



Plantation Forests

The submission by the National Association of Forest Industries to the **Senate Rural and Regional Affairs and Transport Legislation Committee** Inquiry into Plantation Forests and the 2020 Vision Initiative

September 2002

SYNOPSIS

The Government's broad policy program may, in many cases, be modified to address particular impediments to the growth of the forest and timber industry.

Given the complementary nature of the industry and government objectives, it is up to the industry to utilise the opportunity that has been provided by this policy framework and respond by providing a directional strategy and effective targets for growth.

Only then will it be possible to identify the future gaps in resource availability, the areas of market failure and the industry's investment needs, to improve the design, effectiveness and content of government programs and policies.

Plantation forestry should be an important component within that directional strategy, with a heavy dependence on the capacity of the revised 2020 Vision to highlight the impediments to growth and the actions for addressing those impediments.

Within the 2020 Vision strategy, it is therefore essential that the diversifying needs, interests and motives of the expanding plantation grower groups are adequately recognised so that investment can be drawn to provide the timber resource that will best meet the industry's future requirements.

The forest and timber industry has an opportunity to thrive if it can develop a comprehensive, demand-driven approach to expansion that is supported by responsive government policy settings.

INTRODUCTION

Australia's forest and timber industry stands at an unprecedented position in its convoluted history. The impact of a series of changes both within and surrounding the industry have created an environment of opportunity, with the options for using plantation forestry being the key element for determining the extent to which the industry can grow in the future. This changing environment has evolved from a number of coincidental processes, including:

- The broad policy framework
- Structural changes within a competitive domestic industry
- The forest policy framework
- Assessing the (past and) future roles for plantation forestry
- Resource security for the native forest sector
- A persistent trade deficit
- Domestic investment and export market opportunities, and
- The changing nature of Australia's rural communities.

If these processes, and the circumstances they create, can be drawn together in a comprehensive, cohesive and consistent manner, they have the capacity to support and drive the long-term, sustainable growth of the forest and timber industry. Plantation forestry could be the conduit for drawing these processes together. If additional investment can be drawn to the establishment of tree crops that meet a number of objectives, the industry should then be in a position to deliver a range of positive outcomes for rural and regional Australia.

Environmental improvement, investment in timber processing, trade deficit reduction, employment and training opportunities and addressing rural decline, are just some of the positive results that can be expected from the future growth of the plantation sector. Given the current policy framework, the forest and timber industry needs to take the next step in drawing all of these processes together in order to determine its future strategic direction. Without the industry building a cohesive strategy for supporting its future growth, underpinned by a coherent framework and suitable targets, there is a major risk that investment in tree planting could be driven in the wrong direction.

The framework and targets are important for encouraging investment into those plantation resources that may meet the industry's future needs. Simultaneously, having industry sets its future direction should allow the respective Federal and State governments to determine where there is likely to be market failure or how policies may be improved to maximise the social, economic and environmental returns associated with the original investment in tree planting.

This submission outlines the changing environment that surrounds the forest and timber industry, then addresses the Inquiry's Terms of Reference in an attempt to demonstrate some of the changes that are necessary for addressing the impediment to investment in plantation forestry. It does not take away from the need for the industry to use the environment that has been created for determining its future direction, and then working closely with all levels of government to realise those outcomes.

PLANTATION FORESTS

Plantations forestry options

Plantation forestry covers a continuum of tree investment activities, ranging from those designed for producing timber alone through to the establishment of tree crops for addressing environmental degradation.

Up till now, the vast majority of plantations grown from either direct seeding or seedlings have been planted and managed to produce timber with a minimal impact on the environment. However, many parts of the community believe that the location of plantations within the landscape and the management of those resources could be modified to support the production of both timber and indirect environmental benefits.

While it is reasonable to expect that timber and environmental outcomes could be generated from the one investment, there needs to be some consideration of what impact those requirements could have on the commercial viability of the sector and the industry as a whole. Until there are effective markets for the environmental services, the primary focus has to be maintained on encouraging investment in plantation projects that can deliver a commercial return from the tangible part of the asset. That is, from timber production. Why? Due to the time scale the industry operates in and given the volume of resources it requires, the investment period will usually be much longer than the policy horizons of Federal and State governments.

Investors in the timber growing and processing sectors would have limited confidence in the long-term potential of activities which rely on government programs or subsidies to be economically viable. However, government policies and programs may be appropriate for modifying the incentives behind the strategic locations of trees in the landscape or helping to establish environmental services markets that could arise in conjunction with the commercial forestry operations.

At the present time, there is a very broad range of policies and programs being developed or implemented that could have a positive impact on the growth of Australia's plantation estate. The 2020 Vision is one of these policies, which can be used for drawing together and integrating other policies that impact on rural and regional Australia.

The broad policy framework

The broad policy framework of the Federal Government has the capacity to promote continued investment in Australia's timber growing and processing sectors. At the present time, the policies and programs that have objectives in common with those of the forest and timber industry cover a wide range of areas, such as:

- Regional development
- Infrastructure provision and Auslink
- The Natural Heritage Trust
- The National Action Plan for Salinity and Water Quality
- Trade deficit reduction
- The National Investment Framework
- Biofuel and renewable energy production
- Employment and training

- Economic independence for Indigenous people
- Greenhouse gas abatement and sequestration
- Community needs
- Taxation
- Superannuation
- Environmental education, and
- Meeting our international obligations.

The strongest influence and greatest benefit from this policy framework can only be delivered where there is an effective alignment between the policy and program objectives of the Government and the future direction of the forest and timber industry. By considering the needs of the industry in their design, it is anticipated that appropriate policies and programs will encourage private sector investment into rural and regional Australia on a sustainable basis, with the potential to improve the outcomes sought from those government activities.

Throughout the *Plantations for Australia: the 2020 Vision* review process, many stakeholders referred to the links between the Government's policy framework and the potential role(s) of plantation forestry. To assist the development of those complementary policy and program activities, some consideration has to be given to the structural changes that have occurred within the forest and timber industry and the implications of past and existing forestry-specific policies.

Structural changes in a competitive industry

Since the release of the National Forest Policy Statement in 1992, Australia's forest and timber industry has been through a monumental restructuring process. The increasing importance of plantation resources, the exit of many traditional companies, on-going mergers, investment in value-adding, the advent of the managed investment companies, State forestry agency corporatisation and the sale of public sector plantations to the private sector are some of the major changes that have occurred.

While there have been substantive changes to the structure of the industry, it has coincided with an on-going improvement in Australia's competitiveness in both the timber growing and processing sectors. The Jaakko Poyry report, *Investment Opportunities in the Australian Forest Products Industry* (prepared for AFFA, October 2001), demonstrates that the combined impact of sufficient volumes of timber grown within cost-effective transport distances of modern processing facilities is sustaining Australia's international competitiveness.

The existing forest policy framework

Government forestry programs and policies continue to have a major impact on the wood growing and timber processing sectors in Australia. The Wood and Paper Industry Strategy, the Regional Forest Agreement process, the Forest Industry Structural Adjustment Package and the Farm Forestry Program are just some of the Federal processes that have helped to drive the on-going evolution of the industry. Outside of forestry, the Commonwealth's taxation, industry, R&D and social policies have indirectly benefited forest growers, timber processors and the communities that depend on timber resources. Simultaneously, the States have been delivering their own public and private forestry programs.

