

CHAPTER SEVEN

FUTURE VIABILITY AND SUSTAINABILITY OF THE PLANTATION FORESTRY SECTOR AND ASSOCIATED ISSUES

Introduction

7.1 The final matter the Committee was asked to consider is:

- (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 development.

7.2 This Chapter outlines the Committee's observations on what, if any, specific actions are desirable to further develop a viable and sustainable Australian plantation forest sector. The discussion includes consideration of whether an expansion of appropriate processing industries is required to enhance plantation forestry's contribution to regional economic development.

Background

7.3 As noted in the discussion in Chapter Two, forests have traditionally been a publicly owned and managed resource. In many countries, including the United Kingdom, Chile, New Zealand and Australia, plantations have been developed through direct government involvement or through government incentive schemes, including taxation incentives, loans against subsidised interest rates and other conditions and grants.

7.4 The Committee notes that in view of increased private sector investment, the appropriate role of government in Australian plantation forestry continues to be an issue of considerable public debate. The Australian Bureau of Agricultural and Resource Economics (ABARE) states that many countries are selling off their public plantation assets, and initiatives such as the *2020 Vision* have given support to this trend by identifying and addressing factors which have traditionally served to impede private investment.¹

7.5 At the same time however, ABARE argues that plantation development is one way for governments to meet specific economic, social or environmental policy objectives such as assisting forest industry development, increasing regional infrastructure and employment, and overcoming forest product trade imbalances.

1 *Global Outlook for Plantations: ABARE Research Report 99.9*, prepared by Jaakko Poyry Consulting for Australian Bureau of Agricultural and Resource Economics, June 1999, p. 7.

Government policy has been a significant factor in the expansion of the plantation estate over the past thirty years.²

7.6 To maintain and expand the plantation industry providing a viable and sustainable industry in Australia depends on a number of interconnected factors. Some of these have been identified and are discussed below. However, it is impossible to accurately forecast the future of the industry due to such imponderables as the long lead times, risk in the industry from fire and disease and the vagaries of the world market.

7.7 The IFA submitted that because of the inherent risks and uncertainties associated with plantation development, there may be a role for government in supporting the development of viable and sustainable regional plantation based industries. The IFA suggested that this is particularly the case:

... in circumstances where regional industries and communities need to deal with the problems of fragmented supply and achieving economies of scale (eg aggregating woodflows from many growers over long timeframes), or where the development of new 'greenfield' industries may be desirable for natural resource management purposes.³

7.8 The PTAA indicated that it is developing a plantation industry development strategy designed to guide the industry's development and provide a basis for co-operation between industry and the government, with a view to maximising regional development outcomes.

7.9 It proposed the strategy will be compatible with the *2020 Vision*, but will go beyond the predominantly supply-side focus of the Vision. One of the key issues identified by the PTAA in the development of the strategy is the investment environment in Australia.

Investment Environment and Markets

7.10 Private investment is fundamental to the successful expansion of the plantation timber industry. The PTAA indicated that Australia's investment environment has been steadily improving over a number of years and this has assisted in continuing investment in plantation timber processing in Australia. However, it argued that a strong domestic market and investor confidence in Australia's economic and political stability will be necessary for this situation to continue.

7.11 The importance of markets (domestic and international) to both investment and the growth of the plantation industry generally was a view expressed by a number

2 *Global Outlook for Plantations: ABARE Research Report 99.9*, prepared by Jaakko Poyry Consulting for Australian Bureau of Agricultural and Resource Economics, June 1999, pp. 6-7.

3 *Submission 11*, Institute of Foresters of Australia, p. 6.

of industry organisations. Government assistance in securing these markets was sought at a number of levels.

7.12 NAFI argued that the development of export markets for Australian timber products will be a key factor in promoting the future growth of the timber processing sector. It suggested that investment decisions for the plantation industry should be responsive to the signals of the international timber markets.⁴

7.13 However, such responsiveness may reinforce the current trend to major companies being the primary investors in the plantation industry and does not encourage small-holder production. ABARE's submission noted the scale of production necessary to be internationally competitive in wood processing. It argued that it is an additional barrier to investment but one which can be addressed by collective management of small-holder forests.⁵ ABARE suggested that governments, in particular, have a role to play in encouraging a more consolidated approach to the management of small-holder private plantations to ensure a consistent quality and flow of wood to processors.

