is not as good?

Mr Cummine—I do not believe so.

Senator O'BRIEN—I suppose it would be like buying any long-term investment. Let us shorten the term and consider an olive grove. Someone might establish an olive grove, a vineyard, a plantation or whatever. What ability exists, apart from a taxation device product, to drive a market in that regard? What if it is just a matter of the goods you are actually selling, which may be the developed land which has obvious qualities and obvious future potential? Someone might make the investment and obtain a return during the cycle. Your submission says that tax is not necessarily an impediment to secondary markets. I take it that you are essentially referring us to Mr Townsend's work which we will look at.

Mr Cummine—He has been the first one to sit down and do a whole lot of modelling and to actually challenge the accepted wisdom. The accepted wisdom has been there for some time—that tax was the problem and that we needed to change it. I understand Mr Newman made that same point to you yesterday afternoon. That is very much the standard that has been around for a long, long time. I can tell you the Treasury has no interest in taking that seriously. I had similar discussions with the Treasury tax policy officers in 1994 and I have had several in the intervening period, and there is no traction in that argument whatsoever. They will not even countenance the idea that they would change that arrangement.

So we do have to look for alternative ways of starting those secondary markets. That is why the ministerial council in 2000 basically gave a direction to the industry to examine what the real impediments are to getting secondary markets in Australia. Phil Townsend, when he was working in the department, did some preliminary work. But I understand now that ABARE are going to be commissioned to do some work that looks at the fundamentals of secondary markets and not just at ‘How do we fix the tax system?’ Let us look at why there are not secondary markets and look at the best way to develop them, because it is such a vital feature that we must have in Australia in the future to be able to trade in and out of that asset class easily.

Senator HEFFERNAN—But isn't it the tax office's view that if you get a tax deduction for the development of it and it just becomes a flick job then you do not deserve the tax deduction? It just becomes a carpetbag operation. I am sorry to have to put it that way, but I would have thought that, if you develop something and take a deduction with a view of ‘In a year or two, we will find someone to flick this to,’ then you break down the tax law reason you got the tax deduction.

Mr Cummine—That is clearly the thinking in the tax policy. Treasury has stuck to that view ever since.

Senator HEFFERNAN—I would have thought that you would have to find another way around it rather than tax law, because that is pretty sound in my view.

Mr Cummine—I am not advocating that that should be the change; I am reporting that the conventional view for many years by those who have not thought it right through has been that different tax treatment for a new plantation and an existing plantation was the problem. The Treasury and Tax officials, who are rather more steeped in the theory and the consequences for the whole revenue system, have said, ‘No, it is not right. It defies some basic principle.’ There is a tax ruling relating to managed investment schemes that says exactly that. Tax ruling TR 95/6 on primary production and forestry quite specifically makes some statements about it as well. It is not something that is going to get any traction in the debate, in my view. I think it would be a very big, steep uphill battle. Clearly there are some sound reasons for Treasury and the tax office to have the view that you are reflecting in the question.

Senator HEFFERNAN—If it is a 30-year investment and the industry has come to the conclusion that they cannot afford the 30-year investment then the answer is that it is not a good investment.

Senator O'BRIEN—But it is not a 30-year investment at the moment. That is the position that a number of people in the industry are taking—that people are not managing plantations for longer rotation because they are not prepared to invest over that period.

Mr Cummine—That is correct.

Senator HEFFERNAN—I can understand that.

Senator MURPHY—The problem is that it is partly correct with the carpetbag scenario, because if you have got companies—

Senator O'BRIEN—If you have—

Senator MURPHY—The current system under which the tax rulings are operating is that if you are a managed investment scheme operator, you charge a person a supposed management fee of, say, \$9,000. Out of that, you purchase land which, in my view, is a backdooring mechanism of the tax system as it currently stands. That is the problem that you have. That is why the tax office will not move. I think there is some scope to actually look at taxation changes, but you will never get the tax office or Treasury to look at it while you have the scenario where people are charging huge up-front fees and using that money to purchase land—although not always, because some of it is leased, but a lot of it is purchased—and some companies that are in the plantation business now have acquired huge volumes of land. That is why it will not work.

Senator HEFFERNAN—I assume there would be a capital gains tax component in all of this, too.

Mr Cummine—When you dispose of the asset at the end, that is correct; particularly if it was established post 1985.

Senator HEFFERNAN—Which is a further complication on the value between a well-managed forest at the time and a forest that becomes not well managed. There are plenty of tax complications.

Mr Cummine—It will be reflected in the poor sale price of the plantation, if anyone was there to buy it, or in a poor valuation. Secondary markets is a very big issue for small growers because, if they are not able to tie up their capital in their land for a very long period, it would make it much more attractive if they could sell the rights to the trees or the trees themselves to another land-holder. They can do it with just about anything else, but there are just not buyers there.

Senator HEFFERNAN—You could sell the land to anyone. It just happens to have trees on it; it could have sheep on it.

Senator MURPHY—You can plant trees now and still sell them, and somebody else can claim a deduction for them, provided that you have only claimed deductions for the management of those trees up to that point in time. Some problems exist where plantation companies are charging an up-front fee that you claim on tax, at that point in that year, for the management of those trees over a period of 10 to 11 years. That is where the problem for the small growers exists.

Senator O'BRIEN—On page 9 of your submission, you mentioned a study into secondary markets commissioned by the ministerial council. You call for the work to be given priority for completion. What is the progress of this study? You do not know?

Mr Cummine—Yes, I do. Not much, is the answer. I cannot say why, other than to say that it took a long time to get going.

Senator O'BRIEN—Who is doing it?

Mr Cummine—It is in the hands of the department at the moment.

Senator O'BRIEN—AFFA?

Mr Cummine—Yes. As I understand it, there were some funding difficulties with getting the work under way and with competing priorities, as we learnt last year. I do understand that there is a scoping study about to be funded. ABARE is to be doing that work and they are certainly seized with the sense of priority that we want to give it. So, we are hopeful that it will move fairly quickly now, but it certainly has not gone very far to this stage.

Senator O'BRIEN—So, two years on and nothing has happened. How long is the study expected to take to complete?

Mr Cummine—The scoping study is to take only a number of months, but it is to lead to whatever it comes across as being the main areas of investigation and then get the resources to do that investigation. So, it could well take a lot longer than that. But I cannot imagine that it would take more than a year to do a thorough investigation and analysis.

Senator O'BRIEN—Yet, it has taken two years to get to the point of perhaps starting it. Also on page 9, you talk about the need for a harvest guarantee that embodies a quality assurance approach. Can you elaborate on that?

Mr Ragg—I will leave Mr Cummine to expand on the quality assurance side, but I have certainly made some comments in my introductory remarks in the context of harvest guarantees or resource security. One of the overriding concerns for a small grower is, having taken the decision to enter a long-term crop such as forestry, whether they will be allowed to harvest when the time comes. Unfortunately there are some bitter examples where plantations have recently been declared as national parks. It tends to lead to a concern in the sector: 'Okay, I'll plant these trees, but how do I know they're not going to be declared a national park out from under me in 25 years time?' There are some securities around in the context of harvest guarantees or right to harvest, but they appear to be only as good as an electoral cycle. I guess some people are looking for a bit more of a concrete guarantee than perhaps exists in that context.

Mr Cummine—There is a contrast in the two paragraphs that might help me to explain that a little better, where I say 'harvest guarantees ain't harvest guarantees'. The approach taken in New South Wales in the Plantations and Reafforestation Act 1999, and the regulations that went with it, came in for a lot of criticism from not only small growers who were supposed to be exempt under the farm forestry exemption but also the plantation industry. It did not have a lot of impact. The hoops you have to jump through to get to the stage of accrediting the plantation

so that you have the guarantee are so onerous, and have so many exit clauses or qualifications in them as to whether or not you will get the guarantee in the end, that the plantation sector has not taken them up. It is that challenge of a very highly prescriptive code and regulations that gives the plantation growers so little room to move.

The approach that we have referred to in the next paragraph is more one of self-assessment, of an assertion. The grower would abide by the code of practice and would do their own assessment and say, 'Yes, I am abiding by that code of practice. I want to register my plantation,' without having to spend a lot of money on social surveys, economic surveys, Indigenous surveys and cultural heritage surveys, as you do now under the Native Vegetation Conservation Act in New South Wales if you want to put a plantation in. Instead of doing that, make your own assessment first, but then have a process of independent audit so that there are fewer of what we call 'veg police' in New South Wales but they have a different task. They have a task of auditing what you have asserted is correct. Then there can be some heavy penalties for failing or for having misled the government about that approach. We think that that sort of approach to establishing accreditation or a harvest guarantee is easier for the grower but still has the same level of protection for the objectives of government in terms of the environmental and social benefits and so on. It is also cheaper to run than having so many people who have to approve every step in a very detailed and complex accreditation process. Does that help to explain?

Senator O'BRIEN—Yes, it does. The other issue I want to touch on is the relevance of the Kyoto protocol. Is it your organisation's view that that has the potential to encourage investment in plantation forestry?

Mr Ragg—It is our organisation's view that it may. I guess we are still watching how it is developing. We are a little concerned that the developing countries, having not been included in the protocol, may cause some difficulty, with investment in those types of mechanisms in Australia going offshore and undermining the market.

Senator HEFFERNAN—Would they have the market edge by not participating?

Mr Ragg—Yes.

Mr Cummine—There is a more fundamental issue for the forest industry at large than whether or not Australia should be part of the Kyoto protocol. It is an international convention at the moment—a small 'c' convention—set up by the Intergovernmental Panel on Climate Change several years ago, that the harvest of trees is equivalent to a 100 per cent emission of carbon dioxide. That is plainly not true, but if that were the case and emissions trading mechanisms were set up under the Kyoto protocol, rather than being just bilateral trades, as has happened so far—some big bilateral trade setting a price for carbon—if there were open markets, what we might call the contingent liability for forest growers would be very high. They would be selling a carbon credit to somebody for a certain amount, say, \$10 a tonne for carbon, but when they get to harvest their plantation they are automatically liable, by international convention and carbon accounting methods, because they are an emitter at that point. Then they have to go into the market and buy back a credit, and the marketplace for that credit might be \$20 a tonne at that time. It seems a bit counterproductive that we are encouraging people to plant trees for carbon sequestration, to be able to benefit from selling carbon credits, but that they still have a contingent liability of having to buy them back some time in the future at a

price that they do not know. That gives quite a lot of people in the forestry industry some serious concern.

Senator HEFFERNAN—It is a con job.

Senator O'BRIEN—On the other hand, it is a way of bringing forward part of the return.

Mr Cummine—Yes, it is. And it certainly can be an attraction in terms of the environmental services that can be provided by growing trees. There is no question that that is certainly worthy of continuing investigation into ways of taking advantage of what trees can do in terms of sequestering carbon.

Senator O'BRIEN—A sensible manager would hedge the price of the carbon credit.

Mr Ragg—Presumably, but can I go back to Mr Cummine's point that if we can get a mechanism that can calculate the carbon that is retained even through harvesting then it is a much more transparent and equitable process, and it is certainly easier to sell the carbon market to the burgeoning plantation sector.

Senator HEFFERNAN—Talking about carbon credits, I went to a meeting in June a year or so ago, and when everyone discovered what you have just said, they more or less lost interest in the meeting, because that is a big drawback for an individual who plants 50 acres of forest, as opposed to a forest organisation that continually plants and replants.

Mr Cummine—It is.

Mr Ragg—One of the dilemmas that small growers face, and I think with respect you touched on it several times yesterday, is: why would we go into farm forestry? There are a number of reasons that I could probably give as to why we should do that. One of the difficulties is that the up-front costs are so far down the track in terms of their retrieval. The strategy we are trying to develop at Australian Forest Growers now, obviously in consultation with others, is a mechanism to offset those up-front costs, whether by biodiversity credits or carbon credits—that sort of thing—to make it more attractive. I would have to agree with you: carbon on its own is never going to underpin a plantation industry, but I think it is certainly a factor in the expansion of it.

Senator HEFFERNAN—Finance the front end of it.

Mr Ragg—Yes, that is right.

Senator HEFFERNAN—And the back end will look after itself.

Mr Ragg—If you can get to the back end. We just cannot get them into the ground to get to the back end.

Senator HEFFERNAN—You talked earlier about the need for plantations in lower rainfall areas. What sort of rainfall and areas are you referring to and how much success are we having on that?

Mr Ragg—There are two questions there. The first is: what is low rainfall? I guess we are talking under 500 millimetres. You heard yesterday that JVAP, the Joint Venture Agroforestry Program, is doing some interesting work in what we can do there. The other issue that I would bring up is that part of the experience we are now getting in forestry—probably in those low to medium rainfall areas; up to 650 or 700—is that the integration of forestry, rather than just a block of forestry in an agroforestry sense, is showing some production gains for the other industries on the farm. We are running a series in our magazine on those sorts of things and we will be pleased to make those available to you if that will help. Certainly, 10 months ago, I was an agricultural advocate. I was asking many of the same questions that are being asked here now. I have to say that after 10 months in this position, I have seen a lot of those things that we can aspire to. The challenge now is to take those examples and make them available through some educative or field day type processes to other sectors.

Senator HEFFERNAN—Would that give a disadvantage when—I think I used some pretty colourful language yesterday—a small bloke goes to the big operator to sell his forest? If you do not have a block of forest—and I agree with the presentation yesterday; it sounded like a good idea—does that give you a commercial disadvantage because it is all over the place?

Mr Ragg—Because it is not in a block?

Senator HEFFERNAN—Yes.

Mr Ragg—There would be some harvesting disadvantages. I guess the question is: do the production gains that we think are becoming available through the integration, rather than the blocking, of forestry offset those harvesting disadvantages? I think there is some evidence starting to develop that they probably do. Bear in mind that one of the major markets we are looking for in agroforestry is the longer rotation market for the high-value sawlog, so the broadscale harvesting that perhaps we are envisaging is not necessarily the case in some of those contexts.

Senator HEFFERNAN—So would you see this integrated set-up as more of a sawlog operation?

Mr Ragg—That is certainly a possibility.

Senator HEFFERNAN—That would add up.

Mr Ragg—There is a range of forestry options. One of those options is to integrate forestry into the landscape as part of the agricultural landscape. I would have thought that one of the great ways to pursue that would be in terms of long rotation of sawlogs.

Senator HEFFERNAN—I tend to be won over by that argument rather than the other, because it just seems to me that there is no real incentive for a block arrangement in what I would determine to be a grazing area.

Mr Ragg—I visited a farm in Mount Gambier that had both. The farmer had made a conscious decision to have a radiata plantation and a blue gum plantation and also to integrate. He was quite effusive as to benefits of the integration and also as to the 10- to 12-year blue gum

rotation, the 20- to 25-year pine rotation and the benefits from the long-term integrated stuff—so it is a global approach.

Senator HEFFERNAN—But I take it that in the meantime, if he had a heart attack and had to leave the farm, he would be quite happy to sell the farm with that as an asset on the farm to add value to the farm, rather than try to split the trees from the farm in some sort of sale mechanism.

Mr Ragg—I would have thought so, except with the rider if he has any existing joint venture arrangements—but yes, as a general principle.

Mr Cummine—He might have also set up arrangements with his succession planning whereby, for example, the rights to the trees can go to one of the children and the land can go to another.

Senator HEFFERNAN—That would be very complex in a tax sense.

Mr Cummine—It has been done, although profit apprende—

Senator HEFFERNAN—Has it been tested with the tax office? It might have been done, but has the tax office got on to it?

Mr Cummine—I do not know that I can answer the question.

Senator HEFFERNAN—I do not want to know the answer!

Mr Cummine—There are legal mechanisms for setting up the rights. One of the objectives within the 2020 vision is to ease the way for the trading of the rights to trees separate from the land.

Senator HEFFERNAN—If it were a pre-1985 arrangement and you did that, then you would immediately trigger capital gains tax complications.

Mr Cummine—You do under profit apprende at the moment. The treatment of profit apprende is one of the problems with capital gains tax. Profit apprende is the right to take the produce of another's soil. It is an old medieval legal term. The tax treatment is that the moment you actually grant that right you create a new capital asset and it is if you immediately dispose of it at the same time as well. It is very tricky.

Senator HEFFERNAN—That is why my inclination is that the integrated thing sounds like a better proposition, because you can do it without worrying about that.

CHAIR—We can note it all for the *Hansard*. I thank Mr Ragg and Mr Cummine for providing assistance to the committee today. While I am sure that we could continue the discussion in many different directions, your contribution has been very useful.

Mr Cummine—Thank you for the opportunity to appear.

[10.01 a.m.]

CLARK, Ms Judy, Postdoctoral Fellow, Centre for Resource and Environmental Studies, Australian National University

CHAIR—I welcome Ms Judy Clark. I believe you are going to give a 25-minute presentation, so I invite you to begin.

Ms Clark—Thank you for inviting me to brief this committee. I would like to start by declaring some pecuniary interests. I am a shareholder in Australian Ethical Investment Ltd and have superannuation with UniSuper Management Pty Ltd, both of which may have investments in plantation growing and processing companies. As Senator Ridgeway said, I have a brief presentation of about 25 minutes, leaving a good amount of time for questions. I will first address the serious commercial problem that I see facing the Australian eucalypt plantation growers today and then look at the deterioration in the proportion of plantation wood processed in Australia. In doing so, I will be particularly referring to paragraphs (a), (b) and (e) of the terms of reference.

The main message is this: in three to five years, large areas of Australia's eucalypt plantations will be maturing, and the wood volumes that are projected to come onstream are likely to generate a hardwood woodchip glut if native forest resources remain in the supply equation. Australia's plantation processing capacity is falling seriously behind plantation wood supply. Australia is enjoying nowhere near the full rural employment or wealth and environmental benefits that its existing plantations offer. These problems are with us now, and planting more trees without rigorous assessment of the global and Australian wood and wood products market is likely to intensify the problem.