Within each of these processes, there has been considerable interest in the expansion of Australia's plantation resources. The 1997 release of *Plantations for Australia: the 2020 Vision* coincided with an accelerated level of off-farm investment in plantation forestry projects. When it was originally released, the 2020 Vision acknowledged the importance of securing an expansion of both the hardwood and

softwood resources. However, as the 2002 tabular inventory data from the Bureau of Rural Sciences testifies, over 86% of the plantations established since 1997 are in fact hardwoods species, with the vast majority being grown on short rotation of less than fifteen years in duration. A number of factors are responsible for the growth of investment in short-rotation plantations forestry, including:

- Lower interest rates for investors
- The development of commercial short-rotation plantation crops
- The entrepreneurial behaviour of the Managed Investment Scheme companies to develop networks through accountants and investment brokers
- Access to the 13-month prepayment rule to provide the taxation timing incentive for investment
- Growing international interest in producing pulpwood from plantations and investment by overseas companies in Australia (a demonstration that the projects are economically viable), and
- The appropriate policy framework being provided by WAPIS (the Wood and Paper Industry Strategy, 1995) and the 2020 Vision.

As a result, an average of more than 87,500 hectares per year of plantations have been established since the release of the 2020 Vision, compared to an average of less than 30,000 hectares per annum in the six years prior to the Vision's release.

Underlying that investment are some important trends, as identified in the National Plantation Inventory and National Farm Forestry reports from 2001, prepared by the Bureau of Rural Sciences (table 1). In particular, there have been substantial changes in the nature of the resource that is being established in plantations and the ownership of the resource. While the post-1996 figure indicates that only 5% of the plantation resource is regarded as farm forestry, another 20% of the total plantation resource has been established under joint venture arrangements between investors and landowners. In addition to these figures, over 88% of new plantations have been established on ex-farm sites during the past five years

Table 1. Plantation resources pre- and post-1996

	Pre-1996	Post-1996
Area planted per annum	25-30,000 ha	87,612 ha
Percent hardwood	15	35
Percent public ownership	75	50
Percent farm forestry	n/a	5
Percent hardwood in new planting	40	70

n/a - Limited farm forestry planting recorded prior to 1996

The importance of Australia's plantation estate can be over-stated. At the present time, over 10 million cubic metres of timber is being harvested from this resource each year, with approximately 40,000 hectares of plantations being clearfelled and replanted. Most of the resource currently being clearfelled and replanted is coniferous plantations, established since the 1960s and destined for supplying sawmills to produce structural framing timber.

Has the 2020 Vision been successful?

At the broadest level, the 2020 Vision can be regarded as a successful strategy. After five years of a 23-year strategy, the average annual planting rate modestly exceeds the target of 80,000 hectares per

annum. As the annual audit of responses to the 2020 Vision actions indicate, a number of impediments to investment in the sector have been addressed, while other actions are on-going and some new issues requiring action have arisen. These matters are reflected in the revised 2020 Vision's content, which is designed to balance resource security and a supportive policy framework for timber growers, timber processors and others in the community that benefit indirectly from the growth of the timber industry.

The original 2020 Vision recognised the importance of encouraging small-scale plantation forestry in addition to the growth of industrial-scale plantation resources. Details provided in *Plantations of Australia – 2001 (Bureau of Rural Sciences)* indicate that five per cent of the plantation resource is managed as farm forestry with twenty per cent of plantations either established as joint ventures or on leased land.

With Australia's plantation estate expected to reach 1.6 million hectares by the end of the planting season in 2002, there remains a substantial amount of interest in the future investment in plantation resources. A further 1.4 million hectares of trees would be required to fulfil the 2020 Vision alone. Given the nature of the existing plantation and native forest resources, it is possible to see the need for a further permanent increase in the pulpwood plantation resource of approximately 200,000 hectares. Beyond that, there is a great deal of uncertainty over what species should be planted and the combined rotation length, location and management regimes that should be applied to those trees.

In addition to that investment, the National Farmers Federation and Australian Conservation Foundation suggested in 2001 that of the \$65bn required to repair the environment, \$25bn would need to be invested in woody crops of some description. The additional environmentally-driven plantations may require the planting of some ten million hectares of deep-rooted plantations species. If just a small proportion of this additional investment provides timber-producing plantations, it is reasonable to expect that they will make a significant contribution to Australia's total wood supply starting from the middle of the next decade.

Other indicators of progress with the 2020 Vision

While the average annual 2020 Vision target establishment rate has been exceeded since 1997, it is extremely difficult to measure a range of other outcomes at the present time. Until the emerging plantation resources start being harvested and hopefully processed in Australia, it is hard to determine the level of employment, investment or foreign trade created out of the initial investment in plantation establishment and the subsequent benefits or impacts on local communities, businesses and ancillary services providers.

Alternatively, a number of criteria, based on the original 2020 Vision actions, could be used to assess the level of progress with the 2020 Vision. These criteria are outlined in table 2, which indicates whether the actions against those criteria are continuing (C), have been finalised (F) or whether there has been limited response (L) over the first five years of the 2020 Vision. As the information in table 2 indicates, no actions have been finalised as yet.

Of the additional criteria listed, the last one covering industry responses to community issues is where the industry is still learning how to communicate and negotiate with a range of government and non-government stakeholders. In general, the mainland States have started to adopt and modify Tasmania's Good Neighbour Charter model and that State's process for working with Local Government to promote an awareness and understanding of plantation forestry issues.

Table 2. Additional indicators to assess progress with the 2020 Vision

Criteria	Response
State Governments treating plantations as an ‘as of right’ landuse	C
Reduced government ownership of plantations	C
Local Government understanding of plantation forestry issues	C
Increasing diversity of growers	C
Increasing stock market options to invest in plantation forestry	C
Regular reporting of log price information	L
Plantations integrated into whole farm planning approaches	C
Up-to-date public inventory data for plantations	C
Reliable information on plantation performance	L
Commitment to R&D for plantations grown on demanding sites	C
Response to community issues and concerns	C

Resource security – native forests and plantations provide complementary resources

Resource security is an important issue across all sectors of the industry. As part of a sustainable industry approach, growers, processors and timber users require certainty over future resource access as the motive for further investment in plantation forestry or timber milling capacity. The Regional Forest Agreement process delivered some certainty of supply for the processing sector and one of the best native forest reserve systems in the world for the Australian community.

Australia’s plantation resources have the ability to complement the high-value timber resources derived from native forests. However, in contradiction of the many uneducated commentaries on the industry, plantation resources do not have the capacity to substitute for all native forest resource uses. The natural high density, durability and appearance features of native forest timbers are just some of the reasons why certain timber products cannot be provided from plantation resources over the foreseeable future.

The changing nature of Australia’s forestry resources and rural communities

Substantive changes in the native forest and plantation resources available for harvesting have had numerous effects on Australia’s timber communities. In some cases, there have been job losses as native forest access was withdrawn and mills closed down. In other areas, jobs have been created to support the recent growth in Australia’s plantation estate.

