

PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

Aussie logs for Aussie jobs

*Inquiry into timber supply chain constraints in the
Australian plantation sector*

House of Representatives Standing Committee on Agriculture and Water
Resources

March 2021
CANBERRA

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ISBN 978-1-76092-223-8 (Printed Version)

ISBN 978-1-76092-224-5 (HTML Version)

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Foreword

The timber industry provides a vital source of income for regional Australia, as well as being a critical supplier to the building and construction sector. In many communities it remains one of the key industries, generating much needed employment and revenue. Notwithstanding its importance, the gradual decline in the extent of the plantation estate in recent decades has placed domestic timber supply chains under some strain. Naturally, this is cause for concern.

Plantations can take up to 30 years to mature and therefore require long-term investment. Business decisions made today will affect the industry for decades to come. As more and more land is removed from the plantation estate, domestic processors will face ongoing difficulties in securing local timber supply to meet ever increasing demand for product. The recent devastation of the Black Summer Bushfires has demonstrated just how fragile these supply chains can be.

The committee acknowledges that reversing the decline in the plantation estate has been a goal of government for many years, both at the federal and state and territory level. It must be noted, however, that to date these policies have had limited success. Though the committee welcomes the Australian Government's plan to grow a billion new trees within a decade, it has not yet resulted in a tangible expansion of the plantation estate.

It is anticipated that plans to introduce a concessional loan scheme for the establishment of new timber plantations will improve the viability of potential projects and help to drive future investment. The committee, therefore, urges the Government to proceed with this scheme for the betterment of the estate.

Similarly, the Committee also welcomes the establishment of nine Regional Forestry Hubs across Australia. These will ensure that new plantations are located where they can be economically harvested and thus avoid the shortcomings of the previous managed investment schemes. The committee has heard calls from

industry for the establishment of two additional hubs in the Northern Territory and south east New South Wales. It recommends that the hub model be extended to these locations.

Notwithstanding the positive steps taken by governments to strengthen domestic supply chains, it is clear more needs to be done if the timber industry in Australia is to flourish into the future. Fortunately, opportunities abound for meaningful change in the sector which will benefit processors and producers alike. The committee took evidence from industry experts and key stakeholders who made plain that many present challenges can be met with sound solutions.

From greater investment in Australia's forestry research and development capabilities, farm forestry, and the exciting new possibilities presented by carbon storage initiatives, the industry is ripe for innovation and growth. With the appropriate policy settings, the plantation industry may once again have the potential to expand.

Australia is a net timber importer, importing timber valued at nearly \$6 billion and exporting timber valued at nearly \$4 billion. While no inquiry participants suggested Australia dispense with export markets, the size of the figures involved gives a sense of the growth opportunities available to the processing sector if they could access the supply they need to support investment and drive growth.

The issues surrounding a perceived lack of transparency in respect to softwood pricing are illustrative of the current challenges experienced by the industry which could be remedied by appropriate action. The committee was pleased to hear from producers that they aim to prioritise domestic processing wherever possible. Processors have stressed that they are willing to pay a fair price, if only they could determine one. They made clear they do not want to be subsidised by local producers. However, one key difficulty facing processors is their apparent inability to accurately ascertain export prices for the timber they are seeking to purchase.

Inquiry participants suggested that a solution to this problem lies in the development of a voluntary code of conduct for the timber industry to facilitate long-term timber supply contracts between producers and processors for the mutual benefit of both. It is anticipated that such an arrangement would better support the growth of an efficient domestic processing sector, while reducing the risks to plantation owners inherent in relying on export markets.

The committee believes it is not the role of government to be involved in contract negotiations unless there is clear evidence of market failure. It maintains that such a code should be generated by the industry itself but that stakeholders should be supported by the Australian Government in this endeavour. The code could

operate for two years before being reviewed by the Australian Competition and Consumer Commission to assess its effectiveness.

Sensible solutions such as this should go a long way to overcoming the complex challenges which have hindered the domestic timber industry for so long. From the evidence gathered by the committee over the course of the inquiry, there is no doubt that the Australian timber industry can grow once again, and indeed thrive.