7.14 AGF also addressed the issue of small growers and co-operatives, reflecting that Action 9 of the *2020 Vision* seeks (among other things) to encourage the development of co-operatives to increase market strength and effective use of resources. It is argued that in order to fully participate in the market, small growers must be able to trust that they will be able to sell their wood for a reasonable price. Action such as that outlined in Action 9, or any other similar commitment to assist small-scale growers to accumulate marketable quantities of product deserves to be given priority.

7.15 The development of export markets for all industry participants is considered important. The PTAA explained that Australian companies have limited experience in relation to the export of plantation timber products (with the exception of woodchip exports to Japan). They argued that this situation is likely to change as production levels increase over coming years. They acknowledged that the economic performance of Australian plantation timber producers will be influenced by the success of other major producer countries such as New Zealand, Chile and South Africa, and suggested that the Commonwealth Government has a role to play, that being to facilitate free trade agreements in relation to timber products. The Committee agrees that the government has a role in facilitating free trade agreements in relation to timber products where it has been demonstrated that environmental standards have been satisfied and sustainability goals have been met over time.

4 *Submission 32*, National Association of Forest Industries.

5 *Submission 26*, Abareconomics, p. 6.

Processing Industries

7.16 As suggested above, one of the keys to strengthening the plantation industry in Australia is the successful marketing of all the industry's products. The ABARE/Jaakko Poyry study notes, for example, the high risk of marketing products, especially for small wood from thinnings, was a factor impeding investment in the plantation industry.

7.17 AGF informed the Committee that marketing products was of particular concern to private and small-scale growers.⁶ They argued that, in order for plantations to be more economically attractive, there needed to be markets for all products of the plantation rotation. In their view one way to establish such markets is the development of regional processing industries for the surpluses and residues of the industry. In particular, processing industries that utilise the large amounts of fibre-grade and fuel-grade material which is unavoidably generated in producing the main sawlog crop from conventional plantations.

7.18 Other evidence to the inquiry supported the expansion of the processing industry. Ms Judy Clark, a Postdoctoral Fellow from the Centre of Resources and Environmental Studies, Australian National University recommended that the Commonwealth government give priority attention to Australia's existing plantations and develop a policy aimed at processing on-shore as much plantation wood as is commercially viable.

7.19 Ms Clark put forward four 'public interest benefits' to support her recommendation:

- 1) 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.
- 2) Because plantation products can substitute for most native forest products they are the key to pragmatically resolving the conflict in relation to Australia's native forest log cut. Substitution can also increase competitiveness in the Australian wood products industry.
- 3) 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. In order to boost employment growth, the 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 etc.

6 *Submission 58*, Australian Forest Growers, pp. 10-11.

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- 4) Processing of wood products also generates considerably more wealth than exporting unprocessed chips and logs. Estimates indicate that processing sawlogs into sawn timber rather than exporting them unprocessed boosts income [that is, revenue less costs] per cubic metre of wood used seven times.⁷

7.20 Ms Clark argued that despite the public interest benefits she has identified, Australia's processing capacity is falling well behind the plantation wood supply. According to Ms Clark, in the early 1990's approximately 90 percent of Australia's plantation cut was processed domestically. This figure has since fallen to approximately 70 percent and Ms Clark argued that this decline will continue unless policy changes are made at both the state and federal level.

7.21 Ms Clark told the Committee that 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...⁸.

7.22 NAFI's submission and evidence to the Committee predicted that the forest and timber industry will soon have access to sufficient scale of resources to support investment in processing industries – including pulp and paper production. They argued that world-scale mills can be built in South-West Western Australia, the Greater Green Triangle Region and Tasmania, and that these mills would use three different sources of fibre input and produce three different grades of pulp and paper products.

7.23 NAFI forecast that the output from the new mills would replace a significant proportion of Australia's current imports of paper products and provide sufficient material for delivering a trade surplus. With only a limited proportion of the additional output from the mills replacing the timber products that are currently imported, a certain proportion of the additional output would need to be sold internationally.

7.24 The development of such processing industries would have implications for future plantations. According to IFA, the revised *2020 Vision*:

... is given a clearer focus on the need to achieve plantation expansion in a manner that facilitates the development of efficient internationally competitive processing industries. This is vitally important considering the growing supply of plantation wood in the Australasian region. To achieve

7 *Evidence*, Ms Judy Clark, RRA & T, 21 February 2003, pp. 314-314.