Where criticisms have been raised about the nature of the changes brought about by the increased investment in plantation resources. It has been crucial to ensure that the future competitiveness of the sector is improving and this has required the establishment of new plantations within discrete regions, where the regions may be defined as areas between 200 and 300 km across. So, in physical terms, it has been essential to have the emerging plantation resources concentrated in those areas, which also happen to be relatively productive farming land, with good soils and moderate to high annual rainfall. Unfortunately, the changes to regional communities resulting from the new investment in plantations has been extremely difficult to differentiate from the long-term and underlying trends of change in rural Australia.

A common concern raised in regards to the expansion of plantation forestry is that the new investment has lead to an accelerated decline of many smaller communities. However, According to the latest

ABARE Farm Survey data (2000-01) there is a significant national decline in farm ownership. Over the past 40 years, the number of farms in Australia has fallen from approximately 200,000 to slightly more than 100,000 with farmers still actively trying to increase their farm area.

While it is difficult to determine whether the changes in any one rural community are the result of the underlying trend or the growth of a visible new industry, other factors need to be taken into account when determining if plantation forestry is beneficial for Australia's rural communities.

Technical Report 42 for the CRC Sustainable Production Forestry (Jackie Shirmer, September 2000), covers some of the issues raised with respect to the change in landuse from agriculture to forestry and landholders selling their farms to plantation companies. In Chapter 8 of the report, some people objecting to the growth of the plantation sector believed that the plantation expansion resulted in a loss of community and services.

To balance the perception that plantation forestry leads to a loss of community and services, there is a realisation that there are other factors impacting on the survival of rural communities. Increasing costs and falling commodity prices have made it difficult for smaller farmers to survive, in financial terms, which discourages the younger people from staying on the land. While farmers see that some areas of farmland are being heavily planted to trees, they recognise that it is difficult for people to carry on. Some community members recognise that the plantations are the final component in an on-going stream of change. In some areas, the plantation companies have been the only interested purchasers of farmland. As a result, the plantation companies provide the means for some farmers to exit with enough money to retire or purchase another property.

The evidence from the area of Preolenna in northern Tasmania tends to indicate that there can be a positive change in community structure associated with the growth of the plantation sector. In that case, the community has responded to the new industry in a positive manner. As farm owners have sold up and moved out of the area, new families have moved into the houses and as an example of the changing nature of the community, the number of students using the school bus service has increased from 9 in 1999 to 29 passengers in 2001. To build the community, the Preolenna Mothers Group holds an annual festival and regular get togethers for the local families.

Just as land ownership and landuse are changing, so are the business and employment opportunities arising in small rural communities. But is the change associated with the growth in plantations the direct result of the plantation activities, or part of the long-term underlying trend? The analysis contained in *The Big Shift* (The Bernard Salt Report, Hardie Grant Publishing, 2001) indicates the nature of the on-going changes affecting rural Australia. Over the past two decades, there has been a substantial loss of young people from the smaller regional centres and an increase in the number of people in the older age groups, particularly those over 75 years of age. While the small towns are declining, the younger people are moving to the larger regional centres, the major cities or the coastal areas that offer lifestyle and employment opportunities.

From the data contained in this publication, there are some interesting trends to note. In the first instance, there has been a 25% fall in the rural population base. For the major forestry towns or areas assessed in this research (Mount Barker, Mount Gambier, Albany, Lithgow region and Latrobe Valley), the 1996 Census data indicates that the proportion of 'Baby Boomers' (those born 1946-1961) is above the national average while the proportion from Generation X (born 1961-1976) is below the average in the general population. The generational data indicates that the population is aging in these areas.

While these areas also had unemployment rates above the national average, there were significant changes in the general populations, which may have been related to new industry activities. For example, the population grew in the Albany and Mount Barker area of Western Australia at a time

when the plantation sector was going through a substantial growth phase. While no clear trends can be drawn from the information currently available, it will be interesting to review the 2001 Census data in order to see if there are any correlations between the growing investment in plantation forestry expansion and changes in the profiles of the communities where the trees have been planted.

Regional analysis of plantation forestry outcomes

The only truly comprehensive study demonstrating the regional impacts of the plantation timber growing and processing sectors undertaken so far, was concluded in 1995. This five-year study on the softwood industry in the Oberon area, entitled *Oberon: Rural Community Development Study*, was undertaken by Dwyer Leslie Pty Ltd and Dr Roy Powell. The study considered the social and economic impacts of the plantation sector and compared the changes observed in Oberon to those occurring in the surrounding towns of the region. Although the report is seven years old, it provides an indication of the positive contribution plantation forestry can have on a local community.

In an otherwise declining rural landscape, the study found that there was a 35% increase in regional output, 20% increase in employment and 25% increase in the number of businesses, due to the activities associated with the plantation resource and the timber-processing sector. Unfortunately, these studies are extremely expensive and have not been undertaken elsewhere, as a means of identifying the outcomes associated with plantation expansion.

Gaining community acceptance of plantation forestry

The complex nature of our rural communities was noted in the presentation by Stewart Lockie at the recent Prospects for Australian Forest Plantations 2002 conference (Canberra, 20-21 August). With the top 20% of farmers producing over 50% of farm output at a reasonable rate of return, the remaining farmers are struggling with declining terms of trade and often, negative incomes. He recognised that rural restructuring is on-going and an underlying trend that affects many rural communities. The increasing productivity requirements lead to a decreasing need for farm labour, family depopulation of rural areas, falling local demand for goods and services, and declining viability of rural businesses as part of a phenomenon known as the 'dynamics of decline'.

Economic diversification on the farm and a dependence on off-farm income are some of the factors allowing farmers to retain their viability in the face of changing circumstances. Under these circumstances, plantation forestry has been one of the new industries that farmers have been able to embrace. However, there is a reluctance for farm owners to establish their own commercial tree crops. Market uncertainty and the concentration of the industry has meant that only 5% of the plantation resource can be regarded as farm forestry enterprises (National Plantation Inventory, 2001). Interestingly, a further 20% of the plantation resource is managed under joint venture arrangements.

Plantation forestry has the potential to contribute to the revitalisation of rural communities, particularly those facing the 'dynamics of decline'. To achieve that outcome, the plantation sector needs to build its social capital. That is, the networks of trust and communication which is important in rural Australia. This social capital is built up between individuals, organisations, regional bodies and communities. From the perspective of a new industry, such as plantation forestry, this will require a recognition of the need for regional plantation strategies that incorporate value-adding, farm forestry, catchment management plans and the potential effects on other industries and the local communities.

The industry is starting to recognise that changes in landuse can lead to concerns being raised and potential conflicts with the traditional agriculture sectors. In Tasmania, the Good Neighbour Charter that has been developed by the private forestry companies is aimed at providing a platform for consultation and negotiation between landholders and the plantation companies.

A persistent trade deficit can be overcome by investment and exporting

At the present time, the forest and timber industry meets a significant proportion of its sawn wood requirements while relying heavily on imports of paper and paper products. In terms of international trade, the industry exports approximately \$1.3bn of worth of forest products each year, with only half of a modest total associated with the sale of value-added products.