Rick Wilson MP

Chair

Membership of the Committee

Chair

Mr Rick Wilson MP

Deputy Chair

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Terms of Reference

The House Standing Committee on Agriculture and Water Resources will inquire and report on:

- The nature of wood supply from Australia's plantation sector including:
 - Projected timber volumes available over the next 30 years and the potential grades of logs available.
- The plantation wood supply available for domestic softwood processors including:
 - Current and future demand for logs for domestic processors; and
 - Any shortfall in current processing industry demand for logs.
- The competitiveness of log pricing between domestic and export market.
- The term of log supply contracts needed to support the processing sectors.
- Opportunities to increase Australia's wood supply, including identifying and addressing barriers to plantation establishment.
- The role that state governments could have in assisting in addressing any problems identified by the work of this committee.
- Make any recommendations around any code of conduct or management mode that could assist in addressing any problems identified by the work of this committee.

Table of Abbreviations

ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
ACCC	Australian Competition and Consumer Commission
ACCU	Australian Carbon Credit Unit
AFPA	Australian Forest Products Association
AKD	AKD Softwoods
CER	Clean Energy Regulator
CLT	Cross Laminated Timber
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAWE	Department of Agriculture, Water and the Environment
DISER	Department of Industry, Science, Energy and Resources
DPIRSA	Department of Primary Industries and Regions South Australia
ERF	Emissions Reduction Fund

FIAC	Forest Industry Advisory Council
FIANT	Forestry Industry Association Northern Territory
FMD	Farm Management Deposits
GDP	Gross Domestic Product
HIA	Housing Industry Association
Hubs	Regional Forestry Hubs
HVP	HVP Plantations
Hyne	Hyne Timber
IFA & AFG	Institute of Foresters of Australia and Australian Forest Growers
IRR	Internal Rate of Return
KIPT	Kangaroo Island Plantation Timbers Ltd
MGA TMA	MGA Independent Retailers and Timber Merchants Australia
MIS	Managed Investment Scheme
New Forests	New Forest Asset Management
NFIP	National Forest Industries Plan
NSW	New South Wales
NT	Northern Territory
NZ	New Zealand
OECD	Organisation of Economic Cooperation and Development
OFO	OneFortyOne

PDCL	Plantation Development Concessional Loan
Plantall	Plantall Forestry Consultants
Pentarch	Pentarch Forest Products
PFT	Private Forests Tasmania
PTT	Plantation Treated Timbers
R&D	Research and Development
SA	South Australia
SMSF	Self-Managed Superannuation Funds
SWG	Softwood Working Group
TFPA	Tasmanian Forest Products Association
Visy	Visy Pulp and Paper
WA	Western Australia

List of Recommendations

Recommendation 1

1.52 The Committee recommends that the Australian Government establishes two additional Regional Forestry Hubs, in the north part of the Northern Territory and in south eastern New South Wales.

Recommendation 2

3.88 The Committee recommends the Department of Agriculture, Water and Environment supports the industry, in the most cost-effective means possible, to develop a voluntary code of conduct to facilitate access to timber by Australian softwood processors.

- The voluntary code would be underpinned by the relationship between plantation owners and timber processors.
- The industry should aim to undertake the development and implementation of the code as quickly as possible, ideally within 12 months.
- After two (2) years of operation, the code should be reviewed by the Australian Competition and Consumer Commission and any changes recommended by the ACCC should be implemented.

Recommendation 3

3.89 The Committee recommends that the Department of Agriculture, Water and Environment, in consultation with key stakeholders, develop an index of

relevant softwood log prices. The Department then undertakes to publish the index and ensure its continued maintenance and currency.

Recommendation 4

4.117 The Committee recommends that the Productivity Commission undertake a review of the regulatory settings relating to the establishment of plantations. This should include current and potential incentives and barriers as well as existing and possible taxation regulations. In particular, the review should consider:

- possible options for minimising the impact of period inequity on plantation growers
- the taxation and superannuation effects of farmers engaging in farm forestry activities
- improving the liquidity of plantation assets
- any other potential incentives for, and barriers to, plantation growth and their broad economic impacts.

Recommendation 5

4.118 The Committee recommends that the Australian Government and State and Territory Governments support a significant increase in Australia's forestry research and development capabilities. In particular, this support should:

- focus on the development and commercialisation of new products with the potential to increase demand for Australian timber
- explore and adopt opportunities for increased on-shore value adding to Australian timber products.

Recommendation 6

4.119 The Committee recommends that the National Farm Forestry Strategy should include:

- information, tools, and extension services that support farmers to make decisions regarding plantation establishment and management

- options to assist farm foresters aggregate harvests to better integrate with the supply needs of processors.

Recommendation 7

4.120 The Committee recommends that the Clean Energy Regulator, during its review of the Emissions Reduction Fund method for plantation forestry, consider the options for inclusion of the carbon abatement embodied in wood products.