I make three recommendations. The first is that the 2020 plantations target be scrapped and replaced by a more flexible approach at the regional and national level, where market trends, the existing plantation estate, manufacturing competitiveness, environmental issues and social requirements can be truly and jointly considered. My second recommendation is that the federal government, as a major promoter of private investment in plantations, ensures that this investment is not commercially undermined by state government subsidies on chip log supplies from public native forests. My third and final recommendation is that the federal government give priority attention to Australia's existing plantation resource and develops a manufacturing industry policy aimed at processing as much plantation wood as is commercially viable in Australia.

I will now look at the problem in more detail. Encouraged by the 2020 plantation vision and tax effective investment schemes, Australia's eucalypt plantation industry has, in my view, planted a wood glut. Because Australia is such a dominant player in the global hardwood chip market, accounting for approximately 30 per cent of the trade, I expect Australia's looming oversupply of hardwood chips to impact negatively on export prices over the next five years. We therefore have an immediate problem, but not one without a pragmatic solution that is already being implemented in one state. I call your attention to Western Australia, where the state government facilitated a native forest for plantation eucalypt swap for the state's sole export woodchip business. Although the company still exports a relatively small amount of

native forest sawmill residues, annual chip log production in Western Australia's native forests has fallen by 250,000 cubic metres or 55 percent, over the two years ending June 2002. But thanks to the large maturing and substitutable plantation resource, the company now enjoys greater business.

According to the projections of Melbourne University's Ian Ferguson et al that were published by the Bureau of Rural Sciences last year in this very important document, *Plantations of Australia: Wood Availability 2001-2044*, eucalypt chip log supply in Australia is expected to soar over the next three to five years. Their projections, presented in this document, are slightly higher than those I prepared in 2000, but this is immaterial because the wood volumes coming on stream are so big. Without any more planting, Ferguson et al are projecting that eight million cubic metres per annum of eucalypt plantation chip logs will come on stream in around two years time and 11 million cubic metres per annum in around seven years time, which is double what Australia currently exports from native forests. These are very large supply increases and it is highly unlikely that the global market can absorb them in such a short time frame without significant price reductions. Remember that Australia is already supplying 30 per cent of the global trade.

Australia's recent regional forest agreement experience gave evidence to support this view that a price reduction is likely. Regional forest agreements were, amongst other things, an instrument for removing the export licence regulations on native forest woodchips. Since the first RFA was signed in February 1997, Australia's annual exports of native forest chips increased by about 1.6 million cubic metres over a four-year period ending June 2001. A 10.5 per cent real, inflation-adjusted price decline was needed to clear the market. Without any more planting, Australia's eucalypt plantations are expected to supply an additional 7.5 million cubic metres of chip logs in around two years time. From that, I have deducted the volumes that we use domestically and that we already export. So we have a 1.6 million cubic metres per annum increase through the RFA and a 7.5 million cubic metres per annum increase from maturing hardwood plantations over a similar time frame. This is not something for 10 or 20 years time; this is something that is staring us in the face now. The hardwood plantation chip resource is 4½ times bigger than the RFA-induced supply shock. Without fundamental change in state government policies on chip log supply from public native forests, it is difficult to see how the market can be cleared without an even greater price decline than Australia experienced with the RFA deregulation on native forest chip exports.

Dealing with this problem—Australia's looming hardwood chip glut—should be the highest forest industry policy priority for the federal government today. Potential investors, including farmers, are right to question investing in hardwood plantations with this gloomy market outlook. One solution to the problem is ensuring that state governments do not undermine private plantation investment in their own state and elsewhere in Australia by selling cheap wood from public native forests.

There are three possible approaches; they are not mutually exclusive, and I encourage the committee to consider all three. The options are: facilitating a plantation for a native forest chip logs swap, which is the Western Australian approach; retiring large areas of native forest from chip log production; and plantation parity pricing, which entails raising stumpage prices on native forest chip logs to at least the level required to enable a reasonable profit to a plantation business. I am aware that these options to deal with a national problem require state government engagement.

Tasmania should attract the committee's special attention. Tasmania, through Gunns Ltd, now accounts for 50 to 60 per cent of Australia's native forest chip export business. According to Evan Rolley, the managing director of Forestry Tasmania, the average price for chip logs from public native forests is \$11 to \$12 per tonne. I do not think this committee will find any mainland plantation grower that can compete at such low stumpages. It is the size of Tasmania's native forest operations, combined with the very low stumpages, combined with the substitutability between native forest and plantation resources, in this case, that underpins the problem facing private hardwood plantation investors in the rest of Australia.

I move now to the wood growers' generic long-term problem. Wood growers are at the bottom of the commodity production pile. I do not think most prospective investors would have this understanding; most farmers do. The key market trend for wood growers is that, globally, manufacturers of wood products—producers of sawn timber, pulp paper and wood based panels—are using less wood to make their products. The trend is most evident in the global paper industry. Global paper consumption continues to grow in volume terms by around three per cent per annum, but there has been little growth in more recent years in the volume of wood used to make that paper. The global paper industry has been investing in wood saving technologies, mainly through the increased use of recycled paper and more efficient pulping, which is using less wood to make the same amount of pulp. As a result, wood is travelling a very much lower growth path than paper.

Overhead transparencies were then shown—

Ms Clark—This overhead is an update of a graph that I incorporated in a paper that was published a couple of years ago. I will give the secretary the Web URL, so people can download it if they wish, but I have included a copy in my papers. This is a graph of the global paper industry over a long period of time—the last 30 years. As we see, global paper production is growing steadily at around three per cent per annum over the last couple of decades. Most of this growth has been absorbed by the increased use of recycled paper. To a lesser but still positive extent the use of non-wood pulp—products like begass and cotton linters—has absorbed this growth. The blue line shows a steady long-term trend decline in the importance of wood pulp in global paper production. The actual amount of wood pulp in global paper production is in red and, as you see, there has been very little growth in the last couple of decades. The relationship between wood pulp and paper is shown in this downward blue line, which is the proportion of paper that is made from wood pulp. The FAO expects the decline to continue, with wood pulp predicted to account for only 44 per cent of the material input for global paper production in 2010. When I updated the graph to include the last three years of data, the industry was right on track with the FAO's projection.

In 1970, the global paper industry used on average 0.8 tonnes of wood pulp to make a tonne of paper. Today it needs only 0.5 tonnes of wood pulp to make a tonne of paper. That is a fantastic resource productivity achievement that should be applauded, but you will not read about it in the 2020 plantation vision or the plantation prospectus. The situation for wood growers is grimmer than that shown in the graph because the graph does not pick up pulping efficiencies—making pulp with less wood. New pulp mills invariably bring wood saving technologies and unfortunately—and remarkably—no organisation, including the FAO, produces long-term data on how much wood is actually used for global paper production. What we have here is wood pulp, not wood, and it would be wonderful to be able to show the amount of wood used in global paper production. However, we can reasonably expect that, on average,

each tonne of wood pulp produced today uses less wood than previously and that this trend will continue.

When we put these two market driven realities together—wood saving in pulp making, and pulp saving in paper making—there has been little and perhaps no growth in the amount of wood used for global paper production over the last decade. However, global paper consumption is growing by three per cent. The plantation 2020 vision is largely focused on the bottom end of the market which is wood growing.

Similar wood saving strategies can be observed in the solid wood products market that has seen a steady stream of new products such as particle board, medium density fibre board and strand board. These products are made by compressing and gluing small pieces of wood and then cutting them to size. Much of this new product development has worked to displace existing wood products rather than expand the overall market for wood products. Traditional sawn timber has borne the brunt of this competition. As wood panels displace sawn timber, industry saves on wood. One cubic metre of wood panels requires about 35 per cent less wood to make than one cubic metre of sawn timber. I am concentrating here on solid wood products and leaving aside the issue of pulp producers buying sawmill residues.

I want now to bring these two wood saving behaviours together in the solid wood products market and in the global paper industry. As global production of sawn timber, wood based panels, plywood and paper continues to increase in volume terms—and on this slide sawn timber is green, wood panels, fibre board and particle board are brown-orange, plywood and veneer are black and paper is grey—we are seeing quite a change in the relationship between wood production—the blue line—and processed product production—which is the aggregation. Wood production is travelling a much slower growth path than wood products and the most important wood saving technology in this graph is paper recycling.

Contrary to its claim, the 2020 plantation vision is not wood market driven. No fixed long-term planting target can be. Driven by a plantation target obsession, the 2020 vision has become in my view insensitive to changes in the environment, be they market, social or ecological. The planting target should be scrapped and replaced by a more flexible and comprehensive approach, as I recommended earlier. Commenting on the previous presentation, some people may wish to downplay the importance of the target, but when we look at media releases, press statements, monitoring and performance, the planting target is king.

The preceding analysis of wood savings suggests that Australia should concentrate more on finished product markets that take in the issues of plantation processing. In this analysis we should be looking at the processed product industry rather than the wood growing industry as the priority. I define ‘processed wood products’ to include wood based panels, pulp, paper, sawn timber and veneer. These are products processed past the chip and whole-log stage.

My third recommendation is that the federal government give priority attention to Australia’s existing plantations and develop some manufacturing policy aimed at processing as much plantation wood as is commercially viable in Australia. I present four public interest benefits to support this recommendation. The first is that Australia should be aiming at world competitive processing and growth through exports. The plantation sector is fundamental to achieving this goal because it provides scale economies and quality in its consistency and continuous

improvement for competitiveness in a commodity, sawn timber, wood panels, pulp and paper industry. Visy's recently commissioned pulp and paper mill at Tumut illustrates my point here.

My second public interest benefit is that because plantation products can substitute for most native forest products they are the key to pragmatic solutions to Australia's native forest problem. This reality is obscured in NAFI's submission to this Senate committee that emphasises complementarity between plantations and native forests, as one would expect from an industry lobby group trying to hold together the competing interests of its members. On page 7 of its submission, NAFI says:

However, in contradiction to the many uneducated commentaries on this industry, plantation resources do not have the capacity to substitute for all native forest uses.

NAFI did not quantify that carefully crafted statement. So how much native forest wood is substitutable? The entire native forest woodchip resource obviously is, as I said in the first part of my presentation. For some regions—namely, East Gippsland, the Otway, south-east New South Wales and Tasmania—that is 80 to 90 per cent of the native forest wood supply.

What is not substitutable by plantation products? They are mainly high-appearance sawn timber for furniture and flooring and some bridge timbers. Even here some people argue that there is more substitutability than I am recognising. How much native forest wood do these products require? Using BIS Shrapnel Forestry Group data reported in the sawn timber market assessment for 2000-05, I estimate that the native forest sawn timber use of furniture, joinery and floorboards accounts for only three per cent of Australia's native forest log cut. National data on bridge timbers apparently is not available, but their log requirements would be tiny. Substitution between plantation and native forest products is overwhelmingly more powerful than complementarity. Substitution is the key not only to pragmatically resolving Australia's forest conflict but also to increasing competitiveness in the Australian wood products industry.

The two public interest benefits from plantation processing relate to rural Australia. As my final overhead shows, processing wood into sawn timber, wood panels and paper generates about 15 times more jobs than exporting the same volume of wood unprocessed as chips or whole logs. The data to support this statement is included in your handout. The significant jobs are where the manufacturing is. As the overhead shows, employment is across on the X axis; levels of employment in unprocessed wood exports, both log and chips, is relatively low compared with employment in processing. If we are serious about employment growth, our focus should lift to the next level of processing: converting commodity sawn timber, wood panels and paper into wooden components such as furniture and joinery products, roof trusses, paper containers and so forth.

The second component of the public interest benefit for rural Australia is that processing generates considerably more wealth than exporting unprocessed chips and logs. I estimate that processing sawlogs into sawn timber rather than exporting them unprocessed boosts income—revenue less costs—per cubic metre of wood used seven times. That is shown in the relationship on the Y axis, where we get considerable increases in income from processing and then even greater levels from paper production. As I said, income returns per cubic metre of wood used by the Australian paper industry are even greater. This is because recycling has significantly increased resource productivity in the paper industry, as I mentioned earlier.

Despite these public interest benefits, Australia's processing capacity is falling way behind the plantation wood supply. At the start of the 1990s, around 90 per cent of Australia's plantation cut was processed domestically. Unfortunately, the plantation sector has lost its grip on this extraordinary achievement for an Australian agricultural crop. Today, around 70 per cent is processed domestically and the decline will continue without fundamental changes in government policy at the federal level and in most states. If Australia were just to maintain domestic processing at its current share, plantation processing capacity would need to increase by 60 per cent to handle the resource that Ferguson et al project will be available from 2005 to 2009. More processing investment will be required as more plantations come on stream by 2010. This is without any more planting.

Attracting private sector investment in plantation processing should be the government's overriding forest industry policy goal. It has been for many years, but it is not now. The winners from government policy in the 1990s were eucalypt plantation investors and the native forest sector—the competitors to the eucalypt plantation investors. Perhaps this committee can help to realign the policy agenda to plantation processing for the public interest benefits that I have outlined.

To conclude, I summarise my three recommendations. First, replace the 2020 planting target with a more flexible and comprehensive approach. Second, ensure that competing public native forest resources do not commercially damage private plantation investment. This largely means removing subsidised native forest chip logs from the supply equation. Third, give priority attention to developing an industry policy aimed at processing as much plantation wood in Australia as is commercially viable.

CHAIR—My first question is one more of curiosity in relation to the comments you made about being a shareholder with Australian Ethical Investment and, I believe, a superannuation company. Given the position that you have outlined today—I am presuming you have had the opportunity to put those views forward there as well—what sort of response as a shareholder have you received from those companies given that you do have a direct interest? If so, what views have been expressed in return?

Ms Clark—I have expressed no views to either of those two organisations. I should also point out that my investments are not direct investments in the sense that I do not have any personal investment in any company that processes or grows plantation wood.

Senator MURPHY—With regard to your views about pricing native wood to ensure a good price for plantation wood, it would seem to me that, at least at this point in time, plantation wood is selling for a greater value than native wood for woodchip purposes simply because the product is better.

Ms Clark—In the plantation prospectus document, we certainly have something like a 15 per cent price premium built in to allow for that quality expectation and view. My view though is that as the market intensifies a lot of the differential between the plantation sector and the native forest sector will be squeezed out.

Senator MURPHY—I am not saying that I disagree with you, but looking at what is happening and what is likely to happen, I think you are right in terms of the increase in volumes generated from plantations. That will cause a decline in the price. However, I am not sure that

bringing about a cessation, which I believe will occur naturally anyway, to native forest harvesting for woodchip purposes is necessary. That will happen by way of the volume that will become available. I do not think that we can affect the price of plantation wood by some government decision to close down native forest harvesting. I am interested in how you think that is achievable.

Ms Clark—There are two mechanisms if the government wants to ensure that the plantation sector is not commercially damaged by the play that is likely to unfold over the next five years. The first is by playing in the physical market in terms of wood volumes from native forests and secondly by playing in the price market. I am not making a recommendation about which market the government should play in. I am suggesting that the committee should consider both options. If we look at playing in the price part of the issue, the fundamental issue for the government to consider here is that, because of the low prices on native forest chip log stumpages from public forests, we have extraordinary profits being earned by native forest woodchip industries.

We can measure this by looking at the returns and annual statements from Harris-Daishowa (Australia) Pty Ltd to ASIC. The particular point to note about that company is that it is a stand-alone native forest based woodchip company. When it is reporting on its financials, it is reporting on a native forest woodchip operation without the sawmilling component or the plantation component. Over the past five or six years, the average return on shareholders' funds by Harris-Daishowa (Australia) Pty Ltd has averaged 30 per cent. That is extraordinarily good. That has not happened just in the last few years; it has happened over a long period of time. The reason for that is the very low stumpage prices that they are paying. In my view, that picture would transfer into the Tasmanian situation. The Tasmanian reality may be even greater because I understand that Gunns pays a lower stumpage price than Harris-Daishowa does in New South Wales.

Senator O'BRIEN—So why would they invest in plantation?

Ms Clark—That is exactly right.

Senator O'BRIEN—But they do.

Ms Clark—Who? Gunns?

Senator O'BRIEN—Yes.

Ms Clark—I will answer that question first. The problem with then playing in the price market from a government perspective is that the extraordinary profits that are available in the native forest chip sector are as a result of state government behaviour and of course this is a federal Senate committee. The problem facing the eucalypt plantation growers Australia-wide is that, as the global market will be oversupplied with a chip resource, there will be pressure bearing down on the price of exported chips. We have a native forest sector with enormous room to move because it has such a big profit fatness to work through before it is commercially damaged. The issue here, before it enters into perhaps less than just normal profits, is how far does the competition need to go before the plantation sector is commercially damaged because of the fat that the native forest part of the industry has in its extraordinary profits?

Senator MURPHY—In looking at that question—I am not saying that I disagree with what you are putting—to what extent do you consider the customers buying the wood in terms of their processing efficiency gains by using plantation wood over native forest wood which does require significantly more processing because of bleaching et cetera and the fibre values? What assessment have you made in that context when looking at price?

Ms Clark—I have not made a detailed assessment of those price and quality issues but my very clear understanding from talking to industry in this area is that volume and price are the key factor. It is a purely commodity industry and volume and price are critical. The quality issues are important but the dominant issue is volume and price.

With respect to Senator O'Brien's question, there are a number of factors in play. The first is that whilst it is attractive for people with high incomes to invest in tax effective investments, of which plantations is one and one in which the plantation industry has enjoyed an important marketing advantage—the 2020 vision, which is clear government support hooked into a clear statement about planting—we have witnessed a significant investment in plantation eucalypts in Australia. The point to note is that companies like Gunns are not major investors in that activity, but Gunns enjoys a monopoly buyer situation in Tasmania, both in its native forest resource and, ultimately and most likely unless Tasmanians can attract a new player into the game, in buying up the plantation resource. I am not going to say what I think the price might fall to on those eucalypt plantations in Tasmania when you have a monopoly buyer.

Senator HEFFERNAN—Would it be fair to say that Gunns are subsidising their plantation operation from forest mining?