Although a number of industry commentators have raised concerns about the large volume of raw materials that are exported from Australia, the sale of that wood is quite important. The woodchip and roundwood exporters generally provide the only avenues for selling the lower grades of log products to a range of markets which are currently not available in Australia.

Further strategic investment in the forest growing and processing sectors will be required to reduce the Australian trade deficit in forest products, which remains in excess of \$2bn per annum. That investment would be directed at import substitution and the production of timber products to service the growing markets of the Asia-Pacific region.

The true value of the plantation resource expansion envisaged by the 2020 Vision proponents is only now starting to become a reality. Australia is close to having the regional timber resources in a number of areas which could support up to eighteen brown and green field investment opportunities (Investment Opportunities in the Australian Forest Products Industry, Jaakko Poyry, 2001).

From the supply side of the market, Australia either has, or will have in the near future, the resource capacity to support at least one, if not three, world-scale pulp and paper mills. These mills could process some of the emerging woodchip resources currently destined for overseas markets. If all three mills were commissioned, they would have the capacity to turn our national deficit in paper products into a surplus of similar magnitude.

The challenge facing the forest and timber industry

The future plantations being established will be determined by investor interests and the direction taken by industry in response to a range of market forces. There is little doubt that the demand for timber products in the Asia-Pacific region will continue to grow, starting from the relatively low per capita consumption for paper products that exists today and a need for timber products in a range of markets where hardwoods are preferred.

The interest in these markets extends well beyond the supply of sawn timber and woodchips. Australia has the potential to develop an export-oriented industry, which also supplies veneers, laminated products, wood-fibre composites, engineered products, biofuels, charcoal and preservation-treated materials.

While some of the emerging timber resources will be required to service the potential new mills or the overseas markets for woodchips and roundwood, it is important to identify the drivers of future industry growth. Many parts of the community want to see even more trees planted in the landscape for multiple purposes, but where will the trees be planted and what will the timber be used for? Will substantial changes in the long-term wood supply horizon require a major development of Australia's timber processing sector and export markets, starting from today?

These are the key issues facing the forest and timber industry at this very time. Given all of the positive factors surrounding the industry, is there a desire for the industry to develop a cohesive, directional plan to benefit all of its stakeholders? One option may be for the industry to meet its domestic requirements and continue exporting the remaining raw materials. Alternatively, the industry as a whole could take a positive outlook on its future, in a similar manner to the approaches taken by the Wine and Brandy Corporation and Australia's motor vehicle manufacturers.

That is, set some broad industry targets and determine the strategic steps to be taken by the industry, particularly where those actions are closely aligned with government policies. For both of the industries mentioned, and a number of others not mentioned directly, industry development was supported by identifying the future growth potential, particularly in the export arena, together with suitable targets for the industry to address. With those targets in place and the subsequent actions being undertaken for the industries to meet those targets, the individual members of each industry have responded through their own investment and management decisions.

The 2020 Vision provides one component in the long-term development of Australia's forest and timber industry. It requires the industry itself to cohesively determine its future direction, with the possibility of targets being developed that will encourage investment in timber growing and processing, and the development of foreign markets on the scale required to drive that investment. In effect, the demand-pull approach should promote the industry's long-term growth and maximise the secondary or indirect benefits to assist other stakeholders who are depending on the industry's expansion.

By having the industry set a comprehensive and strategic direction combined with an appropriate set of future expansionary targets, it should be possible for governments to respond with a tailored and adaptable policy framework to support the industry. This requires a major change in focus and provides a substantial challenge for the whole industry. However, if approached in a cohesive and coherent manner, it has the capacity to benefit all sectors – from farm foresters through to the large integrated timber growing and processing companies.

The 2020 Vision represents a single, albeit large, component of the industry's future development opportunities. It is therefore important that the market-driven or demand-pull approach behind the growth of the industry is aligned with the policy programs of the Federal and State governments. If industry and governments have common objectives, it should therefore be possible to encourage private sector investment in tree crops that repair the environment and sequester carbon, while providing the scale of resources to supply a world-competitive processing sector that provides employment and training opportunities in rural Australia.

The 2020 Vision review process

A relatively detailed process was undertaken to review the 2020 Vision. Based on the annual reports against the 2020 Vision actions and a consideration of the policy framework encompassing plantation forestry, the actions were re-cast and re-ordered to provide a draft document for industry and community consultation.

A total of 33 meetings were held in 29 locations, including State or Territory capitals and the major plantation regions to seek stakeholder input on the draft, revised 2020 Vision. Out of the 1,000 people invited these meetings, over 430 attended, raising both positive and negative issues or concerns in relation to the expansion of Australia's plantation resources. A further 53 written submissions were provided to assist the further refinement of the 2020 Vision strategy.

The revised strategy - Plantations for Australia: the 2020 Vision

The broad nature of the 2020 Vision has not changed. It is still a strategy for addressing those impediments limiting the expansion of market-focussed, internationally competitive, sustainable and profitable plantation growing sector. As a national strategy, it recognised the importance of having Australia's governments and industry collaborating to attract private investment on the scale needed to develop a significant plantation resource – a resource that may provide the following outcomes:

- Exporting more wood and wood products
- Promoting both broad scale and farm forestry tree planting

- Supporting new and existing stakeholders
- Attracting institutional investors
- Providing secondary and tertiary markets for plantation products
- Delivering employment and skills improvement opportunities
- Gaining community credibility
- Underpinning the industry with effective R&D
- Providing a framework to balance economic, social and environmental impacts, and
- Providing environmental benefits without reducing the commercial attractiveness of plantation forestry.

While the 2020 Vision target of having a three-million hectare plantation estate by the year 2020 remains the same, the actions underlying the Vision have been modified to reflect the dynamic investment environment, the emerging needs of the industry and some of the issues raised during the public consultation process. A number of stakeholder issues and concerns still need to be adequately reflected in the revised 2020 Vision strategy.

INQUIRY TERMS OF REFERENCE

ToR (a) whether there are impediments to the achievement of the aims of 'Plantations for Australia, the 2020 Vision' strategy

ToR (b) whether there are elements of the strategy that should be altered in light of any impediments identified

The original 2020 Vision, as released in 1997, represented a partnership between the Commonwealth, States and industry for addressing the impediments to plantation establishment. While recognising that local government was not considered as a partner to the original Vision strategy, it is important to note that it is a national strategy. As such it is not meant to provide the details of how to resolve issues and impediments that may arise at the regional or State level. Instead, it clearly identifies the issues and impediments that need to be addressed if the growth of the plantation sector is to continue.

Based on the content of submissions received during the 2020 Vision review process and the issues raised in this submission, it is felt that a number of important elements still need to be redrafted in the revised document. Options for addressing the impediments raised are outlined as the responses to each issue below.

A cohesive approach to plantation forestry

When the original 2020 Vision strategy was prepared, there was a close association between the plantation growing and processing sectors. The proponents of that strategy recognised the importance of growing particular tree crops to meet the future needs of the industry, as it existed back in 1997, where clear market signals were flowing between the two closely-aligned sectors. However, the advent of the managed investment companies and the growth in farm forestry lead to a separation of grower and processor interests.