Recommendation 8

4.121 The Committee recommends that work be accelerated to develop an Emissions Reduction Fund methodology for carbon stored in the built environment.

- this work should be underpinned by ongoing work to enhance existing methodologies for farm forestry and plantation forests.

Recommendation 9

4.122 The Committee recommends that recent changes to the Emissions Reduction Fund rules relating to rainfall levels for plantations be applied to all Regional Forestry Hub regions.

Recommendation 10

4.123 The Committee recommends that the Australian Government prioritise new carbon abatement projects which deliver co-benefits to the Australian economy beyond carbon storage, including, but not limited to, supporting local industry, creating and sustaining jobs, and generating new downstream manufacturing opportunities.

1. Background

Introduction

- 1.1 The forest products sector generates approximately \$24 billion per year for the Australian economy and plays a significant role in driving the economy in a number of regional areas.
- 1.2 The size of the Australian plantation estate has, however, been gradually but consistently declining for over a decade. If this decline is not arrested it could threaten the future viability of the timber processing sector; an industry that relies on certainty of supply to recoup the significant investments in machinery needed to setup a mill.
- 1.3 This chapter will provide background context on the scale and economic impact of the plantation industry, while later chapters will discuss in greater detail the issues surrounding the timber market and barriers to plantation growth.

Structure of the Report

- 1.4 This chapter will provide an outline of the Australian plantation industry and a brief description of relevant government policies.
- 1.5 Chapter 2 will outline the impacts of the 2019-20 bushfires which destroyed large areas of plantation stock.
- 1.6 Chapter 3 will deal with the dynamics of the timber market, particularly issues surrounding the likely future demand for timber, the export market, the ability of domestic processors to access a reliable supply of timber, and contracts between growers and processors.

- 1.7 Chapter 4 will address the barriers to plantation expansion and how these can be addressed, the potential for small-scale plantations to be situated on farms, and the potential role of the carbon market in driving growth in the plantation sector.