Ms Clark—That is a very good point and I would like to widen it out to Australia. Whilst in Tasmania you can establish plantations through large clearing of native forests and earn the cash flow on that business and then replant and enjoy that configuration, other eucalypt plantation growers in Australia do not enjoy that benefit.

Senator HEFFERNAN—Some cases have been put here today about private forestry on a farm. I declare an interest: I am an old farmer. It seems to me that we are faced with a massive financial gain from forest mining versus plantation farming. Supply and demand obviously have a lot to do with it.

Senator MURPHY—And tax deductions.

Senator HEFFERNAN—Yes. Thank you very much. I can obviously see the sense of what Gunns are up to with cross-subsidies.

Senator O'BRIEN—Why would they invest in the purchase of rural land and plant plantations? Are you say that it is just a tax deduction driven thing? It seems to me that there must be a more elaborate strategy. This committee have seen some of their plantation work where they are not just managing plantations for chip but trying to manage plantations for higher value product as well.

Senator HEFFERNAN—I presume they can see the writing on the wall.

Senator O'BRIEN—That is another point. Do you think that is a substantial operative factor in their thinking or do they disagree fundamentally with your assessment of the market for the future? Are they therefore prepared to invest in a market on the basis that they predict that the pricing structures for the chip that they sell overseas—or potentially, I suppose, in the future process—will be greater than your assumptions?

Ms Clark—At the moment Gunns earns extraordinary profitability on woodchip exports. Why do anything different? Why not develop a strategy so that you can secure your future wood supplies—be they plantation based—remain as a monopoly buyer and continue that strategy?

Senator MURPHY—In defence of Gunns, I do not know that you can blame a company for earning extraordinary profits, albeit for woodchips or something else, on the basis that if the great bulk of their wood is derived from public land, it is up to the public land manager to manage that resource in a way that gets a better price for it. I would be hesitant to blame Gunns for that.

Ms Clark—I agree absolutely with what you say. This is a company behaving as a company does. It is government that is allowing this behaviour to continue. What I am presenting to this committee today is that this is not just a Tasmanian issue, this is a national issue, because most of our plantings are in Western Australia, South Australia, the green triangle and in other parts of Victoria. This is a national issue, but the behaviour of one government has implications for private sector investments in other parts of Australia. It would be different if Australia was a two-bit player in the global hardwood chip market, but it is not. We supply 30 per cent of the trade, and Tasmania is a dominant player in that market already.

Senator MURPHY—You talk about processing in your submission and say the government should focus on opportunities for processing plantation timber. In pushing that view, what analysis did you do of the world market for processed timber, from the point of view of both pricing and supply?

Ms Clark—Two things—and much of this is covered in that paper which is attached. Leaving price to one side, there are big trends globally in the solid wood market and in volume terms. One is growth in paper consumption—but, again, not the wood input to make that paper. Another big trend is growth in wood panels production, particularly in the developing countries of Asia—and that is very fast growth. The other trend is now declining sawn timber production globally. They are the big trends in volume terms. The big trends in price—I have not written about this in terms of the processed product but in terms of the raw wood product in that market—are no growth or negative growth in real, inflation adjusted, prices for wood. We see that in Australia's global exports of hardwood and softwood chips in the trend declines of about one per cent per annum in the real price of hardwood chip exports.

More recently—and I have not yet written about this—I am picking up a greater price pressure on unprocessed product relative to processed product. In other words, as real prices on commodities trend down in the long term, because it is a price competition which drives this industry, what I am picking up in more recent years is greater downward pressure on unprocessed wood products than on processed wood products. That is another issue which I think supports the argument for Australia concentrating a lot more seriously on the processing part of this industry rather than the wood growing part. I do not think I can overemphasise that point. If we want the real benefits across the board from the plantation resource, we should be

putting plantation processing and industry policy on plantation processing up there as the No. 1 priority and then let all the other issues—like plantation wood growing, our approach to native forests et cetera—become subservient to that goal. At the moment we are not there, but that is certainly what I would urge this committee to consider: to change the agenda.

Senator MURPHY—I do not disagree with the view you are expressing about looking at it, but it would be dependent upon the manufacturing costs from a global point of view. If you look at China, one of the largest timber users in the world, their manufacturing costs are significantly lower than ours. It will always be more attractive for the wood seller—that is, the resource producer who is looking for a market—to be able to sell their raw material for a higher price into a country that has a lower manufacturing cost. That is a problem that I foresee, certainly from the investigations I have done, when we are looking at how to promote manufacturing and processing within this country. We have to take those things into account.

Ms Clark—I think that once—when, if—a plantation processing strategy is put on the agenda, then we will get government focusing a lot more seriously on why the investment in plantation processing is not happening. I am not seeing anything in the Industry Commission report on value adding to Australia's forest resources, or in other consultancy work that has been done on Australia's manufacturing competitiveness in wood products, suggesting that we cannot be competitive in very many of our plantation processed products. We see some of these companies—Auspine, for example—looking at significant expansion in sawn timber exports to the United States. We are seeing it also in terms of Visy and its decision to invest in a pulp and paper mill. A large component of that is import replacement, part of our competitiveness with lowering of tariff protection.

My point here is that, once we have an agenda of processing plantation wood as a priority, then we should be getting much greater focus on why we are not getting increased levels of investment in plantation processing. That is when I think we will seriously start to engage in this issue.

Senator HEFFERNAN—Having regard to the wool experience, where technology usage has meant that you do not need people—you have done away with people in a lot of the processing of wool and it is all computerised—I guess that sort of thing will come to the timber industry. The argument you are putting about China, in my view, will become less as technology becomes greater. I can see some cross-fertilisation, from lessons of the hard reality of the market, between grape growing and wood growing. If you are a little grape grower and you have not got a contract with one of the big processors, they will do what I said yesterday they do to you at the point of sale. Would it be fair to say that, if a cross-subsidy continues in the marketplace—we have heard the arguments about how it is difficult to encourage private farming of logs, and there is concentration on carbon credits, tax credits and all these things to try and prop the job up—in reality they will not be able to compete with this cross-subsidy in any event?

Ms Clark—The cross-subsidy between native forests and plantation?

Senator HEFFERNAN—Yes.

Ms Clark—I think that is the overwhelming issue for the next few years. It has to be sorted out first.

Senator HEFFERNAN—I am inclined to agree with you.

Ms Clark—I would like to raise two points with respect to the relationships between growers and processors, be the growers small or large. First, in my view we want to encourage greater relationships in this sort of industry between growers and processors in Australia. I say this simply because it brings in the flexibility to change your plantation management to fit more closely into some of the changes that are happening in the processed product market. One of my concerns with managed investment funds is that that relationship is deteriorating, and I can only see that being to the loss, over the long term, of the plantation processing industry.

The second point with respect to these relationships is that it is a very serious and real problem that has been with us for many, many years now, in that small growers—largely farmers—are traditionally very hesitant, for very good reasons, about establishing relationships with big single companies in terms of supplying a resource to those companies. Whilst for many years we have heard a lot said about that particular problem, often by committees that are actually chaired by people who are part of the big processing part of the industry, in my view it has largely been a lip-service treatment of the problem.

I agree with you absolutely, Senator, that the serious problem we face today is the relationship between the two parts of this industry, which are in a competitive relationship. That is largely glossed over by industry associations that are trying to keep all of their players happy. The complementarity play gets dominance, rather than the substitutability play.

CHAIR—Can I get some clarification as to where you think the emphasis should be put, particularly in relation to plantation processing. What does that mean in relation to the view that was expressed by NAFI yesterday about Australia potentially being in a position to deal with the establishment of one to three world-scale pulp and paper mills?

Ms Clark—I find the statement strange because my understanding is that NAFI has not got one pulp or paper company in Australia as a corporate member, so NAFI is not speaking on behalf of the Australian pulp and paper industry; the industry have their own industry association. So the issue of who speaks for the industry becomes particularly important. The additional reason why I find the statement strange is that I understand that one of NAFI's major—and perhaps most important—sources of revenue is Gunns in Tasmania. But it would be to Gunns' commercial disadvantage if a pulp and paper mill were built in Tasmania in which it did not have some commercial interest. To bring these two statements together, what I find strange about NAFI's statement is that it is saying something that appears to contradict the commercial interests of one of its most important members. I also believe though, and I must make this quite clear, that it would be very good for Australia to have additional pulp and paper companies based on plantation processing, and I think that Visy's investment in Tumut is an exemplary demonstration of what can be achieved. That is not to say that everything is perfect with respect to that investment, but I think Visy has taken us a long way down the path of plantation processing.

Senator O'BRIEN—I was partially distracted during your answer about Gunns and pulp and paper processing in Tasmania. Would you run that past me again please?

Ms Clark—If a new pulp and paper mill based on plantations were established in Tasmania and Gunns did not have some commercial interest in it, that would introduce a new buyer into the plantation resource in Tasmania, therefore introducing competition.

Senator O'BRIEN—Alternatively, Gunns might be able to leverage investment out of the profits that you say they are earning at the moment out of a lower price for native forest woodchip material. Is that a reasonable alternative assumption to make?

Ms Clark—I am not sure that I understand what you are saying.

Senator O'BRIEN—If you are saying that they are getting native forest woodchip logs too cheap and are therefore, I assume, making a greater profit than would otherwise be the case off a fairer price, would that not also be a possible tool to leverage investment in downstream processing?

Ms Clark—That is true but I think it is a very poor way to establish a processing industry by falsely establishing a low price on your growing side. You need to have competitive business and profitable business across the board.

Senator O'BRIEN—What about magnesite in Queensland? We have a railway up through the centre of Australia. There are a fair few areas where the federal government even more directly invests in development outcomes.

Ms Clark—I think where it is possible for us to have economically rational arrangements in our industry that is a desirable thing to go for.

Senator HEFFERNAN—It would be my view that it would be a serious flaw to embark on an enterprise that you knew from day one was going to require a government subsidy to keep it afloat, in terms of an industry that is manufacturing something rather than delivering something.

Senator O'BRIEN—That is not necessarily what we are talking about.

Senator HEFFERNAN—I know it is not.

Senator MURPHY—In Tasmania we have a company—this is prior to Gunns—who had a contract over the public resource for a period which was unknown because it would not be publicly disclosed, but it was at least 10 years and probably 15 years. Any person seeking to develop a pulp and paper mill in Tasmania had to negotiate with the private company to purchase the public wood. The private company who is exporting that wood to a manufacturer of pulp and paper in Japan who, by agreement, globally set the price for woodchips, is not likely to allow that price to be one that would give an opportunity for an investor to invest in a pulp and paper mill in Tasmania or, I suggest, anywhere else.

Senator HEFFERNAN—I would have thought that that is why we are here listening to all this.

Senator MURPHY—Exactly. That factor has not been mentioned and it ought to be mentioned. The state government of Tasmania and other state governments might want to disclose why they have these long-term contracts with export woodchip companies.

Senator O'BRIEN—The submission you put forward cites the provisions of the Kyoto protocol 1997 framework convention on climate change as a key to attracting investment in farm forestry.

Ms Clark—I am sorry, that was not my submission.

Senator O'BRIEN—It might be your article talking about global wood market prices and plantation investment.

Ms Clark—Yes, that is right; it was my article.

Senator O'BRIEN—Are there any other studies that would indicate the effect on farm forestry investment if Australia were to ratify the Kyoto protocol?

Ms Clark—It is not an issue that I am expert in so I hesitate to give any advice to the committee on it. But the more you talk to scientists about the contribution that forests or plantations may make negatively and positively to greenhouse, the more complicated the issue becomes. Some comments that were made earlier today by Australian Forest Growers essentially came to a similar view: it is very hard to say just how Kyoto would impact on plantation investment.

Senator HEFFERNAN—As a small farmer wanting to grow 20 acres of trees, if things do not change would I be better off buying a racehorse?

Ms Clark—This is the short term versus the long term.

CHAIR—I presume that we can take the documentation that you have provided as your submission to the committee.

Ms Clark—Yes.

CHAIR—I presume that it is the wish of the committee that the submission be accepted and authorised for publication. There being no objection, it is so ordered. Thank you for providing assistance to the committee today. Many issues have come up and we may need to contact you again to discuss further matters.

Ms Clark—That is fine.

CHAIR—A copy of the *Hansard* will be available shortly for your perusal.

Proceedings suspended from 10.58 a.m. to 11.15 a.m.

BINNING, Mr Carl, Chief Executive Officer, Greening Australia**CHALMERS, Ms Julia, Farm Forestry Program Coordinator, Greening Australia**

CHAIR—I welcome the representatives of Greening Australia. I invite you to make some opening remarks before asking senators whether they have any questions for you.

Mr Binning—Thank you for the opportunity to appear before the committee. Greening Australia has had 21 years of interest in and passion for growing trees. We are often thought of as simply a tree planting organisation, but in the last five to 10 years we have had a very active farm forestry program. That program has tried to develop, in subcommercial regions, commercial options for landowners to integrate tree growing into their farm businesses. I will ask Julia Chalmers, our Farm Forestry Program Coordinator, to give you an overview of our farm forestry policy, which was launched about 18 months ago. We will table it and then I will follow up with a couple of other things.

Ms Chalmers—I have a copy of Greening Australia's national farm forestry policy, which I think you should have a copy of. It represents our priorities and our position on forestry. Through our farm forestry policy, Greening Australia is seeking to: increase the area of sustainable revegetation in Australia by providing a commercial incentive; strengthen the social and environmental values of existing commercial revegetation programs; maximise the returns from investment in commercial forestry and natural resource management by, where possible, integrating these goals to achieve multiple benefits; and provide increased income to farms and regional communities by encouraging new enterprises and enhancing agricultural operations.

Our vision for Australian forestry is that it be sustainable, diverse, integrated and planned, and that it deliver multiple benefits, including both environmental and economic returns. Greening Australia offers a means to increase social and environmental values of large plantations as well as providing real alternatives on smaller scales for diverse farm integrated commercial revegetation.

Mr Binning—I might highlight a couple of things that I think are particularly pertinent to the inquiry. The first is that Greening Australia's predominant interest lies outside traditional tree growing regions. We are talking about low to medium rainfall regions, and also monsoonal systems. In plantations, we only grow one or two Australian species in a fully commercial sense: *Eucalyptus globulus*, *Eucalyptus nitens* et cetera. There is a huge diversity in Australian tree species that have not been tested for their commercial potential. As a good example of that, we have established with landowners about 125 low rainfall species trials. Out of those, there are a number of species that are showing a fair bit of commercial potential in growing in the less than 600 millimetre rainfall zone. However, there is a fair bit of work that still needs to be done to assess their value and, more importantly, to develop markets for those timber products. So there is a huge untapped potential. In Australia, we have been trying to develop forestry for over 100 years now and we have not even begun to tap the potential of that biological resource. There is considerable scope for broadening the range of species that are used commercially in Australia.

The second broad comment I wanted to make is that governments are investing very heavily in environmental management at the moment, in the billions of dollars, and that is really the main industry that Greening Australia is involved in. There is a lot of discussion about whether tree growing for commercial purposes can be integrated with solving salinity problems, improving water quality et cetera. We hold the view that that is very much the case. However, there are a couple of things that we need to be particularly careful of.

The first is that trees are well planned, particularly in farming landscapes, so that they work to achieve both the commercial outcome and the environmental outcome desired. The second is that we do not go through the softwood loans scheme problem that we did years ago, where governments invest a heap of money in establishing commercial plantations that actually are not commercial but become a drain on the public purse in the long run. To solve that problem, we really need to think about alternative markets and alternative products in low to medium rainfall areas. There is more than enough rainfall in high rainfall areas, and land with good soils, to meet the current pulpwood markets et cetera in Australia. So specialist timbers, biofuels, biomass, oils, firewood—we consume as much firewood in Australia as we export as woodchips—and specialty products such as broom brush for brush fencing are all things that we are actively promoting in regional Australia at the moment. Whilst they may not sound very large scale, there is a potential to take those industries and look at their potential for growth in the longer run. For example, we are now hauling firewood in the ACT from up to 600 kilometres away, to bring that resource into Canberra. That does not seem to make much sense from anybody's perspective.

One area where we are increasingly actively working is to work with industrial plantation growers to improve their environmental performance. Where industrial plantation growers establish, say, a blue gum plantation, there is about 20 or sometimes 30 per cent of the property that cannot be planted. There might be remnant vegetation, there might be creek lines, there might be steep slopes, there might be soils that are inappropriate. We are working with a number of the larger industrial companies now to manage that 20 to 30 per cent of a farm for its environmental values. That industry, if it is pushed along in the right direction, has the potential to be amongst the best environmental performers in Australia. You are putting in a perennial crop that lasts 10 years, and you are setting aside 20 to 30 per cent of the land for the provision of environmental outcomes.

If a farmer came to Greening Australia with that proposition we would get tremendously excited. We are also excited about working with large-scale industrial plantation companies, but there is a fair distance still to go in improving the environmental performance outside their immediate plantation areas. There are a couple we are working with in Victoria, in particular, where that is going incredibly well. The sorts of actions that can be taken are to link up areas of native bush through the plantation estate so that you maintain pathways for native plants and animals which enhance our biodiversity objectives et cetera.

The final comment that I wanted to make is that there has been a lot of discussion about proposals to establish markets for environmental services, to supplement the commercial returns from forestry in Australia. The Murray-Darling Basin Commission has promoted something called a vegetation bank. Commercially, a plantation can get so far and then there is a top-up needed to make it commercially viable. The commission has proposed that the government could go a lot further in solving problems like salinity by using those commercial drivers.

My comments on that would be twofold. The first is that we need to make sure, if we go down that route, that what is put in the ground makes commercial sense and that we do not have problems in the long run. The second is that those markets for environmental services will only exist in one of two ways. Either governments pay directly or governments regulate resource use to create a market. The Victorian government is probably the closest to doing that by implementing its policy of no net loss of native vegetation. That means if someone cuts down native vegetation, they need to offset that elsewhere within the catchment. That produces a market where people who are interested in clearing land are interested in reinvesting in and re-establishing forestry elsewhere within a catchment. Markets for environmental services are no panacea, particularly for governments, because either you have to regulate, which is tough, or you have to pay, which is tough. I am very strongly supportive of supplementing commercial activity to achieve environmental outcomes but with very great care regarding some of those difficult public policy issues.