8 *Evidence*, Ms Judy Clark, RRA & T, 21 February 2003, p. 315.

this goal for sawn timber industries, for example, plantations will need to be developed in regions to an extent that can ultimately supply 500,000 to 1,000,000 m³ of logs each year. This should mean that additional plantings should be focused in zones where existing plantations exist.⁹

7.25 The Committee notes that evidence provided during the inquiry highlights the need for Australia to be a strong competitor in international markets as critical to a viable and sustainable plantation industry. The next major step to achieve this is the development of processing industries in Australia. Government assistance has been identified as a major factor in assisting to achieve this development.

7.26 The Committee notes Ms Judy Clark's comments that the government's overriding policy goal for the forest industry should be the attraction of private sector investment to processing industries. However, it also notes the implications that such investment would have on the expansion of plantations.

Other Factors

7.27 During the inquiry the Committee was made aware of other factors that would contribute to the long term viability and sustainability of the plantation industry. These included:

- plantation protection;
- regional infrastructure; and
- management practices.

Plantation Protection

7.28 The PTAA, while encouraging free trade, also advised that the protection of Australia's plantation timber resource against exotic pests and diseases is critical to the industry. They indicated that the industry itself provides significant funding for monitoring and managing pests and diseases. However, they argued that despite recent improvements to border quarantine protection, adequate attention has not been given to post border surveillance. There is therefore a need for more consistent monitoring of vegetation surrounding points of entry (ports and airports) to ensure any incursions are identified and managed as soon as possible.¹⁰

7.29 This concern is supported by the ABARE/Jaakko Poyry study. It identified the risk of disease as contributing to the high risk of investment in the plantation industry.¹¹

9 *Submission 11*, Institute of Foresters of Australia, p. 7.

10 *Submission 9*, Plantation Timber Association of Australia, pp. 13-15.

11 *Global Outlook for Plantations: ABARE Research Report 99.9*, prepared by Jaakko Poyry Consulting for Australian Bureau of Agricultural and Resource Economics, June 1999, p. 48.

7.30 AFG also advised that the significant investments made in plantations require adequate protection. They argued that both government and industry need to be prepared to provide funding for fire management and for research into pest and disease management.

7.31 The Committee agrees that the plantation industry, as with all agricultural industries, should have the protection from pests and diseases provided by Australia's quarantine arrangements. It notes the PTAA's comment that more consistent monitoring is required and encourages the Commonwealth Government to investigate the need.

7.32 Further, the Committee notes the implications of forest plantations on fire management. Current climatic conditions have had an impact on fire management generally.

Regional Infrastructure

7.33 The ABARE/Jaakko Poyry study identified the lack of regional infrastructure to support plantation development as an impediment to private investment in the plantation forest industry.

7.34 The Committee received three submissions from local government councils indicating concern about the impact of plantations on infrastructure and the council's inability to meet the financial requirements to either upgrade or maintain the roads and bridges used in transporting harvests.

7.35 The Kentish Council of Tasmania indicated that one of their concerns over plantation forest developments is the "non-recognition of infrastructure cost impacts".¹²

7.36 This concern was shared by the West Wimmera Shire Council indicating that:

The impact of the timber industry on West Wimmera Shire's local roads and bridges is cause for increasing concern. There is a string need for the problem of funding requirements to be resolved. Council, the timber industry and other ratepayers who depend on these roads and bridges can have no confidence in the ability of this infrastructure to cope with current and future timber industry harvests.¹³

7.37 The question of funding was also addressed by Councillor Kevin Forbes from the Plantagenet Shire in Western Australia. In his submission he indicated that the:

Local Government in the Great Southern region has a proven need of \$36m for roads that will be used by the Plantation Timber Industry as haulage routes to mill and port.

12 *Submission 63*, Kentish Council, p. 1.

13 *Submission 55*, West Wimmera Shire Council, p. 1.

The State Government has a need for over \$50m in the same area.

Neither State nor Local Government have any possible hope of financing this deficiency.¹⁴

7.38 He continued by calling on the Federal Government "to meet the commitments it made in then 2020 Strategy documentation".¹⁵

7.39 PTAA indicated that the plantation timber industry has been involved in Timber Industry Road Evaluation Studies (TIRES), and road funding priorities have been identified in a number of key regional areas. However, they also called on the Commonwealth to provide additional funding for local infrastructure.¹⁶

7.40 PTAAA also identified adequate infrastructure as being central to the development of an Australian wood processing industry that is internationally competitive. Their concerns included roads and bridges, but also extended beyond transport infrastructure. They argued the plantation timber industry operates in, and makes a significant contribution to, regional communities. In order to encourage skilled workers to relocate to regional processing industries, governments need to ensure that medical, education, communication and other services are available in regional communities.¹⁷

7.41 The Committee notes these concerns relating to infrastructure, particularly transport infrastructure and the important role it has in the development of the industry. The Committee commends the work of government and industry in TIRES and encourages governments to investigate further programs to make funds available for transport infrastructure in plantation areas.