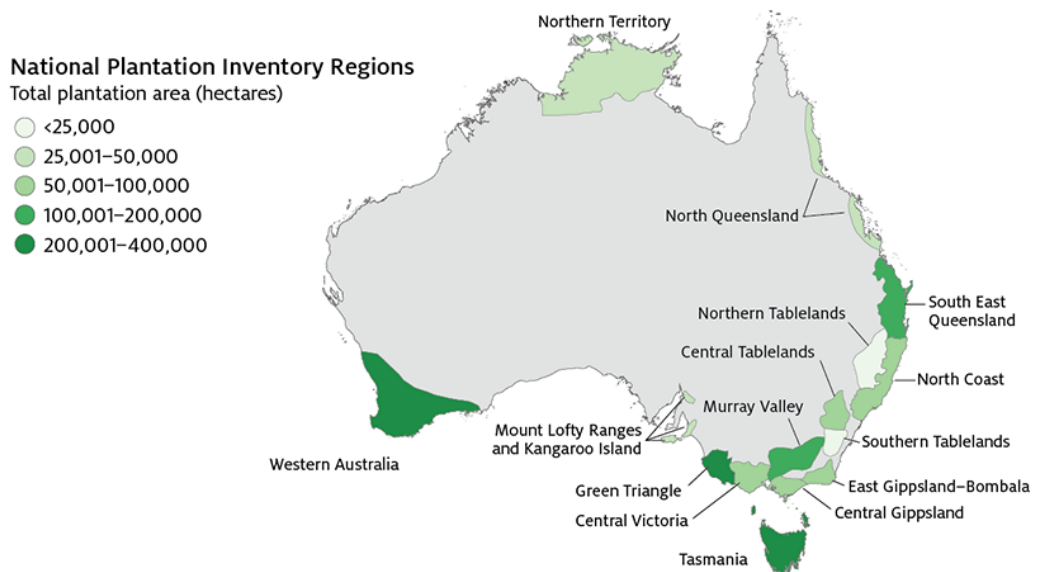
Inquiry Conduct

- 1.8 On 26 September 2019, the Committee received a referral to undertake an inquiry into constraints in the timber supply chain from Senator the Hon Jonathon Duniam, Assistant Minister for Forestry and Fisheries. At this time, the Committee had commenced its inquiry into growing Australian agriculture to \$100 billion by 2030, which was anticipated to be a large inquiry requiring the majority of the Committee's time and resources. Given this, the Committee decided to temporarily postpone commencing the inquiry into constraints in the timber supply chain.
- 1.9 On 11 June 2020, the Committee adopted the terms of reference and commenced the inquiry. The terms of reference of the inquiry can be found at Appendix A. The Committee called for submissions to the inquiry to be lodged by 2 October 2020. The Committee received 31 submissions and 4 supplementary submissions; these are listed in Appendix B.
- 1.10 Due to the impact of the Covid-19 pandemic the Committee's ability to travel for the inquiry was significantly restricted. Despite this, the Committee was able to travel to Tumut, NSW on 23 October 2020. While in Tumut, the Committee held a public hearing, toured the AKD Softwoods (AKD) processing plant, and toured bushfire affected plantations with the assistance of the Australian Forest Products Association (AFPA). In addition to the Tumut public hearing the Committee held four public hearings in Canberra; these are listed in Appendix C.

Australia's Plantation Estate

- 1.11 Forests cover 134 million hectares, or approximately 17 per cent, of the Australian landmass.¹ The vast majority of this area is native forests, with commercial plantations covering an area of 1.93 million hectares.²
- 1.12 The majority of the plantation estate (76 per cent) is privately owned, with public plantations making up 21 per cent of the estate and the remaining 3.7 per cent of the estate comprising joint public-private projects.³

Figure 1.1 Major Plantation Regions in Australia



Source: ABARES, *Plantation and log supply*, <https://www.agriculture.gov.au/abares/research-topics/forests/forest-economics/plantation-and-log-supply>, Accessed 29 January 2021.

¹ Australian Bureau of Agricultural and Resource Economics (ABARES), 'Australia's forests', <https://www.agriculture.gov.au/abares/forestsaustralia/australias-forests>, Accessed 27 January 2021.

² ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 1.

³ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. iv.

Plantation Rates

- 1.13 The overall size of the Australian plantation estate is affected by the rate at which recently harvested plantation sites are replanted; the rate at which new plantations in areas not previously planted are established; and the rate of plantation removal, which refers to harvested plantations being transferred to another land-use.
- 1.14 In 2018-19, 58,800 hectares of plantation, approximately 3 per cent of the total estate, were replanted. The areas of softwood and hardwood replanting were roughly proportional to their share of the overall estate.⁴
- 1.15 The current rate of plantations being established on land that has not previously been used for plantations is very low by historical standards. In 2018-19, 2,800 hectares of new plantations were established, virtually all of this area being softwood plantations.⁵ This rate of new plantings equates to not much more than 0.1 per cent of the existing plantation estate. While the majority of plantations are privately owned, the establishment of new plantations was predominantly (92 per cent) undertaken by public owners.⁶
- 1.16 The rate of new plantations being established has remained relatively constant in recent years, with rates below 5,000 hectares per year since 2011-12. This contrasts significantly with the planting rates in the 1990s and early 2000s. For example, in 2006-07, the year the current decline began, 86,600 hectares of new plantations were established.⁷
- 1.17 In 2018-19, 12,100 hectares of the plantation estate was converted to another land use, hardwood plantations accounted for virtually all of the area removed from the estate and the majority (52 per cent) of this area was in South Australia.⁸
- 1.18 The impact of this decline on domestic processors is discussed in Chapter 3, while the reasons for the lack of growth in the plantation estate and how this can be addressed is outlined in Chapter 4.

⁴ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 7.

⁵ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 6.

⁶ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 6.

⁷ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 7.

⁸ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 8.

Softwood Plantations

- 1.19 Softwood plantations are predominantly located in New South Wales (29 per cent), Victoria (22 per cent) and Queensland (19 per cent).⁹ Radiata pine comprises 75 per cent of the softwood estate, with the Murray Valley and the Green Triangle¹⁰ being the primary growing areas. The other major species grown are southern pines (15 per cent), which are primarily grown in Queensland.
- 1.20 Softwood plantations are overwhelmingly managed (97 per cent) for the production of sawlogs which are used in products for the building and construction industries. Softwood thinnings are often pulped to ‘produce engineered wood products, landscaping products, and paper’.¹¹

Hardwood Plantations

- 1.21 Hardwood plantations are primarily located in Western Australia (28 per cent), Tasmania (26 per cent) and Victoria (22 per cent).¹² The two main species grown are Tasmanian blue gum (in Western Australia and the Green Triangle) and shining gum (in Tasmania). The majority (82 per cent) of hardwood plantations are used to produce pulplogs for woodchips. The remaining 18 per cent of production is accounted for by sawlogs.¹³
- 1.22 In 2018-19, there was a total of 884,000 hectares of hardwood plantation in Australia. Since 2008-09, the hardwood plantation estate has been gradually but consistently declining and is now 11 per cent smaller than it was a decade ago. The majority of the decline has occurred in Western Australia (61,800 hectares), Queensland (28,800 hectares), and South Australia (20,200 hectares).¹⁴
- 1.23 The Australian Bureau of Agricultural and Resource Economics (ABARES) noted that the decline had occurred following the ‘collapse of major managed investment scheme operators in 2008-09’. In addition, ABARES reported that:

⁹ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 4.