The final comment I would make is that it is very important to think about how farmers perceive forestry and to think through the social issues associated with expanding the plantation estate. Particularly in the non-commercial areas, where we have a strong interest, farmers are often willing to invest significantly on their own behalf to provide environmental outcomes on their properties. They are not necessarily looking for a fully commercial return from planting trees. However, some commercial return will allow them to expand the areas which they are planting to address environmental issues. To achieve that outcome, we need to work very hard on giving them access to markets. The forest industry is still dominated in Australia by a number of large players; market access for smaller players is extremely difficult. That is one area that I would commend to the committee to pay close attention to.

CHAIR—I am trying to understand how Greening Australia fits in, in relation to the range of different associations, groups and organisations in the timber industry. Do you regard yourselves as being an environmental services provider?

Mr Binning—We are really both. When we started 20 years ago we were certainly an environmental services provider. We have started to fill a niche between commercial forestry and pure environmental planting. If you go into the lower rainfall regions of Australia, there are many farmers who want to grow trees and would like to see some commercial return from those trees but who do not think that it needs to be a fully commercial activity. The commercial sector are not going to be very active there because there is not enough return for them, whereas we are able to work with the farmers to design a farming system that addresses their natural resource management problems on-farm and often provides quite a significant return—importantly, often a return at a critical time in their life cycle. This is the on-farm superannuation argument. We have probably worked with, I would guess—I do not have the numbers in front of me—5,000 to 10,000 landowners through that process.

The other group that is extremely active in this area is the Master TreeGrowers Program. They run forestry training programs for farming communities in how to grow trees for profit. That program has evolved into a program which talks as much about how to fix your environmental problems on your farm as getting commercial return.

Senator HEFFERNAN—How much of the profit of the tree is fixing the problem on the farm? Is the profit derived by a cash return or the benefit to the farm?

Mr Binning—The answer is both. If you did a gross returns analysis on the forestry investment and you applied a discount rate, you may get down to a return somewhere between zero and one per cent per annum. But it is really the wrong way of framing the problem because that land was perhaps not productive. Perhaps you are addressing a water quality issue or perhaps you are addressing an erosion problem. So, instead of just fencing that land and leaving it unproductive you are establishing a crop on that land that will give you income at a later point. It is the ability to take the capacity to solve an on-farm problem that is going to have to be addressed, in any event.

Senator HEFFERNAN—Is this a typical recharge or discharge? What sorts of areas do you find you are putting these trees into?

Mr Binning—There are probably three or four classes of land. There is land that has been cleared that should never have been cleared and is just not providing a return on property. It is particularly interesting in cropping properties that, with the use of remote sensing, they can actually identify the areas of properties that are costing them money rather than making them money because of all the inputs in cropping. So we might take some of those areas and put some trees in them. It can also be solving an erosion problem, fencing off and maintaining riparian areas, recharge sites, discharge sites—the full gamut. The Joint Venture Agroforestry Program has done an excellent job in devising guidelines for farmers which articulate where you should plant trees on your property, for what purpose and what the benefits are going to be.

Senator HEFFERNAN—With the discharge areas, I am of the view that you are better off with the sorts of grasses that grow in discharge areas and get a quid out of it, and put the trees up higher.

Mr Binning—I am not a salinity expert so I will not offer a definitive view on that. I find the salinity debate is one area where you simply cannot generalise. But certainly from an erosion point of view you do not want just trees, you want grass cover.

CHAIR—I am not familiar with the budget size of Greening Australia but, given the work you undertake, how much research activity do you invest in, particularly in terms of looking at skilled farm forestry and perhaps collaboration that might be done with the JVAP initiatives, some of which you may have heard of, such as the alley farming practices? Do you collaborate in both practice and research?

Mr Binning—We have a very close relationship with JVAP. They run a fantastic program. Our species trialling is probably the thing we have done most work in. We have established about 100 species trials across Australia in partnership with farmers. We have a collaboration between JVAP and the CSIRO to analyse the commercial viability of those low rainfall species trials. The comment I would make to the committee is that the government is currently considering what investments it should make from the national component of the Natural Heritage Trust. Forestry in low to medium rainfall areas is still in need of a good deal of further development. We are currently working pretty proactively with Agriculture, Fisheries and Forestry Australia to develop a program that can boost industry outcomes in those regions and also give us a better tool kit in terms of what species and what techniques are appropriate. That program will involve industry bodies, the Joint Venture Agroforestry Program, CSIRO, us and the Master TreeGrowers. It is an excellent initiative and I would commend it to the committee.

Senator O'BRIEN—You talk in your submission about sustainable revegetation. What tree species are not acceptable in that context?

Mr Binning—That is a curly one!

Senator O'BRIEN—Is it only indigenous species, or are exotic species permissible within your policy?

Mr Binning—Greening Australia would take a pragmatic approach. It depends on your objective. If your objective is biodiversity conservation, we will tend to want to use a broad mix of plants that occur naturally within that region. We tend to use a technique called direct seeding. If you are talking about a strong commercial outcome to, say, solve a salinity problem or an erosion problem, our view would change right to the other end of the spectrum, to say you should plant what works. We really do not care what tree it is, as long as it performs the function. So we will always link our species choice to what the objectives are.

The final comment that I will make on this, which is a very hairy one, is that climate change is starting to move relatively quickly, and there are a lot of species that will not grow any more where they used to naturally occur. In and around Canberra there is a red gum called *Eucalyptus blakelyi*, for example, which because of changing climate and also changing soil conditions just does not work in this landscape. So what we have done is to go and find a range of tree species that perform the same functions as that species, and now we are using those in this region. That is one example of the pragmatic approach that you need to take.

Senator O'BRIEN—You say that your farm forestry policy was formed 'through wide consultation and consensus from the Federation of Greening Australia'. Was there consultation with bodies such as the NFF, state farming organisations and the like? Was that sought, and if so was it achieved?

Mr Binning—I am just hesitating about the farming organisations. I know that we passed it through Australian Forest Growers and I think NAFI had a look at it. The policy, unfortunately, predates my time at Greening Australia. I know that we had an extremely large launch in South Australia where all the main key industry players and a whole bunch of people from the natural resource management community were present, so I think it would be safe to say that the policy would enjoy broad support amongst all the key stakeholders. It is a fairly general document, simply advocating multiple benefit forestry. I do not think that is a contentious thing.

Senator O'BRIEN—You say that you are currently receiving Natural Heritage Trust funding for species trials in areas of low rainfall with potential for excellent results in the long term. Can you give us a snapshot of those trials, saying what progress has been made to date?

Mr Binning—There are two classes of trials. There are some that were established in the New England area about eight to 10 years ago. We have now got good growth data, and from those species we have selected two or three which show reasonable potential.

Senator HEFFERNAN—What is the rainfall?

Mr Binning—Armidale probably has 500 to 650 millimetres, I would guess. The other trials are scattered throughout Australia. We have got a couple of promising species in the Northern

Territory and a couple of others in WA. One example is a hybrid between a york gum and, I think, a salmon gum which produces quite vigorous growth. Those trials are only three to four years old, and we are really at the stage now of showing that they can establish themselves and they can get out of the ground and show good form. They probably need to get to eight to 10 years before we really understand what their timber yield is going to be.

I think there are two areas of work that needs to be done. The first is continuing the monitoring and assessing the potential yield of those. The second is starting to do the analysis of what markets those timbers would go to. I can give you an anecdote about this. One of the farmers we work with in Western Australia went to a trade fair in Germany with a sample of his york gum, and came back with an order for 10 container loads. He could not fill them, of course, because the resource is not there. So that species trialling will take 10 to 20 years before you really see a significant commercial outcome, but it is very important in terms of the development of the sector overall.

Senator HEFFERNAN—Do you have a preliminary report? Have you got any paperwork or data that you could provide to the committee? I would be interested to know, for instance, where they are, what the rainfall is, what the species are and what has happened thus far.

Mr Binning—If the committee would like us to, we will bring that documentation over and get it tabled after this session. I have not brought it with me.

Senator O'BRIEN—That is great. Thanks for that.

Mr Binning—There is reasonably good data now.

Senator O'BRIEN—As I understand it, you are receiving funding for these trials from the forestry industry as well. What proportion of the funding comes from industry, and what is the term of industry's commitment to these trials?

Mr Binning—For those trials we have received support through JVAP. I do not think we get too much directly from industry in terms of hard cash; we may get some in-kind support. We have really just started the process of engaging with both Australian Forest Growers and NAFI to show them the outcomes of those trials and look at their commercial potential.

We are receiving funding from industry in commercial plantations, where they want us to look after the areas of land where they are not planting essentially blue gums. We get provided with funding to make sure the land outside their plantation estate, but still on their properties, is managed in a way that maximises the environmental outcomes. That funding probably runs now, if I add it all up, to about the \$300,000 to \$400,000 mark. It is still relatively modest, but it is certainly a growing area of business for our organisation and it provides great opportunity to achieve environmental outcomes at scale. So we are very excited about it.

CHAIR—Are you aware of the problems of weed infestation in plantations? In Tasmania, at least, there have been complaints from neighbouring properties about the issue, and from our inspections we are talking about thistles that are the size of trifids. Do you get involved in that side of dealing with environmental services? If so, would you talk about it.

Mr Binning—Certainly we would be keen to, but to this point we have avoided it because it is quite tough ground, and also because the commercial companies want control over the forest resource that they are working on and that is kind of appropriate. So at the moment we have a pretty comfortable relationship, in that they say to us, ‘We will look after the plantation and you look after the area outside the plantation.’ That is a really nice—

Senator HEFFERNAN—Who has the legal liability for the weeds?

Mr Binning—The company would. The owner of the land would.

Senator HEFFERNAN—Do you think they are looking after the weeds?

Mr Binning—I think again this is not an area of my particular expertise, so I would not comment. But the general comment I would make is that, particularly with the advent of managed investment schemes in Australia over the last five to 10 years, you will have the full gamut of companies that are doing an absolutely appalling job and companies that are doing a really good job. You will have that full spectrum out there. We are attempting to work with the more reputable companies in the industry.

Senator O’BRIEN—I mentioned Natural Heritage Trust funding. How much of Greening Australia’s funding comes from NHT, and what is the term of that commitment?

Mr Binning—This is a critical issue for our organisation at the moment. As you would know, the trust is entering its second phase, and at the moment there are bilaterals being negotiated with each of the states. We receive directly from the national component of the Natural Heritage Trust about \$9 million per annum. A little over \$1 million of that goes to our farm forestry network, and the other component goes to something called Bushcare Support, which assists communities in creating and establishing revegetation programs.

Senator O’BRIEN—Do you mean the other \$8 million?

Mr Binning—Yes. We also assist community groups at an on-ground level to implement—

Senator HEFFERNAN—Are you referring to Landcare projects there?

Mr Binning—Yes, absolutely. We tend to provide professional support to the Landcare groups. A Landcare group will say, ‘We are going to fence off this creek line and re-establish native vegetation.’ Our officers will go in there and help them plan and implement that program. We are funded to provide that assistance to the community, essentially.

In the move to the new phase of the trust, it is envisaged that most of those services will be funded at a regional scale, but it is taking a long time to get those regional arrangements in place. A number of our projects ran out of funding in December and the remainder run out in June. We are currently experiencing a fair degree of staff attrition as people get quite concerned about their future.

Funding is really awaiting two things: first, the signing of the bilaterals between the Commonwealth and the states, and, secondly, a whole lot of internal state arrangements about getting the money out to the regions. I am reasonably pessimistic that that impasse is going to

be solved before the latter half of this year. That raises a whole lot of issues for our organisation. We are very strongly supportive of the new framework, but the transition to the new framework is proving very problematic. We would certainly advocate that people reflect on the investment that has been made over the last five or, indeed, 20 years and the capacity that has been built in rural communities and not divest of that simply because we are entering into a new administrative arrangement.

Senator HEFFERNAN—Do you think that Greening Australia has changed from what it was when it was first set up? Have you moved with the times, as it were? Has your mission statement altered?

Mr Binning—I think the answer to that is ‘absolutely’. With respect to a couple of the key things that happened when we started 20 years ago, firstly, we grew trees in pots and planted them, and that is an extremely expensive way of doing it. Through the mid-eighties and early nineties we developed direct seeding, which is far more cost effective. In the early nineties we were not involved in commercial projects. Now we are entering into some reasonable sized commercial arrangements with the plantation sector to provide environmental services. The second thing that has happened is that the Landcare movement has largely not been accountable for what it has done, including—

Senator HEFFERNAN—My next question was: do you think Landcare has moved with the times?

Mr Binning—I think Landcare is moving, but Landcare comprises community volunteers, essentially, and they need good professional support. Now we are saying that planting a tree is not necessarily good. We need to understand what that means for biodiversity, what that means for salinity, what that means for water quality. Some of the best scientists in the country cannot answer those questions. So the Landcare movement needs active support from people who can say, ‘If you do this on your property, these are the likely environmental outcomes.’

Senator HEFFERNAN—Are you saying that some of the farm plans—and I declare an interest in that I have one—would now be flawed on today’s thinking?

Mr Binning—I would not say ‘flawed’; I would say that they will evolve. Farm plans, as devised some years ago, really looked at the farm in its immediate environmental context. The push now is to look at those farm plans in a whole of region or whole of catchment context. For slow running problems—such as salinity and, to some extent, biodiversity—that will tend to place an even greater burden on what people will be asking farmers to do. We are trying to build a bridge between what governments and the regions are aspiring to achieve and what farmers can practically implement in the day to day running of their farm businesses. That is what I would put forward as Greening Australia’s great strength: being able to link between the aspirations of public policy, if you like, and being able to achieve that through on-ground change at the farm.

Senator HEFFERNAN—Do you think that there is now less money in Landcare for the trees?

Mr Binning—Certainly, at the moment there is. If we get over the next year, I hope that the money will start flowing on to the ground again instead of into a huge number of committee processes.

Senator HEFFERNAN—As I have had first-hand experience with a wonderful education program for farmers—which turned into cars, coordinators, computers, meetings and afternoon teas, and then you look around and there is no money for the trees, as it were—I have to say that I tend to agree with you.

Senator O'BRIEN—Are you suggesting that that is why they were receding?

Senator HEFFERNAN—No.

Mr Binning—I think the problem is that—if the committee will indulge me—we are running catchment processes which say we would like our rivers not to be salty anymore, and the trouble is that we have 100 years of land use that is making those rivers salty. It is going to take at least 50 years to fix it. If we write a regional strategy which says that we do not want salty rivers anymore, then we say what we are going to do about it, we get ourselves tied up in a terrible knot because we aren't going to fix it in a budget cycle. What is really required is very pragmatic planning which says that if in three years time we got this much work done on the ground, that would be really great progress. If we did that for 10 budget cycles in a row, we might actually think that we have the problem solved.

Senator HEFFERNAN—Does Greening Australia have a view on the apparent effectiveness in a salinity program of deep-rooted things like lucerne versus trees?

Mr Binning—Again, it varies a great deal and I would probably refer you to the CSIRO's work on the difference between annual pastures, perennial pasture systems and trees. Perennial grasses can work very well in some contexts. The great dilemma with perennial pastures is that if they are grazed too hard, they lose their ability to pump. It basically comes down to the area of leaf that you have exposed to the sun. Whilst perennial pastures can work, they only work if you do not graze them too hard, and if you go to the cost of establishing perennial pasture, you have to graze it pretty hard to get a buck out of it.

Senator HEFFERNAN—I do not agree with that; I entirely disagree with you.

Mr Binning—It really varies from region to region. I can show you land use systems where perennials are a fundamental part of the solution—

Senator HEFFERNAN—I am really referring to lucerne. If you are going to do it, you might as well do it properly. You have to get your pH right, which means you have to have lime. We have to encourage governments to think about lime as much as anything else.

Mr Binning—Again, you want the rainfall for lucerne as well.

CHAIR—I thank Mr Binning and Ms Chalmers for providing assistance to the committee.

Mr Binning—We will forward separately to the committee the species trialling data.

[11.59 a.m.]

BARTLETT, Mr Tony, Director, Institute of Foresters of Australia

DONALDSON, Mr Jim, Member, Executive Committee, ACT Division, Institute of Foresters of Australia

KANOWSKI, Professor Peter James, Member, Institute of Foresters of Australia; and Professor of Forestry, Australian National University

CHAIR—Welcome, and thank you for attending. Professor Kanowski, would you like to make some opening remarks?

Prof. Kanowski—I would like to begin by explaining what the Institute of Foresters is, and then I will make some summary points from our written submission. The Institute of Foresters of Australia is a professional body with 1,200 members engaged in all aspects of forest management and conservation in Australia. The institute is strongly committed to the principles of sustainable forest management and the processes and practices that translate that into outcomes. The institute welcomes the opportunity to appear before the committee. Thank you for having us. The institute's membership represents all segments of the forestry profession, including public and private practitioners engaged in many aspects of forestry, nature conservation, land management, research, administration and education. The institute has a strong presence within both the tree plantation industry and the ecological science community.

I will now highlight the key points of our written submission. In general terms, the institute believes that the 2020 vision, firstly, provides a reasonable but incomplete basis for the further development of Australia's plantation forestry sector. Secondly, it requires further development to better reflect and facilitate the wide range of benefits which the plantation forestry sector can offer in both traditional and new forms. These benefits can and should be environmental and social as well as economic. Thirdly, to achieve these benefits we believe that it is important to specify more clearly the important strategic goals for the sector: for example, the desired proportions of long and short rotation plantations, softwood and hardwood species, and high and low rainfall plantations. We also believe that achieving the objectives of the 2020 vision will require greater levels of research and development funding and of education and training, and a greater level of community and public-private partnerships if we are to achieve the best mix of benefits and if we are to minimise any adverse impacts from the continuing expansion of plantation forestry.