These new timber growers and investors operate with different motives to the more traditional resource suppliers and have, quite appropriately, concentrated on growing market opportunities for

specific timber products. As the pulpwood resources in Australia move towards a sustainable level, there is considerable interest in growing other species on different rotation lengths and for a multitude of reasons.

Suggested response: The 2020 Vision should stand as a strategy that is incorporated into a comprehensive, cohesive and coherent directional approach for the whole of the forest and timber industry. The revised strategy needs to recognise the growing separation of the plantation growing and processing sectors in order to accommodate the new grower groups – farmers, managed investment companies and patient capital providers, who all have new motives for investing in plantation forestry.

As such, a more directional approach would provide growers with sufficient detail to ensure that the most appropriate species are being planted and managed to provide commercial timber resources for future domestic and export markets. Where appropriate, the timber production capacity could be balanced against the environmental impacts or benefits of plantations to maximise the overall returns from this sector of the industry, as part of its commitment to ecologically sustainable development.

Secondary and tertiary plantation strategies

What was required to support the national 2020 Vision document were secondary strategies at the State or Territory level and tertiary strategies at the regional level, which recognised the impediments to plantation expansion and the appropriate actions or policy responses. Unfortunately, there has only been a limited development of the secondary plantation strategies and in no State is the plantation sector included in a broad framework for supporting all sectors of the forest and timber industry. The lack of effective State strategies and corresponding policy approaches has made it extremely difficult for the regional plantation committees, local governments and catchment management authorities to assist the plantation sector.

The national 2020 Vision strategy should remain quite broad and non-prescriptive in its content. It is designed to identify the impediments to investment, the actions for addressing those impediments and the likely outcomes from completing those actions. The secondary and tertiary strategies are meant to fill in the details of the actions required, given the variations in State legislation, State policies and the nature of the industry in each region.

However, the lack of effective secondary and tertiary strategies to support the national strategy is evidenced by the number of submissions that sought the inclusion of detailed actions and responses in the national strategy. It is therefore essential that community and environmental issues or concerns be recognised in the national strategy then dealt with through appropriate actions at the Commonwealth, State and/or regional level.

Suggested response: The importance of providing a suitable level of detail in secondary and tertiary strategies was exemplified in a number of submissions. Those submissions recognised that there was no effective mechanism at the State or regional level to raise their concerns about plantation forestry. In response, they requested that a considerable amount of detail be added to the national strategy. However, if all of the State and regional approaches and stakeholder concerns applying to plantation forestry were addressed in a single document, it would lead to a highly prescriptive strategy that would be extremely difficult to implement.

The overarching and second action of the revised 2020 Vision should recognise the importance of having an integrated policy approach, at the national, State and regional levels, to support the development of plantation forestry. Both secondary and tertiary strategies should identify impediments to any further expansion of the plantation resources as well as providing the common element between a number of policies and the legislative framework, ranging from firewood production to salinity amelioration.

Effective State or Territory strategies may address some impediments for the industry, such as the provision of resource security legislation, to deliver adequate protection for investors through the delivery of prescribed rights to plant, harvest and re-plant commercial timber crops. It is anticipated that the State or Territory governments and the Regional Plantation Committees would have an important role in the development of the secondary and tertiary strategies. These underlying strategies would be concerned with reducing the impediments, and therefore the potential risks, facing plantation growers and investors, while covering off the environmental and community interests of the other industry stakeholders.

Regulatory regimes that discriminate against plantations

There is some concern that particular pieces of State legislation discriminate between plantation forestry and other landuse activities. For example, plantation forest managers may be required to meet the specifications of State-based codes of practice or face particular planning approvals, water resource management, land rates, infrastructure provision, fire fighting guidelines, biodiversity conservation constraints or regional vegetation management guidelines. These additional regulations place an additional burden onto prospective plantation growers and this has been recognised as reducing the level of new investment in some States.

Suggested response: The industry is only too willing to comply with the regulatory regimes applying to landuse activities. To address concerns over the discrimination between landuses, the regulatory regime should be more closely aligned with the policy framework applying in each jurisdiction.

No mechanism to assist local governments respond to plantation sector requirements

An improved integration of the legislative and policy framework in secondary 2020 Vision strategies should assist local authorities with the regulatory approaches applied to plantation forestry. While some States have attempted to reduce the complexities of the plantation approvals process, many regulatory elements associated with plantation activities are left to the discretion of the local government authorities. Issues continually arise in terms of the rating system to be applied to various landuses, the payment for road use, the landuse change approvals process and the sourcing of funds to meet the changing demands on community services. Under certain circumstances, local government authorities may find that they have not been provided with suitable regulatory powers to balance conflicts that arise, for example, under the planning approvals and native vegetation conservation acts.

As identified in a number of submissions raised during the 2020 Vision review process, local governments have the jurisdictional control over certain aspects of plantation forestry. However, they may not have the capacity to resolve a number of difficult issues associated with plantation forestry or the understanding to balance the needs of the plantation sector against the other priorities they face. In general, there is no adequate mechanism currently available for those local governments to raise their issues, concerns or difficulties with other local government authorities, State governments or the Commonwealth.

Suggested response: A suitable framework is required to support those local government authorities dealing with commercial timber plantations on a regular basis. It would be appropriate to have a body, based on the structure of Timber Towns Victoria, to allow local governments to identify common problems and suggest solutions to particular jurisdictional issues associated with plantation forestry at the State or Territory level.

Where appropriate, an additional group that may be called Timber Towns Australia, could be used as a forum for raising particular issues and having them addressed through the Ministerial Councils under COAG. This approach should assist local governments, who may not have the appropriate regulatory powers and/or the funds, to address those matters.

An inconsistent taxation and investment regime

The accelerating rate of plantation establishment observed during the late 1990s was the result of a number of factors, as outlined previously. However, there can be no doubt that the taxation and investment regulatory regimes applied by the ATO (Australian Taxation Office) and ASIC (Australian Securities and Investment Commission) respectively, play important roles in the industry's capacity to collect investment funds for establishing plantations.

At the time the 13-month rule was withdrawn in November 1999, investment in the sector had delivered an annual plantation establishment rate approaching 95,000 hectares, compared to less than 30,000 hectares per annum being established at the start of the decade. The 95,000 hectares planted in 1999 were established primarily using funds that had been collected prior to 30 June 1998.

In 2000, the plantation establishment rate exceeding 135,000 hectares, although that area includes the establishment of plantations based on funds collected in June 1999 and a second set of funds collected prior to 30 June 2000. If the level of funds collected in June 1999 had been equivalent to the level of funds collected in June 1998, it is reasonable to suggest that around 70% of the plantations established in 2000 were funded by investments made in 1999. For 2000, the actual level of investment in the sector may have only been enough to support the planting of approximately 40,000 hectares of plantations. On that basis, the withdrawal of the 13-month rule had a significant impact on the collection of investment funds for supporting plantation establishment.

Similarly, the changing regulatory regimes applying to investment activities such as plantation forestry can have a significant impact on investor confidence. Uncertainty over the role of the product ruling system, introduced by the Australian Taxation Office in 1998, and the tax office crack-down during 2001 on taxation investment schemes operating prior to the introduction of the product ruling system, had a dramatic impact on the level of funds collected by the managed investment companies. In the absence of the 13-month rule and with investor confidence under-mined, many plantations companies found they had acquired more seedlings and land than was required for 2001. The impact of the decline in plantation forestry investments was felt in many rural communities, particularly where contractors and nurseries had invested substantial funds in equipment and resources.