Management Practices

7.42 A sustainable plantation industry also requires appropriate management practices.

7.43 PTAA indicated there is considerable community and market pressure to ensure that the Australian plantation timber industry follow sustainable management practices. The PTAA (and its members) have participated in the development of the Australian Forest Standard (AFS) as well as a number of other certification systems. They believe standards such as AFS are regarded as primarily market driven mechanisms and governments should not become involved in these processes beyond their role as customers and market participants.¹⁸

14 *Submission 19*, Kevin Forbes, p. 1.

15 *Submission 19*, Kevin Forbes, p. 1.

16 *Submission 9*, Plantation Timber Association Australia.

17 *Submission 9*, Plantation Timber Association Australia.

18 *Submission 9*, Plantation Timber Association Australia.

7.44 However, the IFA argue that governments have a particular role to play in ensuring that the social and environmental dimensions of resource management and use are appropriately handled. For example, the IFA suggested that there may be value in reviewing developments in south west Western Australia, the Green Triangle and Tasmania, particularly in light of the large volumes of pulpwood coming on to the market and the scale required for viable pulp and paper manufacturing enterprises.¹⁹

7.45 The Committee is inclined to agree with the IFA position. The role of government in management practices of the plantation forest industry must, at a minimum, be proportional to its involvement in the industry. If significant government funding is being directed towards assisting the development of the industry, so that environmental and social benefits can be secured for rural and regional communities, then government has a vested interest in ensuring that these benefits are not compromised due to poor management practices. As a consequence of governments' investment, industry cannot legitimately claim that community and market pressure alone will be adequate determinants of management practice.

Conclusion

7.46 A viable and sustainable forest plantation industry will be secured by an expansion that provides Australia with internationally competitive processing industries. Other challenges that need to be addressed relate to the provision of infrastructure (particularly transport), protection from diseases and pests, and appropriate management practices.

7.47 NAFI's submission emphasised the significance of the very long time frames involved in forestry development, in initially building up the resources and then recovering the cost of investment in timber milling capacity. It was argued that rather than rely on any long-term commitments from government to support particular programs, policies or activities, it is important that the industry take responsibility for ensuring that the market is driving long-term investment decisions.

7.48 However, NAFI argued that in the short term, government policies may be able to provide the industry with sufficient impetus to meet those longer-term growth projections, for example:

A least-cost solution for the Commonwealth to support regional development while encouraging investment on the scale required for addressing environmental degradation may be to promote the development of export markets for timber products. It therefore seems apparent that the forest and timber industry should be working closely with the Federal and State governments to pursue the joint objectives. As an initial stage in this process, industry and governments have started to consider the project

19 *Submission 11*, The Institute of Foresters of Australia.

assessment and investment approvals processes to ensure that there are no unnecessary impediments to the growth of the forest and timber industry.²⁰

7.49 ABARE's submission to the Committee's inquiry argued that any specific action [on behalf of government] should be focused on overcoming those clearly identified market failures which are impeding private investment. However, ABARE also stressed that caution needs to be exercised to ensure policy initiatives designed to overcome impediments or create markets for environmental services do not represent subsidies to overcome what is essentially a lack of economic viability:

Provision of such subsidies would lead to a net economic loss by reallocating resources away from more efficient uses elsewhere in the economy. The international market for plantation wood products is extremely competitive, and forecast to become even more competitive. Pacific Rim timber prices are expected to fall in response to increasing plantation production, and continued profitability depends on increasing productivity. Public investment targeted at wealth and employment creation are best directed to sectors of the economy in which Australia has a clear comparative advantage.²¹

7.50 The Committee is concerned that, in attempting to encourage a viable and sustainable industry, that every level of government does not inadvertently encourage the establishment of plantation industries other than for environmental reasons, in regions where such industries are neither viable nor sustainable. Research and planning strategies are requirements for any policy decisions.

20 *Submission 32*, National Association of Forest Industries, p. 21.

21 *Submission 26*, Abareconomics, p. 6.