In specific terms, the institute draws the committee's attention to five key points which relate to your terms of reference. I will run through each of these briefly. Our first point is that successful plantation forestry worldwide has been characterised by effective strategic partnerships between the public and private sectors. Partly because of the long time frames, such partnerships have been particularly necessary in the establishment phase of plantation forestry. These partnerships can take diverse forms depending on the situation. They include, for example, joint ventures or other coinvestment vehicles, partnerships to manage sovereign risk and the establishment of environmental services markets and market development.

Our second point is that, in addition to maintaining and expanding traditional plantation industries, the institute believes that we need to facilitate investment in new forms of plantation forestry to help address environmental problems, such as salinity, and economic challenges, such as declining incomes from traditional farming. Some of these new forms of plantation forestry will be much more like what we now call farm forestry than they are like traditional plantation forestry. I imagine you have already heard about some of these initiatives from others who have spoken to your committee, such as Conservation and Land Management in Western Australia. A document we would like to submit to the committee is an analysis by CSIRO and others of opportunities for investment in low rainfall plantation and farm forestry, as an example of the directions in which the institute believes we need to head. One of the key issues is the likely need for coinvestment between public and private sectors.

Our third point is that the institute believes that plantation forestry in the broad terms that I have just described is fundamental to addressing the environmental challenges facing much of Australia's farmlands and to helping foster more diversified and robust rural industries and economies. Our written submission elaborates on these points. They were also discussed in a national forum last August, and our submission identifies a reference to these proceedings.

Our fourth point is that the institute considers there is more work to be done on facilitating the development of markets as part of the expansion of plantations in regional Australia, where there are not established markets for forest products. We might, for example, develop strategic plans on a regional basis to ensure that the area of plantations established is consistent with the threshold requirements for particular forest processing industries. We note from earlier evidence given to the committee that you have already heard about such issues from, for example, the Forest Products Commission in Western Australia. There are many examples, unfortunately, from earlier investment in plantation forestry in Australia where investors have not achieved the returns sought because of the lack of markets for the plantations that were established.

Finally, in this context and in others, the institute considers that the role of regional plantation committees is fundamental to the successful implementation of the 2020 vision. The regional plantation committees are the only mechanism for drawing together all of the key interests in a region to identify and resolve issues that may impede appropriate plantation development. The institute is gravely concerned about the lack of commitment of long-term funding to support the work of the regional plantation committees. Thank you.

CHAIR—Mr Bartlett, do you wish to make any comment?

Mr Bartlett—No. I am happy just to answer any questions, along with Professor Kanowski.

Senator O'BRIEN—Just on that last point: you stress in your submission that the regional plantation committees should be properly funded beyond the current guaranteed funding to the middle of this year. Could you tell us what your specific fears are about such future funding being sourced through applications to the Natural Heritage Trust. What, in your view, is the best method of funding regional plantation committees?

Prof. Kanowski—I will respond to this, and if Tony wishes to add something perhaps he could do so. I think it would be fair to say that the lack of certainty of achieving funding through the Natural Heritage Trust mechanism is the major concern that the institute has, and that our strong preference would be for there to be a separate funding mechanism, as has existed

in the first phase of support for the RPCs, to ensure that they can function independently of processes like the NHT. We would certainly see the work of the RPCs and the work that the NHT is supporting as being very complementary—they need to fit together—but we are concerned that rolling RPC funding into NHT funding that has got a whole broader set of priorities might mean that they fall away from the funding cycle.

Mr Bartlett—One of our concerns is that the boundaries for these activities do not line up. I am advised by colleagues who work in these areas that in some cases a regional plantation committee might have to go and talk to half a dozen different catchment management authorities to bid for funding. The reality is that the total amount of funds that are required to operate the regional plantation committees is not very great in an overall context. They are all organisations where there is just a single person employed as a coordinator, but those people need some degree of surety about their employment as well. You cannot operate, not knowing whether you are going to have any funding after June 2003. If we are committed to the vision of trying to achieve this goal of trebling the plantations and recognising that there are a lot of difficult issues in the regions, whether they are trying to bring together environmental people or industry players or overcoming local government problems, sorting out infrastructure or whatever, you need somebody with a main focus on trying to do that.

The institute recognises that perhaps not every regional plantation committee is operated in the same way as every other; nevertheless, that probably reflects the degree of variation that will exist around Australia. We are firmly committed to the concept that you need somebody, operating at that local level, who can bring to the table all the players, whether they are government, private sector, land-holders, environmentalists or whatever, and facilitate the process. We cannot really see another model that actually will deliver the outcomes that are needed.

Senator O'BRIEN—Are you saying that as part of the strategy there should be a funding source which is separated from the mechanisms currently used?

Mr Bartlett—That is right, so it is secure, ongoing funding.

Senator HEFFERNAN—Would there be other players in the industry, within their bailiwick, which would share your view?

Mr Bartlett—Yes.

Senator O'BRIEN—Thank you for that. Your submission calls for more research and development expenditure to assist in industry growth, presumably to develop skills and product to suit the market. Are you aware of research currently going on in CRCs into forestry, and can you give us a summary of this?

Prof. Kanowski—The institute is aware that a number of its members collaborate with—and indeed are employed by—the various CRCs. There are a number of CRCs that are relevant: forestry, and you would be aware of the CRC for Sustainable Production Forestry, based in Hobart and Brisbane and which is going to terminate in about 18 months time; the CRC for wood innovation, based in Melbourne; and there is also, for example, the work of the CRC for Catchment Hydrology, which relates very much to the expansion of plantations. Institute members in various ways are strongly connected to those CRCs. The issue, as we see it, is not

with the work of those CRCs. There is an issue about continuity, which the termination of the CRC for Sustainable Production Forestry illustrates quite vividly. There is also an issue which relates to the expansion of plantation forestry in various forms into lower rainfall zones. We have a CRC for plant based solutions to salinity, which in principle could address those issues, but its research programs are already pretty heavily occupied. Our summary point is that the overall quantum of funding related to the R&D challenges that we see at the plantation growing stage and then at the processing end is inadequate for the magnitude of the challenges that we see as needing to be faced.

Senator O'BRIEN—Are there specific areas of research that you would like to see covered under future CRC bids for forestry?

Prof. Kanowski—An obvious priority which is being addressed in part but probably not adequately is value adding to the extensive areas of the *Eucalyptus globulus* plantations that have been established, mostly under managed investment schemes, over the last decade. You would be aware that they have been grown primarily for woodchip and are very well suited to that purpose. I note the committee has already heard evidence about the likely market for eucalypt woodchip and concerns that the volume coming onstream is going to depress prices, so there is a strong recognition of the need to find alternative products, if we can, from *Eucalyptus globulus* plantations. That is an obvious priority.

A second priority follows from that. We do not yet have a good understanding of the mix of species, the management regimes and the sorts of products that could be developed from them for the sorts of plantation and farm forestry systems that we might need to expand on a scale to address some of the salinity and other environmental management problems in our farming lands. The work that I referred to here was the first stab at outlining some of those issues, but we really just recognise the magnitude of the challenge, so there is a whole area of R&D in that arena. There are also significant areas of R&D within the existing plantation forestry sector that are reasonably well covered by the Forest and Wood Products Research and Development Corporation and the existing CRCs, so they are a lesser priority in our view.

Mr Bartlett—In a broader sense, in years gone by various government agencies, whether they were Commonwealth or state ones, actually contributed significantly to research and development funding that enabled the current basis for plantation forestry to be established, so there is not really an immediate need for funding for the high-production wood part end of the plantation industry. But there is, as Peter says, a real need to do the blue sky research that is needed if we want to achieve the broader objectives that could be achieved from new aspects of a plantation forest industry, because it is simply not realistic to think that private companies will actually do that just by themselves, especially where you are looking potentially for long investment returns, which you may well be doing in these drier lower rainfall areas where the length of rotation is going to be a lot longer. So, in my view, it really is essential that there is a national commitment to ongoing research and development there.

Even with the Forest and Wood Products Research and Development Corporation, again, a fair part of their money comes from the industry sector. So while they have some projects there, their main focus, because of the way it is set up, is going to be on the main wood production end of the spectrum. Our view is that we need to take a broader view here, look towards the future and recognise that, unless we can come up with some practical solutions that can be

replicated across the landscape, we are simply not going to achieve the level of tree planting in the regional landscape that is required to address the environmental issues.

Senator HEFFERNAN—We have received some evidence this morning and I am interested in your comments on it, given that you have to plan for the future on supply and demand. We have been told that there is going to be a glut. Do you believe that?

Prof. Kanowski—The first part of a response to that question would be to ask: which species and product class are we talking about? For example, I imagine that the evidence was referring to eucalypt woodchips from plantations, but the same questions apply, of course, to other products.

Senator HEFFERNAN—Is it too hard a question?

Prof. Kanowski—I would like to explain why it is a hard question to answer in a straightforward way. The world demand for pulp and paper, which is the market for eucalypt woodchips, is expanding significantly because pulp and paper consumption tracks population growth in GDP. So countries like China and India, which are experiencing rapid GDP growth at least from large population bases, are very large and rapidly increasing markets. People also have markets closer in Asia as well as the continuing high levels of consumption in Europe, Japan, North America and our own country. The balance of supply and demand, of course, depends on alternative sources. I think you heard evidence about the flood of material currently coming from the former Soviet Union into China, for example, which is providing the source on a non-sustainable basis for a lot of the growth in China.

Senator HEFFERNAN—I am really talking about Australia and Australia's marketplace.

Prof. Kanowski—I realise that. I was prefacing my answer to that by what I have just said. In my view, there is no widely accepted analysis of the prospects for Australian wood products in the broad international market. There are markets in which there will be growth, there are markets in which there will not be growth and the overall balance is very hard to ascertain. So it is possible to draw conclusions such as those you have heard this morning. It is also possible to draw, if you like, more optimistic conclusions. One of the key features about certainty of market seems to be whether the growers have built a strong relationship with a buyer in a country to which they are exporting, and that is probably the key element of whether they have a market or not.

Mr Bartlett—One thing that is undeniable is that the per capita consumption of forest products, both in Australia and around the world, is increasing all the time.

Senator HEFFERNAN—That does not necessarily relate to more trees though, because we have heard evidence about the better use of technology and more recycling et cetera.

Mr Bartlett—Sure. All those things are really important. The point I was going to go on to is that we know we need more trees in the Australian environment. We also know that the growth rates we get from trees in Australia are as competitive as in many other countries. We have an environment where, with the best information that we have before us, there is, in our belief, a reasonable prospect for continuing to invest in plantations around Australia to deliver a wide

range of benefits. There is a more than reasonable prospect, provided we can do that efficiently commercially, to have viable markets for those products when the trees reach maturity.

Senator HEFFERNAN—So in the areas to which they apply, do you think there is an unfair cross-subsidy from public forest to prop up people's private operations?

Mr Bartlett—I have heard that argument; I do not necessarily subscribe to it. But I do not think it is entirely relevant to this. I think business cases can be made for investment in new plantations regardless of whether they are a native forest. The simple hard facts are that someone who goes to Bunnings superstore to buy timber for their house or whatever looks at the price and availability of the product. I do not see too many people going down to Bunnings and coming away with hardwood timber. So I do not know that that argument is valid.

Senator HEFFERNAN—We are talking about a very small part of the market.

Mr Bartlett—The timber framing market?

Senator HEFFERNAN—No, compared to the pulp tree.

Prof. Kanowski—In volume terms.

Senator HEFFERNAN—I mean areas of forest, not dollars.

Mr Bartlett—But that is where the value of the timber market is—in the higher end product. The pulp part is what is left afterwards. In terms of the new plantations that are being established just for pulpwood, people have done some sums to see whether that is economic or not. At the end of the day, I personally believe that the native forests will struggle to compete with high production plantations, even if they are grown for pulpwood, simply because the volumes that can come from one hectare will be so different. Because of the distances from the places where products are going to be either sent overseas or processed in Australia, the economics will eventually be against native forest harvesting. I think plantations can stand on their own on the basis of the benefits they give and the commercial outcomes.

Senator HEFFERNAN—So you do not think there is any cross-subsidy?

Mr Bartlett—I do not believe there is.

Senator HEFFERNAN—I notice that you are from ACT Forests. Can I ask a question out of context? How are you getting on with the salvage after the recent fires?

Mr Bartlett—I am the Director of ACT Forests but I am not here in that role. We are making reasonable progress with the salvage of the burnt plantations. We have cooperation from the industry players, both from our sister forest agencies who are helping us with the provision of harvesting contractors and from all the wood processors in the region from as far away as northern Victoria and up towards Sydney. People are prepared to take burnt logs to assist us in this crisis.

Senator HEFFERNAN—Has that created a discounted market?

Mr Bartlett—No. The logs are still sold at the going market price with due account for any degrade in the timber associated with burnt wood.

Senator O'BRIEN—Mr Donaldson, were you going to add to that?

Mr Donaldson—I was hoping to. Regarding markets for products, and supporting what Tony was saying about the environmental demand for trees in the landscape, in this context we need to be looking 20, 30 or 40 years ahead to see what we can develop. Maybe you have heard about the oil mallee example from Western Australia.

Senator O'BRIEN—Yes.

Mr Donaldson—We should be starting to think much more about the range and types of products. In that case there is oil, but there are also a lot of fibre products coming out of it which may be going to a reconstituted product or may be for a biomass sort of scenario. You could think about that in the greenhouse context. Quite a number of those larger drivers like greenhouse and carbon may end up changing the way the market operates when we start thinking about how sustainable different products are. Thinking back to the R&D discussion earlier, there is a real issue about what we can do now that helps to underpin that sort of market development, product development, as Peter Kanowski was saying, from the growing—understanding the species and all that sort of thing—right through to that product end. If we do not do that, it is hard to have that commercial drive and pull to create some of the demand for commercial investment.

Thinking about that R&D—as Tony was saying—within, say, the Forest and Wood Products R&D Corporation that is dollar for dollar industry-government, and it tends to get driven a lot by an industry demand. When you start to talk about new industry or new opportunities, there is no natural constituency to lobby and ask for that, so it becomes part of the public policy domain. We have a challenge to think about how to re-create opportunities in that area for a whole range of benefits, including the potential commercial opportunities.

Senator O'BRIEN—I had one other area of questioning, and you touched on that in terms of greenhouse credits. Can I take it that you think we should be ratifying the Kyoto protocol?

Mr Donaldson—I do not have a specific view or position on that. Looking at the global trends, I think the government has certainly said even if we are not doing that, it has indicated in some ways that it wants to go further. But the issue is the internalisation of the costs that go with producing carbon dioxide and other greenhouse gas emissions. Whatever happens globally or nationally to deal with that, it starts to change some of the economics of how industry works.

Senator O'BRIEN—Do you see that not being part of the protocol as an impediment to trading in that market?

Mr Donaldson—It may be, but I would not say that I am qualified to really answer that.

Mr Bartlett—It is fair to say that the institute does not actually have a policy on whether or not Australia should or should not ratify the Kyoto protocol, but we do have strong scientific arguments about the role of trees in resolving some greenhouse issues.

Senator O'BRIEN—Generally, your submission talks about the need to develop markets for our plantation produce. Do you see a role for government to build domestic and international markets? Are you aware of any programs by Austrade in developing international markets for Australian forest produce?

Mr Bartlett—I think there is a role for government, and I call it a facilitation role. Government cannot make a market, but they can help put people in touch with each other. Generally, the key thing is helping to put some plantation growers in touch with investors and identifying where there are mismatches at the moment or where there will be mismatches in the future. In terms of the international markets, if you have a range of small players—we have to recognise that, by and large, the Australian forest industries on a world scale are small players—they will need help getting their toe into the water in some international markets. There has been some work done already, and some of it has been quite successful, but there is still a fair way to go. I am aware, personally, of some approaches to Austrade and so on, for example, about whether there should be a trade commissioner who has a focus on developing timber markets around the world for Australians—that matter has never been resolved. But if you have a country like ours with a diverse range of species and a culture where we generally have had a lot of small, family based businesses in the forest industries—though that is starting to change now with major multinational corporations in the plantation sector—then you can only really hope to be able to get into the world markets with some sort of facilitating mechanism.

Mr Donaldson—I am not aware of Austrade's current activity in this area but, if we look back five or six years, they have played a role—often jointly—with other portfolios in helping to direct and facilitate overseas investment, not only on the growing side but also on the processing side. There is another example in respect of native forests and the higher value uses of timber. There were some grants in years gone by to groups like the Timber Promotion Council Victoria, which were about finding markets for high value uses for some of our native hardwoods. Part of that was trying to bring together several small sawmill type ventures into a grouping that could go and market into areas like the USA and North-East Asia. I am aware that there has been that sort of activity; I am not sure that it is there as a consistent, ongoing effort.

Senator O'BRIEN—Thank you for that.

Senator HEFFERNAN—I am not happy with this cross-subsidy thing because I do not think you have read it right. I think it was a colleague of yours that put the proposition. In regard to the people that you represent, are you on the custodial side of the forest or the mining side of the forest, or both?

Prof. Kanowski—I guess the institute would argue that there is not a mining side—

Senator HEFFERNAN—No, that is my choice of words. I mean the felling side of the forest and getting a quid out of the forest.

Prof. Kanowski—The institute represents members in the whole diversity of forestry in Australia, so there are members working in conservation agencies—

Senator HEFFERNAN—That is all I need to know. It has been put to us that there is a pretty generous arrangement, shall I say, in Tasmania with some of the public forest which is

locked up long term and which may even be of interest in the future to the ACCC or someone. If that is what would be seen as a cheap rate of supply and you are making, say, 30 per cent profit on your money and you are planting farming plantations at the same time, doesn't it give you an advantage over the privateer who does not have that? That was the context in which I put the cross-subsidy. You do not have to answer.