The Federal Government responded to the broader impacts of the taxation change and the loss of investor confidence by introducing the 12-month rule in March 2002 and having the ATO assist investors to discriminate between the schemes operating prior to, and after the introduction of, the Product Ruling system. It is too hard to tell if the introduction of the 12-month rules has had an impact on investor sentiments as there are other changes being introduced by ASIC that could have positive or negative impacts on investor confidence. For example, the capacity for ASIC to place stop orders on Product Disclosure Documents after investors have prescribed to a particular project may have a negative effect, while the requirement for improved forecasting and projections should have a positive impact on investor confidence.

Suggested response: The constantly changing investment environment is an impediment to investment. A consistent and transparent approach to the regulatory regimes applying to plantation forestry investment structures is essential and where change is required, it should be determined as part of a considered policy response.

It needs to be recognised that in any of the timber-producing regions, it takes a minimum period of twelve consecutive years of investment to provide the scale of resources required to support a new processing facility. Unfortunately, constant changes to the regulatory regime applied to forestry investment projects over the past three years has made it extremely difficult to maintain a consistent expansion of regional plantation resources.

Limited market information

The lack of regularly supplied market information for timber and timber products is an impediment to the attraction of patient capital investment to the plantation sector. Institutional investors, such as superannuation companies, have suggested that they would show a greater level of interest in plantation forestry projects if they could monitor the resource and final product markets on a regular basis, with a sophisticated approach for assessing the long-term change in the value of their forestry assets. The supply of regular market information would also be needed to support an active and effective market for trading immature plantations.

Suggested response: It is essential that industry information on log prices and sale volumes be provided on a regular basis to existing and potential plantation investors. In New Zealand for example, the competitive nature of the log markets allows the weekly reporting of log prices. The establishment of a Centre for Market Excellence should help to place that market information into the context of changing domestic and international supply and demand profiles over the short and longer term.

Limited direct investment structures

Although the managed investment schemes provide an effective mechanism for collecting plantation establishment funds, they are subject to on-going regulatory changes and only concentrate on a small proportion of the potential investment funds that could be made available to the industry. Alternative investment structures, utilising patient capital resources, could be designed to meet the industry's and investor's needs. Some possible new investment structures are outlined in response to the Inquiry's fourth term of reference, as part of the actions required for encouraging longer rotation plantations.

Lack of infrastructure funding options

The lack of suitable mechanisms for funding public infrastructure provision is proving to be an impediment to the future expansion of Australia's plantation timber resources. In response to the growing infrastructure needs to service the existing plantation estate, a number of TIRES (Timber Industry Road Evaluation Studies), or similar studies, were completed during the past decade. They identified, in precise detail, the roads that needed to be repaired or up-graded, the timing of those improvements and the cost of infrastructure provision. Unfortunately, the studies did not take into account the needs of other industries within those regions.

Local governments had limited funds for contributing to the road upgrading programs required to service the forest and timber industry. When State and Federal governments were approached for a contribution to the provision of infrastructure, the industry was informed that under the 1991 Intergovernmental Agreement on Road Funding, there was no capacity to provide the level or type of funding required to meet the needs of the forest and timber industry. The only new source of road funding is being provided through the Roads to Recovery program, although only a small proportion of those funds are being allocated to roads used by the timber industry.

For its part, the forest and timber industry currently makes a substantial contribution to the provision and maintenance of the public roading infrastructure around Australia. These expenses are incurred on top of the standard road user charges (fuel excise and registration fees). Through this substantive contribution and the limited capacity for any level of government to contribute to a regional roading program, no progress has been made on developing infrastructure-funding arrangements that suit industry and government(s) as a means of promoting regional development. As a result, plantation growers are concerned that any further expansion of the plantation resources may lead to an increasing requirement for the timber industry to fund the full provision of public infrastructure.

Suggested response: It is possible that the leveraging and other components of the Auslink proposal

will provide appropriate mechanisms to fund infrastructure provision in Australia's timber producing regions.

Community understanding and perceptions of plantation forestry

A broad range of misunderstandings and misconceptions about the expanding plantation sector has led to the build-up of community resentment to future plantation establishment in some areas.

Suggested response: A primary role for the proposed 2020 Vision Coordinator/Facilitator will be to work with the Regional Plantation Committees to provide the information required to properly inform the communities about plantations and plantation forestry.

Assessing the success or impacts of the 2020 Vision

At the present time, it is difficult to quantitatively assess the progress of the 2020 Vision. The final action of the revised strategy indicates the importance of having adequate criteria for measuring the success or impact of the 2020 Vision. Not having quantifiable criteria in place is recognised as an impediment to the growth of the plantation estate as it becomes difficult for investors to gauge the outcomes of their investments and it allows community resentment to build up where there are concerns or misconceptions about the nature of the sector.

Suggested response: The final action of the revised 2020 Vision should contain specific criteria for measuring the changes associated with implementing the revised strategy.

ToR (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;

Plantation establishment activities cover a continuum - from those designed to produce maximum timber volumes (with the minimal impact on the environment) through to those that deliver environmental services alone. Most of the recent expansion of the plantation resource has been directed at those trees that give maximum timber returns to the investors. To shift away from that position would require other products or sources of income to be generated from the trees.

A number of demonstration sites have been used to monitor the delivery of environmental benefits, either in terms of lowering water tables or through improved biodiversity outcomes, relative to the pasture that existed on the site prior to the planting of the trees. The difficulty now is to turn those outcomes into practical solutions at a catchment or regional scale that can be generally paid for through private sector investment.

This approach presents two difficulties. A considerable amount of research is still required to investigate the most appropriate areas of trees to establish within particular catchments, the species to plant and the silvicultural regimes that should be applied to meet future log market requirements while maximising the beneficial environmental outcomes from the tree crops. The second difficulty is the provision of effective markets for trading the environmental services.

Which species, where and for what purpose?

Some modelling work has been completed and appropriate tools developed for assessing the potential impacts associated with establishing common plantation species across a large proportion of particular catchments. In general, planting large areas of trees can have a significant impact on the amount of water withdrawn from the hydrological system. Unfortunately, a reasonable proportion of that modelling work was based on radiata or drought-intolerant Blue gums managed under the common intensive silvicultural regimes.

A significant amount of research is still required to determine the positive and negative hydrological balance outcomes associated with plantation forestry. A recent paper delivered at the *Prospects for Australian Forest Plantations* conference (Rob Vertessy, Canberra, August 2002) noted that a number of variables influenced the reduction in stream flow associated with plantation establishment. It was interesting to note that planting away from the base of the catchments and well away from the creeks and streams meant that those plantations had a limited impact on run-off and creek flow. Similar results have been demonstrated with changes in South African plantation management practices.