Prof. Kanowski—The simple answer to your question is that it could in principle. I would have to say that I do not think that either of my two colleagues or I have any detailed knowledge of the financial arrangements in Tasmania to be able to give you an answer that illuminates your question in fact. It is possible in principle; whether it is true—

Senator HEFFERNAN—I apologise if I—

Prof. Kanowski—It is a fair question, but I am afraid we cannot answer it for you.

Mr Bartlett—We cannot talk about the specifics, because we simply do not have the information. What we could say, though, is that the institute would certainly support all forest growers, whether they are state agencies or private agencies, complying with all the principles of the national competition policy so that there is a level playing field.

Senator HEFFERNAN—I guess it has happened with water over the years. For many, many years the supplying charge of water was nothing to do with the real cost of water. Are we going to have that sort of an accident in forestry where plantation people are looking for all the different tax lurks to try to make their operations viable because they are competing against something that is being supplied at less than real value?

Prof. Kanowski—I think that part of the complication in that debate, which has certainly been running in forestry for at least 20 years, is that often the small-scale growers who have made an investment, usually in a plantation or some other form of grown forest, feel unfairly disadvantaged in the marketplace and they often see cross-subsidy arrangements of that sort that you refer to as being the root of the problem. Whether or not that is true, at least as much of the problem is that, like in any other business, small-scale growers are on the margin and they are usually price takers unless they have something very special. So part of the complication for the—

Senator HEFFERNAN—I accept that it is almost a boutique sort of market. If you are going to just supply pulp logs from a 25-acre block at Juneee, you are up against it.

Mr Bartlett—I could add, from a slightly different perspective, as the manager of a government plantation, if you like, that being within the government does not give me any greater capacity to sell the timber from my plantation. At the end of the day, the people I sell logs to will buy logs on the basis that the logs are supplied to them at a competitive price. So I do not get a free kick just because I am a government plantation agency. In our financial accounts we have to recognise all the taxation charges and all those sorts of things. So I am not sure it is always as straightforward as people might make out. It is very difficult to compare one situation with another.

Senator HEFFERNAN—I accept that. It is complex, but it is possible that there is a scenario in which a cross-subsidy makes one lot of farming plantation more competitive than another.

Mr Bartlett—I guess you can also look and see whether people are willing to invest in plantations in those areas. If they are not willing to invest, because they feel that it is not a level playing field, then you might get some evidence.

Senator HEFFERNAN—That is where the ACCC comes into it because you are going to a second tier of market distortion. A lot of farmers like me probably think it is better to buy a racehorse.

CHAIR—Professor Kanowski, Mr Bartlett and Mr Donaldson, thank you for your contribution and assistance to the committee. Thank you for attending today.

Proceedings suspended from 12.35 p.m. to 1.43 p.m.

DADSWELL, Mr Matthew Philip, Manager, Forest Industry Development and Trade Section, Forest Industries Branch, Department of Agriculture, Fisheries and Forestry—Australia

QUINLIVAN, Mr Daryl, Executive Manager, Fisheries and Forestry, Department of Agriculture, Fisheries and Forestry—Australia

CHAIR—Welcome, Mr Quinlivan and Mr Dadswell. Would you like to make some opening remarks before we go to questions?

Mr Quinlivan—I am sure you have heard a lot of opening statements so I thought I would pass, if that is okay. I probably would not have all that much to add to things you have already heard.

CHAIR—Would you like to go straight to questions then? I will call on Senator O'Brien.

Senator O'BRIEN—Many of the submissions to this inquiry call for greater market information in order to predict future wood demand or the volume and type of wood that will be needed, to give certainty to investors. Are you able to tell us what ABARE is doing in this regard?

Mr Dadswell—We have commissioned a range of studies as a vision partner on investment development and market development opportunities from a range of organisations, including ABARE. Those reports are available on our web sites, and they look at potential resource availability and the development opportunities from that resource.

Mr Quinlivan—In addition to that, ABARE publish the forest and wood products statistical series which I think comes out every six months and is one of the main data sources in the industry. I think the funding for that is shared between the Forest and Wood Products Research and Development Corporation and the Commonwealth department.

Senator O'BRIEN—Are there any studies that have been commissioned that are not yet available?

Mr Dadswell—The only study that is about to be published is an industry capability statement that AFFA has funded with Invest Australia. That essentially is a promotion of Australia being a good place to invest; it goes through where Australia has competitive advantages compared to other countries. Invest Australia produce a number of these documents for industry and this is one for forest industries. It is a document we will be using in our overseas representations and regional investment workshops as well as making it available to investors. It will be published in about a month's time.

Mr Quinlivan—There is a broader issue we are looking at, at the moment. There is a great deal of regular reporting activity in the forests area, at national, state and regional levels, and I think there is a common desire on behalf of all the forest agencies and the companies involved in the forest industry to try to rationalise that activity. We are presently working on that in the department, on behalf of those interests I have just talked about, to try to rationalise the

reporting and data management obligations that everybody faces. We are all going to have to live with less investment in this area in the future, so the question is how to engineer it so that we are supplying people with what they need for decision making purposes. I think that project is scheduled to last for another three or four months. It is quite significant and I think that all the companies that are supplying information on forest related issues are a bit fed up with the breadth and depth of the reporting obligations. That is why we are having a go at rationalising it.

Senator O'BRIEN—One of the stated outcomes for job creation in the revised 2020 vision document is that 40,000 jobs will be created in rural areas. How are job growth numbers going, particularly against the original target?

Mr Dadswell—The current employment estimates from ABARE are that there are about 86,000 in forest industries generally up until December 2001. I have not got an exact figure on the growth over the years, but it has grown.

Senator O'BRIEN—Can you give us that information on notice?

Mr Quinlivan—We could check when the next ABARE publication is coming out, advise you of it and make sure you get a copy as soon as it is available. That is the most comprehensive source of information on all these issues.

Senator O'BRIEN—Where will we find the job numbers we can compare to see what growth has occurred?

Mr Quinlivan—I assume the latest number would be whatever ABARE has published last, but I am not sure of the precise dates.

Senator O'BRIEN—I am not talking about what is going to happen; I am talking about what has happened so that we can compare what it is now—in the next week or month or whatever it is—with what it was at the start of the 2020 vision process.

Mr Quinlivan—I would hope the ABARE time series data extends back to that period and there would be a comparable number for you. We can just check what is available.

Senator O'BRIEN—A stated outcome in the 2020 vision document is that farm incomes will increase by 20 per cent. Understanding the rotation time for plantations and that there are many that are not yet coming to the end of their rotation, are we seeing any information which gives us guidance as to how that predicted increase in farm income is to occur?

Mr Dadswell—No, we have not done any specific analysis in terms of that specific indicator. I know that ABARE does collect statistics on general farm income but I do not think it differentiates whether that is derived from timber or other farm uses.

Senator O'BRIEN—Will the department be asking ABARE to do that work for it?

Mr Quinlivan—I could check with the states. Obviously, the effects on farm incomes to date would be very localised because of the areas in which plantation development has happened and those in which we hope it will happen in the future. We could check with Victoria—they are

probably the main state in which plantation development has happened on-farm—and see if we can get some information for you.

Senator O'BRIEN—My question was: will the department be commissioning any of that work through ABARE?

Mr Quinlivan—I am not sure what ABARE's plans are.

Senator O'BRIEN—Does the department ask ABARE to do things from time to time?

Mr Quinlivan—We do, indeed.

Senator O'BRIEN—Do you expect that the department will be asking for that work to be done?

Mr Quinlivan—Given that 2020 is a product of the Commonwealth and state governments, I would probably check what the state governments and state forestry agencies are doing, because that would pretty much determine what ABARE was able to do. Mostly it would aggregate material that was available at the state level.

Senator O'BRIEN—In the information that AFFA has provided to this committee it says it regards—and I quote:

... the *2020 Vision* as having been most successful in creating an environment conducive to the expansion of the plantation industry ...

The revised 2020 vision document states:

Of the total plantation resource, five per cent is now contributed directly by farm foresters ...

However, other submissions have described the take-up of farm forestry as low. What was the 2020 vision target for farm forestry after five years?

Mr Dadswell—I do not believe that there was any specific target for farm forestry.

Senator HEFFERNAN—You did not have any journey points? It is just a blue-sky prediction that we are going to have X amount but, by the year so-and-so, we do not know where we are going to be?

Mr Quinlivan—That sounds like a pretty fair description to me. I was not involved in the discussions with the states which generated that number but it does sound to me like an aspirational statement.

Senator O'BRIEN—I am wondering why, if five per cent is the take up, you characterise the vision as 'most successful'. Was that the benchmark that you had set? From where do you derive the justification to say five per cent is 'most successful'. Perhaps not you, but it is your covering letter to your submission, as I understand it.

Mr Dadswell—In terms of the challenges of influencing the range of investors in farm forestry, we thought that that was quite a reasonable take-up of farm forestry activities, given the range of other investment opportunities that farmers have.

Senator MURPHY—But the secretary of the department, in the letter that Senator O'Brien is referring to, has said:

I regard the *2020 Vision* as having been most successful in creating an environment conducive to the expansion of the plantation industry in the first five years of its existence.

He must have made some assessment somewhere. I would also be very interested to hear on what basis he has made that statement. What assessment has this person or the department made to arrive at a statement of that nature?

Mr Quinlivan—It is a very general statement. My commonsense reading of it is that it reflects the expansion in plantation development that we have seen over the last few years—over the period since 1997 when the 2020 document was first published and when people began, at a public level, to talk about plantation development as being highly desirable.

Senator MURPHY—We could mix that with the last part of that paragraph, which says:

The challenge now is to effectively use this expanding, largely uncommitted resource to further develop sustainable, internationally competitive plantation and processing industries.

What is the basis for Mr Taylor's statement there?

Mr Quinlivan—That, again, is fairly self-evident in that we have seen a large expansion in plantation development here. All the forecasts I have seen anticipate that continuing. The task nationally is to try and realise as much economic value from that as we can, and we will do that through maximising the amount of domestic processing activity. I do not see anything particularly contentious in that observation.

Senator MURPHY—I would have thought that was a statement contained in the initial plantation strategy.

Mr Quinlivan—It probably was.

Senator MURPHY—Why has it now become the challenge? Why wasn't it the challenge then? Because it was.

Mr Quinlivan—I would not contest that at all. We have a large trade deficit in this area and a large and growing resource. It was and continues to be a challenge. I certainly agree with you there.

Senator O'BRIEN—On the funding of regional plantation committees, the secretary's covering letter states:

... the *revised 2020 Vision* has identified Regional Plantation Committees (RPCs) as being integral to the achievement of regional and community focused outcomes ...

Would it be fair to say they are integral to the success of the 2020 vision as a whole?

Mr Quinlivan—They are one of the main extension or delivery mechanisms for many of the actions under the revised 2020 vision, because there are people out on the ground who are directly liaising with farmers and catchment management areas on plantation developments. They are a fairly integral part of delivering many of the activities under the vision.

Senator O'BRIEN—Given that they are one of the main delivery mechanisms, as you have just described it, evidence we have heard this morning expressed concerns over the change in the funding arrangements from guaranteed funding to funding under the Natural Heritage Trust. Can you describe the process whereby individual regional plantation committees can obtain NHT funding?

Mr Dadswell—The regional plantation committees have not had, in any sense, any long-term guaranteed funding. They were previously funded under NHT1 interim arrangements, company-funded between the Commonwealth and state governments. We currently have an application for continuing funding of our regional plantation committees as part of the NHT2 round that is coming up, but that will obviously have to be considered in the context of other priorities.

Senator O'BRIEN—When will the applications be assessed for these bodies that are one of the main delivery mechanisms for some of the processes under the 2020 vision?

Mr Dadswell—I understand the process for looking at funding under NHT2 for national component projects from 2003-06 will culminate at the end of June this year with some form of ministerial decision.

Senator O'BRIEN—That is when funding runs out, isn't it?

Mr Quinlivan—No, funding runs out in October. The program operates on a yearly cycle that ends in October.

Senator O'BRIEN—So these regional plantation committees will have funds to carry them through to October?

Mr Quinlivan—They will.

Mr Dadswell—Could I correct that. They will end on June 2003. As I said, RPCs are not the only type of extension or coordinator activity that the NHT program supports across other areas. I think we are cognisant of the employment that this represents and giving people security of tenure so that they are not all going to leave us in April.

Senator O'BRIEN—Some may well be leaving now because of the uncertainty.

Mr Dadswell—A review of the RPCs was done in the middle of last year, and that review was provided to the Primary Industries Ministerial Council, where they similarly agreed that the RPCs were generally delivering a very good service. That sort of support makes for a strong case that their funding will continue.

Senator O'BRIEN—Will this next round of funding be for annual funding, or for a longer period of funding?

Mr Dadswell—The funding I am talking about in relation to the RPCs is for the next three years, June 2003 through to June 2006. As you may be aware, the NHT2 has both a national and a regional component, so at the moment the proposal is to look at funding the RPCs through the national component. But the RPCs would also have the opportunity to tap into regional funds to deliver on a catchment level basis.

Mr Quinlivan—The October funding was for Greening Australia. I am sorry, I misled you there.

Senator O'BRIEN—I can understand the confusion. Will all existing RPCs receive funding after 30 June?

Mr Dadswell—We are still going through that. We are still, obviously, developing the proposal for ongoing funding of what I should say is the broader private forestry program and previously the farm forestry program under NHT. One of the challenges we have is looking at promoting forest plantation development in low to medium rainfall areas, which is not an area that we have previously focused on. So, with limited funding under NHT2, we have got to find how to meet that additional need and the environmental benefits that plantation development in that area brings, having a look at how we do those extension activities across both high rainfall areas and low rainfall. At the moment we have had, from a number of states, some strong support for the existing RPCs, so, if they are continuing to deliver a good role and it is consistent with the NHT2, we would not be seeking to get rid of them.

Senator O'BRIEN—The regional plantation committees' *Review of rationale and options for future funding* recommended in June last year:

... the Commonwealth government partition a portion of the NHT national funds to ensure continued funding for the RPCs ...

I take it that that recommendation has not been accepted by the government.

Mr Quinlivan—That is correct.

Senator O'BRIEN—Was that a decision taken by your minister, current or past?

Mr Quinlivan—The NHT is jointly administered by the Minister for the Environment and Heritage and the Minister for Agriculture, Fisheries and Forestry, so I assume that it was a joint decision. There are, I think, a variety of sectors and activities which have sought quarantined funding in NHT2. But, as you are no doubt aware, the funding model in NHT2 is different, in that there is going to be more focus on development of programs and delivery and management of funding at a regional and catchment level, and therefore less at a national level. The decision was taken, I assume, that regional plantation committees would be treated like everyone else in this process and have to take their place in the competition for money and the allocation of priorities. As you have heard from Matt, we do regard the committees as important.

Senator O'BRIEN—So, on the basis that they are regarded as important, has the government considered funding them separately from NHT?

Mr Quinlivan—I cannot say for certain, but I am reasonably confident in saying that the government would have considered funding them, and a whole range of others that have requested separate funding, in the decision to go with the regional model, and therefore decided not to give preferential treatment to any individual sector in doing that. The NHT program, as you would know, goes all the way from the marine environment through to the coastal and inland environment, so there are many, many activities which have been separately funded in the past. It would be quite difficult to separate this one out.

Senator O'BRIEN—If you do not want to, it would.

Mr Quinlivan—It would be quite difficult to separate out any individual one while moving at the same time to a regional delivery model for the program.

Senator O'BRIEN—Perhaps. Thanks, Mr Chairman.

Senator HEFFERNAN—We heard some interesting evidence this morning which suggested that the 2020 vision document—which could be described in some circles as a sales brochure for plantation forestry—is a fundamentally flawed document and should be scrapped because, according to the information we were given, there is going to be a surplus in production and undercapacity in processing. Would you be able to have a look at that evidence and report back to the committee—maybe with a rebuttal, maybe even with a revision of this document?

Mr Quinlivan—It is important to understand the document is not a Commonwealth document.

Senator HEFFERNAN—I am not saying it is.

Mr Quinlivan—It is not ours to revise; it is a product of the Commonwealth and the states. The more important point you raise is how credible is it in the assumptions it makes about market conditions. I am not familiar with the specific evidence you got this morning, but I know there are a range of views about the future market conditions for woodchips, for plantation products. I am not the sort of person you should be asking that question of; I think it would be an entirely reasonable question to ask of ABARE or someone like that who is able to bring a professional judgment to the varying views.

I can tell you that this is a question where you will get a wide spectrum of answers, all of them, if you are not intimately familiar with it, sounding very credible, as I am sure the witnesses you have listened to are. They depend a lot on the assumptions that are made about the investment in downstream processing activity in Australia. We are a large producer of woodchips in the world market and potentially are going to be a larger one. As Senator Murphy raised at the outset, the thing we need to do nationally, if it is at all possible, is to process as much of that raw product in Australia as we can. That is where we will maximise the economic value and increase the returns both to the producers and to everyone else in the value chain. I think a lot of the predictions about what is going to happen in the market here depend on how likely you think it is we will be processing it here.

Senator HEFFERNAN—One of the other issues that was raised is a form of cross-subsidy, where a person has a long tenure of a government forest or a supply, which has all sorts of conspiratorial connotations attached to it. One of the obvious weaknesses in timber is that the farmer, as it were, cannot push a button and say, ‘What is a log worth?’ because there is no market, like there is with the price of lambs this morning or yesterday in Wagga, that you can tap into immediately. That needs to be addressed and I am sure the committee will consider that. If the states are heavily involved in this document and it is flawed—and I am not saying it is, but we were told it is—one of the conflicts is if the crown logs have been contracted to a person who can cross-subsidise through the profits from that operation to plantations where he is then ahead of his competitors in private plantations. I see that as a hell of a problem. Is there a view in the department that there should be a more transparent pricing arrangement?

Mr Quinlivan—Better market intelligence is highly desirable. I know the Forest and Wood Products R&D Corporation has been looking at that. You will probably find when you talk to the Plantation Timber Association and others that they will talk about the desirability of having much better market intelligence. I certainly agree with that. There have been assertions, probably forever, that state government entities engaged in the logging industry were underpricing their products. Whatever the problem may have been originally—and there may have been a significant one—

Senator HEFFERNAN—Don’t feel bad about it—they did the same with water.

Mr Quinlivan—I think the general feeling is that it has got a lot better. The forest entities have mostly been corporatised. They are increasingly using auctions and competitive tendering processes for both receipt of services and sales into markets. People have done their sums. We have had very large multinational corporations come to Australia and buy plantations here in recent times—Weyerhaeuser, Carter Holt Harvey and so on. They have made very large investments here and if they thought the market was seriously corrupted they might not have done that. They have done their sums and made their judgments about risk.

Senator HEFFERNAN—Alternatively, they may have had some confidence that it may have stayed corrupted and they would have got a quid out of it.

Mr Quinlivan—They have invested in those parts of the market which would be exposed to competitive pressures from underpriced public lands, so they would be the most exposed parties. Similarly, the investments that have been continuing to go into new plantations have been increasing dramatically in recent years. People have been doing their sums and have continued to invest, so I do not think those competitive neutrality issues with state governments are as serious as some people make out, otherwise we would have seen an investment problem.

Senator HEFFERNAN—I want to go to the issue of water—and I declare an interest as a farmer, whatever anyone wants to view that as. One of the things where we have been restricted in New South Wales and Victoria in recent years is in the eligibility to the run-off of the farm: we are restricted to 10 per cent. There is no consideration at the present time of how much a plantation restricts the run-off. It may be that the committee may form a view on that or it may not. It could well be that plantation approvals may have to require the investment on taking out of the system of an equivalent amount of water licence so that someone does expect to get what is not going to be there. Have you any idea or does the department have a view on the

implications for blue-sky forest plantations on the run-off, especially in the Murray-Darling Basin?

Mr Quinlivan—On your first point about this not having been an issue, I think it has in fact been an issue in South Australia. The South Australia government at some time in the recent past have sought to put restrictions on plantation development because they were worried about water extractions. So, if you have got the right people appearing before you, that might be something you might ask them about. I am not familiar with it, but I know that they have looked at it.

On your more general point, I think you are spot on. If we are going to generate a more sophisticated market for environmental services and encourage planting of trees in pursuit of environmental services we can only do that if we know exactly where in the landscape, in the catchments, trees are going to be a benefit rather than a problem because of their extractions, because they lower the water table and reduce salinity and saline problems in our waterways. If they are planted in the wrong areas and they are just reducing run-offs into the streams they are actually exacerbating the problem. I know there is an increasingly sophisticated view about trees in the landscape for water quality and salinity mitigation. They have to be planted in the right areas, and the issue you raised about their water use is central to that question. If we are ever going to have trees planted in the landscape and farmers getting environmental credits or salinity credits we will need to have a framework which analyses exactly that question before we can do it properly. People are thinking about it. It is obviously a critical issue because people believe that trees are part of the long-term solution.

Senator HEFFERNAN—It seems to me that it is a pertinent omission that for a farmer downstream there is a 10 per cent restriction on the capture of run-off, whereas for the state owned forest up the top there is no consideration. It might have been a slight conflict of interest.

Mr Quinlivan—I would not disagree with you there.

CHAIR—I want to go back to one of the questions that Senator Heffernan asked in relation to the vision strategy and whether it is fundamentally flawed or perhaps needs to change in emphasis. No doubt you are aware of the conflicting evidence that has been put before the committee, particularly in terms of what is seen as a conflict between an emphasis on plantations themselves as opposed to plantation processing. I am presuming that the department advises the ministerial council—is that correct?

Mr Quinlivan—We, along with the departments in each of the states, provide advice; yes.

CHAIR—Surely, though, in the process of providing that sort of support or advice, you must form a view about the issues being raised. Are there any views that have been put forward that at least deal with those issues?

Mr Quinlivan—The statement is a collection of activities and views from all the governments involved, so it is not an individual effort. We probably have stronger and weaker views about various elements of it. In a way, I think the assertion that it is flawed and therefore a problem is a bit of a furphy because the strategy is just a collection of activities, some of which have more bite in some areas than others. If I am a farmer or a prospective investor in plantations, I am not really going to be too persuaded by a general policy statement on behalf of

governments that plantations are a good thing; I am going to be doing the numbers, looking at the specifics of the transaction and looking at what is in it for me.

That will go more to the elements of the statement: the tax treatment, the quality of the investment products that are being marketed, and the certainty of rights to harvest and access to water and so on that the land managers are providing as part of the statement. I am going to be influenced by those things. It seems to me that they are the individual things driving decisions which are then driving the plantation investments. The statement is a collection of those and a way of marketing it, as you describe.

Senator HEFFERNAN—The other consideration of course is competition with a cheap source of logs for the privateer.

Mr Quinlivan—People make their own assumptions about what the future prices are going to be for the products they are investing in.

CHAIR—I just wanted to raise that issue, which seems to be a pretty major part of the strategy being realised up to 2020 and beyond. If the alternative views put forward do have validity then that has to be of concern to the plantation timber industries and, surely, to your department and the government in terms of whether the balance is right. Surely, you must or should have a view in relation to that issue.

Mr Quinlivan—People are voting with their feet and investing in plantations. I am sure you have had professional foresters and corporations which have real money invested in the plantation industry appear before you. They are the people who can really give you an authoritative answer to your question. For my part, I think most of the activities that are envisaged under 2020 are actually fairly neutral in the sense that they are putting plantations on an equal footing with other forms of land use, such as agriculture and so on. The concept I have of it is that plantations are just a very long-rotation crop and, to the extent possible, they should be treated that way in a regulatory sense so that land owners are able to make neutral decisions on their land use.

I think that is most of what 2020 is about, really. The implicit question behind all of this is: are these going to be good investments or not, in the end, for the people who are investing in them? I do not feel that it is my job to be making that judgment for them. They do their own sums. They know what the risks are. The companies who are selling these products, and let us talk about blue gums for the moment, are—

CHAIR—I think it is about much more than just investment. What we are talking about here is a national policy in relation to forests. Essentially, it is a partnership between Commonwealth and state governments with industry involvement. So it seems to me to be a very crucial issue that the policy settings are right. I can understand it being driven by the need to make prudent decisions about investments, but, at the end of the day, when you consider the tax regime that is in place in this case then perhaps that has more of an influence in terms of where the emphasis is. I am just saying that if you do have a problem, perhaps with oversupply in the future and perhaps with a reduction in prices, then is it not in the best interest for the policy settings to be looked at in that context?

Mr Quinlivan—I think they are fair points. My general observation of that would be that the basic strategy behind 2020 and all the activities under it is that it was a recognition by people in the mid-90s that, if we could grow a large fibre resource here, there was an opportunity to capture some of the world market in downstream processing—to build pulp mills and so on here. We are now getting to the point where we have got that fibre resource growing, and what we need to do is capture that downstream investment. If we do, there will be significant economic benefits for Australia. That is the central point behind the whole strategy, and there is a lot of effort going on at the moment to capture that downstream investment into Australia rather than any number of alternative countries that investors have. It is a pretty crude strategy, if you like, but I think it has got a real chance of success.

Mr Dadswell—The vision was reviewed on the basis that those issues were coming: we had all this resource, now what do we start doing with it. That was one of the drivers behind the review of the vision recently. It includes in strategic element three of the vision, about investment in growth, which is really: we have got this timber; what sorts of activities do we do as state, Commonwealth and industry to encourage further value adding and processing.

Mr Quinlivan—I also think the importance that has been placed on the tax incentives is overstated, too. As I understand it, the tax treatment allows certain deductions to be brought forward a year effectively for investors. The penalty for that is that the managed investment companies have to pay tax on those investments a year earlier than they would have done. In public policy terms that is fairly neutral. The investors get a marginal benefit in claiming the deductions a year earlier. The attractiveness of those products is more to do with how sophisticated the managed investment companies have been in this field and their success in marketing those products.

CHAIR—Thank you for that.

Mr Quinlivan—It looks like Senator Murphy has a slightly different view.

Senator MURPHY—It amazes me, actually. I am astounded as to how you can believe that. How many investors do you think would have invested in plantations had there been no tax deductibility for those investments?

Mr Quinlivan—Do you mean if plantation developments had been penalised compared to other investments?

Senator MURPHY—Yes.

Mr Quinlivan—I have no idea, but if you treat plantation investments worse than everything else, as an investment opportunity then obviously there would be less.

Senator MURPHY—No, let's just deal with it straight down the line here. I think you and I both know that had there not been tax deductibility for investments—that is retail investors to invest in plantations—there would be no retail investors investing in plantations, particularly the great bulk of them.

Mr Quinlivan—No, I would not agree with that for the reasons I just said.

Senator MURPHY—I think your view would be contrary to that of the tax office.

Mr Quinlivan—I would be quite interested if you had—

Senator MURPHY—And I think your view would be contrary to what has happened here in this country over the last 30 years in respect of investments in plantation forestry, given the history of the pine plantation industry, from an investment point of view, where a lot of people lost a lot of money and the only way that there was going to be a rebuilding of investor confidence in plantations was through tax incentives. The biggest investor in the plantation industry in this country is the Australian taxpayer.

Mr Quinlivan—I think if we did not have the managed investment fund framework there would be a—

Senator MURPHY—What is that based on? It is based on tax deductibility.

Mr Quinlivan—So is all business activity. Business expenses are tax deductions. We are only talking about a particular form of them that is packaged for small investors.

Senator MURPHY—My question was: if that was not there, would they invest? I think the short answer is no.

Mr Quinlivan—What I am saying is that implicit in your question is that you would treat these sorts of investments in a different way to all other business investment activity in the economy, and I do not see why we would do that.

Senator MURPHY—In large part they are being treated differently. But I will argue that case with the tax office, I am sure. Could I suggest to you that you might take some time to read the evidence of the tax office to the Economics references committee in respect to the mass-marketed tax investment schemes. You made some brief comments in your submission in regard to the terms of reference. On the first page of your comments, in the dot points under c), you say:

The Commonwealth has and will continue to support extensive R&D into the delivery of environmental services through plantation and farm forestry activities and the establishment of a sustainable low-rainfall farm forestry industry ...

I think the point was made to us yesterday that in respect of the R&D funding it is, by and large, a very small amount of money for what is a very significant problem in this country. Does the department have a view about whether or not the funding ought to be increased?

Mr Quinlivan—It is a priority activity for those organisations that are listed there. They are all investing, perhaps except ABARE, substantial amounts of money in this work in one form or another. As to whether they might increase it in the future, I guess that depends on their relative priorities which the department and the government do not dictate; they are mostly run by independent boards making their own judgments about priorities.

Senator MURPHY—It is probably a question I should ask the government rather than the department. In a dot point under d) on the next page, you say:

BRS and ABARE reports suggest that sawlog supply is steadily increasing ...

It is probably a question for them but, given that you quote them, I draw your attention to the comments you made earlier about there being a variety of views with regard to these types of outcomes as projected. It seems to me that you use only one source as your reference. In your comments, you do not quote anybody else who would be contradictory. You seem to be all on the positive side and you do not, for instance, refer to other people who may have an alternative view. Is there a reason for that?

Mr Quinlivan—The particular element of the terms of reference that we are commenting on there is:

d) whether there is the need for government action to encourage longer rotation plantations, particularly in order to supply sawlogs;

We are just making the observation that in that area there is a steadily increasing supply of sawlogs.

Senator MURPHY—That is according to BRS and ABARE.

Mr Quinlivan—Yes.

Senator MURPHY—There may not be, according to other people.

Mr Dadswell—I think those figures came from the National Forest Inventory which is quite a definitive source of information on the status of where future plantation and sawlog growth is coming from.

Senator MURPHY—With the greatest of respect to you, can I suggest that, if you were to go out right now and ask the sawmills in the industry today, they would suggest the contrary.

Mr Quinlivan—That sawlog production is falling?

Senator MURPHY—That sawlog production is becoming more scarce.

Mr Quinlivan—I have not heard that before.

Senator MURPHY—Can I suggest to you that in the case of Victoria a survey of some of the sawmills there that are seeking to source sawlogs out of Tasmania might lead you in the right direction to get some factual information into what is clearly, from a factual point of view, at this point in time, incorrect.

Mr Quinlivan—I am sure you are right to say that at a local level there are some reductions in sawlog availability. We know that is particularly true in hardwood where resource access has been reduced in some areas. But this is a national statistical collection. It is an aggregation of numbers across Australia and, to the best of my knowledge, it is the most authoritative available.

Senator MURPHY—I am sure it is! You included a revision document in your submission to this committee. I assume on the basis that you included it that you somehow accept the statements contained in it?

Mr Quinlivan—Is that the revised 2020 vision document?

Senator MURPHY—Yes.

Mr Quinlivan—As I said earlier, it is a product of all governments and not just the Commonwealth, so we have more faith in some elements of it than others and more interest in some elements of it than others.

Senator MURPHY—Unfortunately I have no page numbers, but if I can refer you to the subheading ‘The benefits’, which in my package is on the third page in the document, it says:

- More than \$3 billion will be invested to establish plantations between 1997 and 2020 ...

Are you aware of the source and veracity of that claim?

Mr Quinlivan—The source would have been the Commonwealth-state committee under the ministerial council that produced this document. I do not know what the analysis is underlying the number, but I can pursue that for you.

Senator MURPHY—Yes. It also says—and Senator O’Brien asked you earlier about this:

- Farm incomes will increase by 20 per cent. Farm forestry in high rainfall zones could contribute up to \$664 million annually to farm incomes.

I would like you to provide me, if you could, with the reference for the source of that information. The third dot point says:

- The current \$2 billion trade deficit in wood and wood products will be converted into a surplus.

Can you provide me with the basis for that assumption? The last dot point says:

- Up to 40,000 jobs will be created in rural areas ...

I would be interested to read the basis for that because to date under the plantation industry strategy there has in fact been a negative jobs outcome. It goes on to refer to ‘jobs from a 50 per cent expansion in domestic processing’. I would like to see the information that points to that probability. I would be very interested to read the basis for including that as a statement in a document that is basically used to support investment in the plantation industry.

Mr Quinlivan—We can get the analysis underlying those numbers.

Senator MURPHY—Finally, can you tell me the process for appointing regional plantation committees?

Mr Quinlivan—We talked about that at length just before.

Senator MURPHY—I know, but we did not talk about it in the context of what people are involved in the process and how those people become involved in the process—that is, who appoints a regional plantation committee and on what basis are they appointed.

Mr Quinlivan—Are you asking the question in relation to the current arrangements or what they will be under NHT2?

Senator MURPHY—You can give them to me both for the current arrangements and under NHT2. Could you also advise me in what areas they have operated?

Mr Quinlivan—Okay. We can certainly provide you with that in relation to the current arrangements under NHT1.

Senator MURPHY—Yes, and what is proposed under NHT2.

Mr Quinlivan—I will have to have a question mark about what I can supply there because I am not intimately familiar with how far the development of NHT2 has progressed, so I cannot commit to that.

Senator MURPHY—I appreciate that. Given the time, I will leave the rest of my questions.

CHAIR—Thank you, Senator Murphy. Thank you, Mr Quinlivan and Mr Dadswell, for your assistance to the committee. There are quite a number of requests that have been made and some undertakings that you have given as well. The secretariat will be in touch with you about that. Thank you again.

[2.35 p.m.]

JUNIPER, Mr Peter, Chief Executive, Plantation Timber Association of Australia

STANTON, Mr Richard, Plantation Timber Association of Australia

CHAIR—Welcome. I would like to invite you to make some opening remarks before going to questions.

Mr Juniper—I should perhaps start with the fact that I have asked Richard Stanton to come along today. Richard was an employee of PTAA when this submission was placed. He is the principle author of the submission, so he is here in an advisory capacity for PTAA. We are also expecting Mr Ken Robertson to be here but he has not arrived yet so maybe the aeroplanes have prevented that. They are running late, as far I know, but he may come shortly. Ken Robertson is the president of PTAA and chief executive of Radius which is a Carter Holt Harvey major processing company.

I would like to briefly put our submission into a context in terms of PTAA and the industry it represents. PTAA represents approximately 80 per cent of the plantation timber sector of the industry. We have about 40 members and those members comprise both state and private growers of plantations as well as small through to large processing companies. I have a brochure here, which I would be happy to leave with you, which outlines some information about PTAA and those companies. The processing companies process something like 85 per cent of the total volume of plantation log processed in Australia and the grower members of PTAA represent some 850,000 hectares of plantation, which is again roughly 80 or 85 per cent of the total. Most of our membership in the processing and growing areas is from the traditional softwood plantations, but we do have some hardwood membership.

The involvement with 2020 that PTAA has goes back right to the start of 2020 when PTAA agreed to participate along with other industry partners in funding or financially supporting the strategy—those partners being the National Association of Forest Industries and the Australian Forest Growers. As well as that, we have oversight, together with those other industry partners and the state and Commonwealth partners, of the program through the Private Forestry Consultative Committee. We were involved in the 2002 revision of the strategy and more recently PTAA has agreed to provide accommodation and administration support for the new plantations 2020 coordinator, Mr Rod Bristow. It goes without saying that PTAA is committed to the 2020 strategy and that we see it as a fundamentally important component of the future development of the plantation timber industry.

One concern we have is that this is a long-term strategy—2020 is a long way from where we are at the moment. That concern is: how do we as a group, via the partners involved in the strategy, maintain momentum and keep a clear focus through that period? No doubt, there will be reviews from time to time such as there are now. We see that as an important component—a continual review and a rolling approach to the strategy so that it maintains its integrity. There is a need for all of the players involved in the strategy to be committed to it and again that is difficult over such a long term. We note in the submissions that have been made that there is a

whole range of different views being expressed from big picture to small picture. There are a lot of local issues in there.

Once again, our view is that whilst those issues must be dealt with and acknowledged in an appropriate way, there is a need to avoid making the strategy too complex to address every single small local area issue for the very reasons I have just outlined. We also support a strong communication program, which is currently being talked about as part of the strategy, to make sure that there is a more general understanding about the strategy and what its aims are.