In order to balance the positive and negative influences of plantations on water table height or run-off reduction, further modelling should attempt to identify the relationships between the following variables and the impacts of plantations on the hydrological processes within particular catchments. The variables to consider include:

- the area planted
- species and provenance planted
- tree spacing
- silvicultural regime applied, including the rotation length
- planting locations within the catchments (hillside, valleys)
- variations in ages of stands across the plantation estate
- site productivity, and
- the other environmental outcomes associated with plantation forestry.

The last point on other environmental benefits associated with the establishment of plantation is quite important. For example, there may be positive greenhouse or biodiversity conservation outcomes associated with plantations that can balance the negative impacts of reduced run-off and stream flow.

At the same conference Dr David Lindenmayer delivered a paper on the biodiversity impacts of plantations. The paper refers to previous work demonstrating that plantations show a higher level of biodiversity than the pastures they replace and that the biodiversity associated with plantations is improved where trees are established adjacent to existing patches of remnant vegetation. In reference to Blue gums, he states that 'Blue gum plantations are not "biological deserts", but provide habitat or resources for a range of species, including a selection of bird species considered to be at conservation risk.'

Just as varying age-classes within a large plantation estate reduces the run-off reduction associated with plantation forestry, so to is there a positive effect on biodiversity from having multiple-aged stands within a plantation forest. Therefore, the strategic location of trees in the landscape and careful choice of the species planted and management regime applied to the trees, can have a significant impact on the biodiversity conservation outcomes and the overall environmental services generated from plantations.

Markets for environmental services

At the present time, there are a number of government agencies attempting to design plantation projects that will deliver environmental services and commercial timber resources based on a substantial amount of subsidisation from the relevant State and/or Federal governments. In those cases, the governments are viewed as the purchasers of the environmental services. While there are particular circumstances where government subsidisation may be a key component for establishing tree crops in low rainfall areas that are a long distance from their respective market, such programs are only effective while government funds are available to support the establishment activities.

The forest and timber industry is seeking assistance to take a more determined approach to supporting plantation forestry projects that can deliver environmental benefits (see Attachment). In the first instance, the aim is to encourage the planting of tree crops where the tangible returns are provided from the sale of timber, with the potential to place a value on the environmental services through a number of means. For example, to off-set a reduced land rental payment, farm owners could receive carbon credits from the trees planted on their property under joint venture arrangements or the environmental rehabilitation of their land may be reflected in the land's value and the borrowing rates applied to any future loans obtained from lending institutions.

A broad group of stakeholders are being drawn together under the Environment Industry Action Agenda to pursue this process, with the aim of providing tangible values for what are currently intangible benefits. As identified in Attachment A, a wide range of interests need to be drawn together to monitor the on-ground environmental outcomes derived from plantations as the means for supporting competitive markets for trading those services.

It is anticipated that if the environmental services markets can be developed in association with commercial timber plantations, it may be possible to move away from the timber-only plantations to those where investors are willing to establish trees crops with a reasonable proportion of their returns derived from environmental services.

When the emphasis is shifted more and more towards those plantations that provide environmental services at the expense of falling timber production moving through this continuum, there may be an increasing requirement for some form of government subsidisation to be incorporated into the investment structures. This requirement would become increasingly apparent where the environmental protection or rehabilitation benefits have a large public good component that can be captured through competitive markets.

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

There has been a long-held view that the investment timeframe of plantation forestry and the current taxation rules favour short-rotation pulpwood projects over longer-term sawlog investments. As identified earlier in the submission, the future investment horizon for short-rotation pulpwood crops is positive yet limited, given the current resource base and future market opportunities. Any additional growth in the industry would rely on investment in longer-rotation crops to produce material for sawing, peeling and slicing.

To encourage investors into longer-rotation projects, they need that capacity to sell out of, or buy into, those assets. That is, they need effective secondary markets for trading immature plantations. By improving log market transparency and access to overall market information, broadening the range of investment vehicles on offer and promoting a better use of the existing taxation provisions, it should be possible to encourage the development of active markets for buying and selling immature plantations. If those markets do arise, the level of uncertainty and illiquidity associated with long-

rotation plantation investments should be reduced.

In addition to the current range of managed investment projects, it is possible to use the existing tax legislation for developing other project structures, particularly those that come under the Capital Gains Tax (CGT) rules and the 'rights' provisions of the *Income Tax Assessment Act 1997*. With the current managed investment projects, investors are in the business of growing trees for timber production. Alternatively, the investors could purchase an immature plantation (shortly after it has been established) with the intent of selling the plantation at some time prior to the clearfelling operation. Under those circumstances, investors would be in the business of buying and selling an asset and therefore come under the CGT rules and possibly the CGT exemptions.

Other investment structures are appropriate for plantation forestry. For example, there is nothing to prevent plantation owners from selling the rights to the standing timber under a profit a prendre arrangement. In that case, the right becomes a tradeable commodity that can be traded like a futures contract. There is also the possibility of generating superannuation-based investment products. In those cases, the investors may be seeking to hold onto the assets for a specified period of time or liquidate their assets to fund retirement prior to the clearfelling operations.

In each of these investment structures, the investors require an active market for trading immature plantations. NAFI (the National Association of Forest Industries) has prepared a paper on this issue for presentation at the Australian Forest Growers Conference (Albany, 13-16 October 2002). A copy can be forwarded to the Senate Committee Secretariat if required.

ToR (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.

The forest and timber industry either has access to, or will soon have, the regional scale of resources to support investment in at least eighteen brown or greenfield investments. Of the eighteen prospective investment opportunities, at least three would be concentrated on pulp and paper production. World-scale mills could be built in southwest Western Australia, the Greater Green Triangle Region and Tasmania to utilise three different sources of fibre input and produce three quite different grades of pulp and paper products. The output from those mills would replace a significant proportion of Australia's current imports of paper products and provide sufficient material for delivering a trade surplus.

For the remaining fifteen processing sector investment opportunities, it is reasonable to expect that only a limited proportion of the output from that milling capacity would replace imported timber products. A substantial proportion of the additional output would therefore need to be sold in the international arena. The development of export markets for Australian timber products will therefore be a key factor for promoting the future growth of the timber processing sector, with the market signals from those timber markets influencing plantation establishment investment decisions. As a direct result, it may be possible to have at least some of the additional plantations established to provide environmental services and commercial timber resources.

To achieve these outcomes, it is up to the forest and timber industry to develop a cohesive and strategic direction for itself, with that direction influenced by the range of policies that the Government is currently developing. Conversely, the potential impact of a growing forest and timber industry on rural and regional Australia has the capacity to modify the policy framework of the Federal and State governments. For example, by setting industry trade and investment targets, it will be possible to identify the future gaps in timber supply as well as providing a focus on the potential markets for Australia's timber products.

Invest Australia and Austrade may therefore play important roles in the future development of the plantation and timber processing sectors. By example, if new residential housing starts fall during the second half of 2003 and 2004, the industry may have to either decrease its current output or look to export a significant volume of finished products. It may therefore be an opportune time to develop the future export focus for the industry, with future output increasing when the housing cycle picks up next time around to supply the domestic and newly acquired export markets.

It is important from an industry perspective that the demand-pull approach is used to drive the future investment activities. Forest growing and processing operates on very long time scales to first build up the resources and then to recover the cost of investment in timber milling capacity. As it is difficult to rely on the longer-term commitments of Government to support particular programs and activities, the industry should ensure that the market is driving the long-term investment decisions. In the short term, government policies could provide the industry with sufficient impetus to meet those longer-term growth projections.