The other thing I would like to mention is that the PTAA and its members have spent some time putting together an industry development plan. I think Robina Jaffray might have supplied a PowerPoint presentation, or a copy of it, to you. That plan was developed last year. It has been discussed amongst industry and with Senator Macdonald. It's early days and we see it as a developmental thing. However, it is an important plan because it focuses on what industry sees as being the core issues that will enable the industry to develop into the future. Once again, the brochure I mentioned before does have a little chart in it that is, in fact, a final point of the discussion arising out of that PowerPoint presentation. It lists 10 strategic imperatives that the industry, through PTAA, sees as being important to move the industry from where it is now to an arbitrary position in 2020, which just happens to coincide with the 2020 strategy. That industry development plan is dependent on the success of the 2020 vision strategy. In fact, four or five of the key strategic imperatives are related to the delivery of the strategy. That is important to us. Our industry development plan extends past the supply side base of the 2020 vision strategy into marketing areas, and R&D and manufacturing as well. So the industry development plan is underpinned by the 2020 strategy but moves further on from there. It deals with things such as education and training for the industry, market support initiatives, technical issues, standards and codes type issues, and product promotion programs.

To summarise, the 2020 vision is important to the plantation timber sector. It underpins the industry development plan that is in place, which no doubt will be modified as time goes on, along with the strategy. The 2020 vision strategy has the potential, in our view, to enhance many times the contribution that the plantation timber sector can make to the wellbeing of Australia in terms of the economy, the environment and social issues.

Senator MURPHY—The PTAA represents in large part the larger players in the game, doesn't it?

Mr Juniper—We have small and large members, but in the main it represents the larger part of the industry.

Senator MURPHY—In terms of those players and in looking at how the plantation industry has developed, most of the players that you represent would be in the softwood industry, would they not?

Mr Juniper—Most of them, yes.

Senator MURPHY—In looking at how the plantation industry has developed under the current process—that is, particularly in the hardwood sector but, to some degree, in the softwood sector—managed investment operators have come into the game and attracted investment in plantations on the basis that it is attractive, with 100 per cent tax deductibility for

the investment. Have the major players in the game thought about that in the long term, in this context—that the wood, when it has grown out, could be put into the marketplace far more cheaply than by, say, some of your members who have established a lot of their own plantations at their own expense and who have not had the same tax deductibility capacity that some of these mass-marketed managed investment schemes have had? Has it been considered in terms of what effect that might have in the longer term?

Mr Juniper—I have not heard any comment from any of those members in regard to the MIS type schemes and any advantage they may have down the track. I suppose that is because there is such a long rotation period. You have to remember that our softwood members are dealing with long rotation softwood plantations, and most of the MIS people are dealing with short rotation—with some exceptions, but mainly short rotation. They are totally different markets, so I don't know that I can answer that any better.

Senator MURPHY—I accept that, and that is right. Hypothetically, if you were to overlay the development in the hardwood sector, if that were all pine, would that be of concern to the people you represent?

Mr Juniper—If you stand back and look at the overall position that the industry is in in Australia, I think they would support the expansion of the plantation area, and the softwood people would support that in softwood. The key to them becoming competitive on a world basis is that local supplies can be coordinated so that there can be integrated processing et cetera. I think they would have to weigh up the advantage and disadvantage that way. I suspect that they would support the increase in the amount of plantation available for processing.

Senator MURPHY—So it would not be a worry to them if a mass-marketed investment plantation of large scale could be put into the global marketplace and sold to competitors of the company that you represent overseas, which would potentially cause a competitive disadvantage?

Mr Juniper—I do not believe so. I could ask Richard to respond.

Mr Stanton—Comparing the costs and returns, if you like, for managed investment scheme plantation growers versus some of the companies that we represent, the costs incurred by those two groups of growers in establishing a plantation is basically the same—planting trees, site establishment and that type of thing—and the returns they are likely to earn from their investment are very much determined by international wood prices—the price at which people can land wood in Australia, against which we have to compete. Both MIS investors and our members are able to deduct the costs of their business from the returns they get. The fact that they might be in different taxation situations is just the way it is. It is the same in a whole lot of other industries. Our members deduct the costs of establishing their plantations from their expenditure, and it feeds into their tax bill the same as it feeds into a small investor's tax bill. I do not think they see a difference.

Senator MURPHY—Correct me if I am wrong, but a company like Amcor, for instance, will grow a plantation on the basis that it has to have a return. That is the bottom line, isn't it? To me as an investor in a mass-marketed investment plantation scheme it is of no relevance really. I have been able to claim tax deduction up-front. Whether the plantation yields a return is somewhat irrelevant to me, because if it yields a loss I can claim it as a loss under the current

taxation system. I suggest that there is a significant difference for people who have to grow their own trees for the purposes of manufacturing, and therefore expect a return, to someone who has made an investment in the first place on the basis of what is a good tax deduction for them.

Mr Stanton—I guess I do not necessarily agree with you that an investor does not care whether their investment earns a return because it is tax deductible. If it makes a loss, maybe they share the loss with the tax department but they still make a loss. If you have had to pay for your plantation, albeit with pre-tax dollars, you have still had to fork out your money. You could have paid some of that money to the tax office and kept the rest for yourself and spent it. But, no, you have put your \$100 into growing trees. If you make a loss and you lose \$100, you have lost it.

Senator MURPHY—And you can claim the loss.

Mr Stanton—I do not agree with that analysis. None of our members express a concern about that.

Senator MURPHY—Say, from a hardwood sector point of view, you overlaid it with softwood and you were to take all the trees that were in the ground and make them available to the market. For instance, Indonesia, from the point of view of a pulp-producing country which has a lower wage economy than Australia, can afford to pay a slightly higher price for the raw materials and still produce a pulp that is more cost competitive. I see a lot of companies complaining about competition from Indonesia, for instance, in the paper market. Antidumping actions are being taken all the time by one of the principal manufacturers in this country. I cannot understand how it would not be of concern that we are producing a potentially low-cost commodity that can go overseas and be produced into paper or some other manufactured product and be highly competitive with manufacturers here. I think that is something that ought to be of concern in terms of how we manage the 2020 vision strategy. I do not know how it is not of concern. I can understand from PTAA's point of view because you are not involved in the hardwood industry, essentially. But it worries me about the hardwood industry.

Mr Juniper—I think these are very early days. We have seen huge amounts of hardwood or eucalyptus species plantations put in, but I guess time will tell and the markets will sort that out eventually.

Senator MURPHY—It certainly will.

Mr Juniper—Whether they are profitable or not or whether there have to be changes about the rotations moving from woodchip up into higher value products, I guess we will see.

Senator MURPHY—You are right; time will tell. That is the unfortunate thing about it.

Senator O'BRIEN—We had some evidence today that in New South Wales the 'take or pay' contracts that the state pine forests are sold under operate against those who would establish or grow, maintain and try to sell privately established pine plantations. I wonder what your organisation's view is of that particular point of view.

Mr Juniper—I have not heard that discussed. The arrangements between grower and processor tend to be fairly private things. Whether those arrangements are consistent throughout Australia is not something I could comment on. I suspect that market forces play a part there.

Senator O'BRIEN—You are the Plantation Timber Association—I am taking it that that means that some of your members actually establish plantations; they do not just take timber from them.

Mr Juniper—Yes, most definitely.

Senator O'BRIEN—And they establish softwood plantations, and some are probably in New South Wales.

Mr Juniper—Yes. We have members from New South Wales Forestry, for example. Forestry South Australia et cetera are members. We also have major private forest plantation owner in Hancock's in Victoria.

Senator O'BRIEN—Do you have any private forest establishers in New South Wales?

Mr Juniper—There is Norske Skog. That is about it, I think, in softwoods.

Senator O'BRIEN—Can you tell us what the state of the softwood resource is there? Are there regular plantings? Is that resource being regenerated?

Mr Juniper—The softwood industry is replacing what it uses, so that is a sustainable basis. One of the graphs in the PowerPoint presentation shows the difference that you might see in the area of planting of hardwood versus softwood. Whilst the dramatic part of the graph is the rapid increase in the hardwood plantation sector, you will see that there is also a graph that shows an increase in the softwood planting. That graph shows additional, not replacement, timber, which means that the softwood sector is spending most of its effort and money in replacing what it is taking from pine plantations. But it is also increasing gradually. I think the figure is currently 10,000 or 15,000 hectares per annum, compared to 75,000 or 80,000 hectares in the hardwood area. Part of our submission does point out that we believe it would be healthy if some stimulation were available for the softwood plantation area to be expanded.

Senator O'BRIEN—We are having difficulty reading that chart.

Senator MURPHY—There is a lot of black on it.

Mr Juniper—I emailed it to Robina, and it was in colour. I could provide you with a better copy of it.

Senator O'BRIEN—We could have it emailed to us. That is probably the easiest way.

Mr Juniper—That graph does illustrate that, whilst 70,000 or 80,000 hectares of hardwood are being put in, as we go down the path of the next five to 10 years and that log becomes available for woodchip, then the hardwood sector will be faced with the issue of keeping up that rate of planting as well as replacing what is being used. We predict in our submission that the

hardwood planting rate will have to tail off. We therefore think it is essential that the softwood area increase so that we can maintain the levels proposed in the strategy.

Senator O'BRIEN—Some submissions have suggested to us that the numerical targets are much less relevant than targeting actual downstream processing outcomes, given the volume of resource that has been created, particularly in the hardwood sector. What would your organisation's view of that be?

Mr Juniper—We believe that there needs to be a headline target for the strategy to be successful. It so happens that the figure of three million hectares has been chosen. I guess we could agree that that is an arbitrary figure. Underneath that, we see the importance of the strategy as being eventually getting to a point where there are regional level wood suppliers that will facilitate the development of a strong, viable plantation sector. We can then look at integrated processing facilities that are in the regions where the plantations are, whether that be hardwood or softwood.

Mr Stanton—I refer you to page six of our submission. Under subheading (a), the second paragraph really focuses on that issue. It highlights the point that the National Plantation Inventory looks at 15 different regions in Australia that have softwood plantation resources. But there are really only three of them—the Green Triangle Region, the Murray Valley and south-east Queensland—where you would say there was sufficient critical mass of resource. That is really in volume terms rather than in area. It is the amount of wood that it can produce. Only those three regions have the critical mass to support a fully integrated, internationally competitive processing industry. In all the other 12 regions—we are talking only about softwood—say, Bombala in New South Wales, or northern Tasmania or south-west Western Australia, there is a resource that is producing wood, but we believe it is not sufficient to create that critical mass to support a fully integrated processing industry. That is really the key for us in needing to expand the resource or to increase the volume of wood available so that there can be that sort of regional based industry. Whether or not it is trebling the area is not absolute. The key issue is to increase the amount of wood. Of course, you can increase the amount of wood by improving your productivity as well as by improving your total area. That is another option. It is something that our members work on every day—for example, improving the genetics and improving the processing capacity.

Senator O'BRIEN—It has been suggested to us that perhaps we should adopt the New Zealand log classification system here, that that would assist in the marketing of our product and that with a common standard across states it would be more easily understood and generally beneficial for the industry. Does your organisation have a view on that matter?

Mr Stanton—We do not have a strong view on it. Certainly, where our members are involved in exporting logs, they would tend to use whatever grading system is used in the country they are exporting to. It really tends to be determined by the person who is to buying the wood what grading system they want you to use, and the growers will pretty much work on that basis. I guess there is not a huge flow of softwood logs from one state to another which would suggest such a coordinated system is really imperative.

Senator O'BRIEN—I did hear evidence about the export of softwood; I am just trying to remember who was the exporter—whether it was named or whether it was just a particular state—but there is some export of softwood to the United States—which I understood to mean

sawn softwood—although you mentioned timber in the round. I know there are softwood logs exported from Tasmania and Victoria.

Mr Juniper—There is some sawn timber exported but our view, in having discussed that with our members over quite a time now, is that it is very early days for the softwood sector. There are some successful exports already, for example Hyne and Son in Queensland, and there are small amounts—

Senator MURPHY—They are small volumes, though.

Mr Juniper—Yes, they are small volumes here and there. The reason for that is that the resource has not been available to this point. To be frank, we have tried to put together an export approach for the industry and we have realised that it is too early. It is becoming more and more appropriate as the days go on. As the resource does build up to where we project it will be then, of course, Australia will have to be exporting. But at the moment it has been quite handy for Australia that we have had local suppliers that can service the major market, which is the housing market and, while the industry has to put up with the highs and lows of the building cycle, that really is a very solid market for the industry. But when the resource increases, there will be opportunities to increase exports, which will be of value to the industry and to Australia.

Also what has happened in the past few years is, as the softwood resource has been coming up, the imports have been dropping down. There is a graph on page 3 of our submission that illustrates that back in 1989-90, the share of the supply of sawn timber into the housing market was about one-third hardwood, one-third softwood plantation and one-third imports. The figure in 2001 was that something like two-thirds of the total requirements are being serviced by the plantation sector. The balance is shared by the lower value of imports and hardwood. That has been a pretty good story for the plantation industry. We think that position from here on would continue pretty well, where the plantation sector will hold a strong share of the Australian domestic housing market but also move into exports.

Senator MURPHY—There have been a couple of factors in that though.

Mr Juniper—Things change all the time.

Senator MURPHY—The decline in Oregon availability has played a reasonable part.

Mr Juniper—Convenient things are there, but this has happened over long period of time and these variations in Oregon supply have been off and on a couple of times.

CHAIR—Can you tell the committee why the PTAA broke away from NAFI?

Mr Juniper—That is not contained in our submission. The PTAA was never part of NAFI. PTAA has a history that goes right back to 1959 with the Radiata Pine Association of Australia. That association was responsible for bringing pine from the image of a packing case material through to where it is today. There were several moves taken, one was from Adelaide to Sydney when RPAA became a promotional organisation. A decision was then taken that it may work better with one national association and so a pine division of NAFI was created at that point. To answer your question, the softwood producers who belonged to that division of NAFI at that time felt that there were a lot of differences, from a marketing and production point of view in

particular but also in terms of R&D and even in terms of growing issues. They decided that it was in their own interests to focus on plantations and set up an organisation that would look after plantations. At that time it consisted of softwood processors only, because Pine Australia was formed in 1995. A couple of years ago, Pine Australia was combined with Plantations Australia, the group looking after the grower side of things, to become PTAA.

CHAIR—Thank you for that. I would like to refer to the PowerPoint presentation and talk about processing issues. Could you clarify what you mean by the rationalisation of the timber processing industry and the continuous investment in new processing capacity? What do you mean by rationalisation?

Mr Juniper—What has been going on over the last four or five years is that the industry considered it was not competitive and has been taking measures to make itself more competitive. It still believes it has further to go. That is now related to volume, hence the proposal for increasing the resource. The rationalisation going on has been both from a technical viewpoint within companies in terms of the introduction of new technology and results from R&D—quite a lot of money and effort has been put into research and development—and also there have been a number of examples of amalgamations. There have been a number of things happening within the industry. I think there are now less companies operating than there were five years ago.

What is driving that is an acknowledge that there are effectively two ways that participants in the industry can go, and I guess there are some compromises in between. Firstly, a small producer can stay small and be viable if they specialise, for example into particular value added products. Secondly, they can get big to survive—because the bigger companies are producing, essentially, commodity type products which must compete in Australia, in a very big market, and also internationally, eventually. So their target has been to increase their size. Five or six years ago, the typical major sawmill probably had 250,000 cubic metres of log input. Now there are a number of mills that are up to 500,000 or 600,000 cubic metres of input. I think the mill at Tumut is probably over 600,000 cubic metres and nearer to 700,000 cubic metres input. So that is the sort of philosophy that has been adopted by the industry.

CHAIR—I have one final question from Senator Heffernan. He has asked, given the problems of water availability—especially in the Murray-Darling Basin—what are your views on the plantation owners having to purchase water rights and how do you believe that will affect profitability?

Mr Juniper—I am not an expert in that area. I guess we have a broad brush principle in our minds that people purchase or own land on the basis that it has certain qualities, whether that be soil qualities or water availability, and the attitude of those people would be that they have a right to grow and harvest on that land. I do not think they would accept that they should pay for the water. Is there anything that you could add to that, Richard?

Mr Stanton—I suppose one initial presumption that needs to be questioned is that, while a plantation may use a given amount of water and that may be more and therefore less water may flow off that land immediately prior to the plantation being established, who says that that previous land use and the water flowing out was appropriate. In many areas of Australia forest has been cleared. The amount of water that flows off that land has increased as a result of the clearing. If the plantation is now re-established and the water flow perhaps returns to its pre-

European settlement level, is that a good thing or a bad thing? Is that the wrong thing to do or the right thing? Obviously there are a range of issues around that. We need to think clearly about what we are comparing plantation water use to.

The second point is that obviously plantations do consume water. That is how they grow. But there are a number of things that can potentially be done to manage that. There has certainly been a lot of research done in that area, and our grower members are working on those sorts of things. For example, if you do not plant immediately adjacent to streams, that can greatly increase the amount of water that will flow off that area of land because a lot of the water that flows off only comes from the area immediately around the stream and not further up the catchment. Also, if you have a large catchment area which is fully planted and if you can manage your replanting and harvesting operations evenly around that catchment, it is generally recognised that you will maintain a more constant water flow than if you go in and harvest the whole lot and replant it all in one go. So those are the sorts of management things that plantation growers can potentially do to help address these concerns about water yields.

CHAIR—That concludes this part of the hearing. I thank you both for appearing here today and for providing assistance to the committee. A copy of the *Hansard* of your evidence will be made available shortly. I do not believe that there were any undertakings or requests made by senators, but if there were the secretariat certainly will follow that up with you. Thank you again. I thank the secretariat staff for their support. I thank the staff of Hansard and Broadcasting. I thank my senatorial colleagues for their patience and endurance throughout the long two days.

Committee adjourned at 3.11 p.m.