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 these joint objectives. As an initial stage in this process, industry and governments have started to consider the project assessment and investment approvals processes to ensure that there are no unnecessary impediments to the growth of the forest and timber industry.

CONCLUSION

The Government's broad policy program being either developed or implemented at the present time may, in many cases, be modified to address particular impediments to the growth of the forest and timber industry. Given the complementary nature of the industry and government objectives, it is now up to the industry to utilise the opportunity that has been provided by this policy framework and respond by providing a directional strategy and effective targets for growth. Only then will it be possible to identify the future gaps in resource availability, the areas of market failure and the industry's investment needs, as the basis for working with all levels of government to improve the design, effectiveness and content of their programs and policies.

Plantation forestry should be an important component within that directional approach, with a heavy dependence on the capacity of the revised 2020 Vision to highlight the impediments to growth and the actions for addressing those impediments. Within the 2020 Vision strategy, it is therefore essential that the diversifying needs, interests and motives of the expanding plantation grower groups are adequately recognised so that investment can be drawn to provide the timber resource that will best meet the industry's future requirements and the environmental benefits, wherever possible. In essence, the industry has an opportunity to thrive if it can develop a comprehensive, demand-driven approach to expansion that is supported by responsive policy settings.

ATTACHMENT

Private Sector Investment in Multiple-Purpose Plantation Forestry Projects

The aim of the exercise is to draw together a taskforce of stakeholders with the appropriate skills to drive the regional investment activity and initiate the development of markets for environmental services. Funding would be required to support the coordinator of the taskforce for a period of approximately 12-18 months. Any direct government involvement in the project may be restricted to a minor subsidy on tree planting, if required, to make the whole project economically viable or to cover the public good environmental benefits that cannot be captured on the farms planted with trees.

The suggested approach is to have investment funds providing the financial resources to forestry companies who can establish the plantations and offer them a relatively secure market for the timber, with environmental services either benefiting the farmer or being traded to other companies seeking to purchase those services as some form of credit. To minimise the project's dependence on the returns from environmental services, the investment structure would require that trees be established at the lowest minimal cost per hectare.

Appropriate locations for the dual purpose plantations

It is anticipated that the most effective locations for establishing plantations that delivered timber products and environmental services would be those areas that are in priority catchments for the National Action Plan and which are in close proximity to the existing industry. These locations include the Goulburn-Broken catchment, the Loddon-Avoca-Campaspe catchment, catchments in central north Tasmania, the area between Tarpeena and the mouth of the Murray River in South Australia, the Western Australian wheat belt and the dryland areas of New South Wales and Queensland.

If the new commercial plantations are established in those areas where the forest and timber industry is well represented, it should be possible to generate the environmental services markets in association with a tangible industry activity, rather than starting to be developed in isolation of other economic activity. By developing the environmental services markets in the timber-producing locations, it may be possible to transfer the market framework for buying and selling environmental services to those areas where commercial timber production isn't economically feasible.

Parameters for this approach to work

The potential partners to be included in developing the plantation forestry components, and their possible roles, include:

1. Landowners

In each of the priority catchments under the National Action Plan, regional bodies have been appointed to identify the environmental problems, the possible solutions and the options for encouraging investment in those solutions. In many cases, the regional bodies will have a good idea of where plantation establishment would be effective for controlling salinity and land degradation within their particular jurisdiction. For example, approximately 10,000 ha in the Loddon-Avoca-Campaspe catchment have been identified as suitable for tree planting activities.

Where land is leased for the purposes of establishing multiple purpose plantations, the nature of the contracts surrounding the land lease payments would determine who owns the environmental services – the landowners or the plantation managers. If the landowners obtain some economic benefit from the plantation establishment activities, they may be willing to accept a lower annual lease payment for their land. The reduction in annuity payments in return for securing the on-farm environmental

benefits from the trees could provide an indirect means for placing a value on environmental services. For example, economic benefits might be realised in terms of maintaining the farm value into the future by halting the land degradation processes.

2. Plantation managers and timber marketing/processing companies

The plantation companies could provide a coordinated, minimal-cost approach to the planting and management of commercial tree crops, based on industry best practice. These companies may also be in a position to offer the investors a ‘guaranteed’ market for the timber through a first right of refusal or similar contractual arrangement. As a result, the risk of the project should be reduced from the investor’s perspective, while the plantation company benefits from improved resource security without having to purchase land.

3. Environmental organisations

Groups such as Greening Australia could provide an important ancillary role to these activities. They offer the potential for planting local species to link the plantations and remnant vegetation (including threatened ecosystems) on farms or planting of local species around the perimeter of the plantations. The direct result of these activities may include the generation of biodiversity credits or possibly increase the number of biodiversity credits associated with the commercial plantation.

4. Patient capital providers

There is a significant level of interest from the patient capital providers (superannuation and mixed portfolio investment companies) to be involved in commercial activities that have direct environmental benefits and relatively secure markets, including plantation forestry projects. With the advent of the socially responsible investment indicators, the investing companies could seek market recognition and endorsement for their efforts to promote sustainability (and therefore attract additional investment funds).

Alternatively, the entities could seek to use the environmental credits associated with their plantation projects to off-set any environmental ‘debits’ derived from their other portfolio investments. For example, the generation of carbon credits from the timber plantations could be counted against carbon emissions from the other company activities, even though there is no physical exchange of the credits.

5. Environmental services/credits purchasers

There are a number of companies willing to purchase the salinity, carbon, biodiversity or other environmental service credits that could be generated through plantation forestry projects. Mining companies may be seeking biodiversity credits to off-set the impacts of developing a new mine site, electricity or waste management companies and motor vehicle producers may be wanting to off-set their greenhouse gas emissions, and water suppliers may want to reduce the salt loads or sedimentation levels within their catchments.

6. Environmental service brokers

There are a small number of companies with the capacity to trade environmental services. They could provide links between the farm owners, the plantation companies, those monitoring the environmental services outcomes and environmental service purchasers. This is particularly important if there are to be effective markets for trading these services between companies that may not even be located in the same State.

7. Mortgage holders over land

Having the banks involved in the taskforce will be quite important. They currently hold mortgages over a large proportion of rural holdings with a premium of up to four per cent charged against rural landholders to cover the additional risks of borrowing. If landholders could demonstrate that they have undertaken activities to reduce the potential loss of future farm value that may have resulted from environmental degradation, it may be possible to have this premium reduced by a half or one per cent. On the scale of farm loans, that would add up to a considerable interest bill saving (and may be a reason for agreeing to a lower annuity payment in return for leasing land to the plantation growers).

8. Environmental service monitoring agencies

There are numerous companies that already have the infrastructure and capacity for measuring environmental changes. It would only be necessary to have those companies develop a baseline of environmental indicators prior to the establishment of the trees and employ the appropriate criteria for measuring environmental outcomes across the life of the plantation project. This group would provide the informational resources to drive the environmental services markets and, as they have the infrastructure already in place, provide a relatively low cost approach to environmental monitoring.