¹⁰ The Green Triangle is a major forestry region located in south east South Australia and south west Victoria.

¹¹ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 13.

¹² ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 4.

¹³ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 13.

¹⁴ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 2.

The ongoing reduction in area reflects plantation growers and managers' decisions to return relatively unproductive plantation land to agriculture or to lessors on the expiration of hardwood plantation lease agreements.¹⁵

Economic Impact of the Timber Industry

- 1.24 The Australian forest products industry has an annual turnover of approximately \$24 billion and 'contributes around 0.5 per cent to Australia's gross domestic product and 6.6 per cent of manufacturing output'.¹⁶
- 1.25 The Australian Bureau of Statistics estimated that in 2017-18 there were 76,200 people employed in the forestry and forest products manufacturing sectors (see Table 1.1).

Table 1.1 Employment in Forestry and Forest Products Manufacturing (2017-18)

Sector	Number of employees
Forestry, logging and support services	11,000
Sawmilling and timber dressing	11,400
Other wood product manufacturing	39,100
Pulp, paper, and paperboard	4,300
Converted paper products	6,400
Other pulp, paper, and converted paper	4,000
Total	76,200

Source: ABS, 2019, Labour Force Survey, cited in ABARES, Australian Forests at a Glance 2019, p.57.

- 1.26 AFPA estimated that, in addition to direct employment, approximately 100,000 people are indirectly supported by the economic activity of the timber industry.¹⁷ ABARES also commented on the significant economic contribution from indirect flow-on employment but noted that there was no

¹⁵ ABARES, *Australian plantation statistics 2020 update*, June 2020, p. 2.

¹⁶ Australian Forest Products Association, *Submission 9*, p. 2.

¹⁷ Australian Forest Products Association, *Submission 9*, p. 2.

method of developing a robust estimate of the scale of indirect employment.¹⁸

- 1.27 The economic impact of the timber industry is particularly significant in a number of regional areas. In terms of employment, the Green Triangle region of South Australia and Victoria has the highest dependence on the forestry with 3.4 per cent of the population employed in the sector in 2016. The Gippsland and Central Highlands region of Victoria has just over 2 per cent of the population employed in forestry, while regional Tasmania had the next highest proportion (1.6 per cent) but also the largest decline in employment dependence having fallen from 2.1 per cent in 2011.¹⁹
- 1.28 The impact of the forestry sector on regional economies was also highlighted by a number of inquiry participants. As an example, the Softwood Working Group (SWG) stated that forestry was the ‘most significant economic driver in the [South West Slopes of New South Wales] region, supporting \$1.2 billion in Gross Regional Product (value added).²⁰
- 1.29 Within this region, Visy Pulp and Paper (Visy) described its kraft pulp and paper mill as ‘integral to the local community’ of Tumut as it was the largest employer in the region, directly supporting 1,200 manufacturing jobs.²¹ Not far from Tumut, Hyne Timber (Hyne) has a similar impact in the town of Tumberumba. Hyne, which employs 210 people and supports an additional 600 contractors and local businesses, stated it is ‘by far, the single, largest, non-government employer’ in the town.²²

¹⁸ ABARES, ‘Socio-economic indicators—trends to 2018’, <https://www.agriculture.gov.au/abares/research-topics/forests/forest-economics/forest-wood-products-statistics/socio-economic-indicators-trends-2018#employment--trends>, Accessed 29 January 2021.

¹⁹ ABARES, ‘Socio-economic indicators—trends to 2018’, <https://www.agriculture.gov.au/abares/research-topics/forests/forest-economics/forest-wood-products-statistics/socio-economic-indicators-trends-2018#employment--trends>, Accessed 29 January 2021.

²⁰ Softwood Working Group, *Submission 3*, p. 2.

²¹ Visy, *Submission 13*, p. 1.

²² Hyne Timber, *Submission 24*, p. 1.

Government Policy in the Timber Sector

1.30 The following section provides a brief outline of the current major government policies focussed on the timber industry. Implications of these policies are also discussed, where relevant, in later chapters.

National Forest Industries Plan

1.31 In September 2018, the Australian Government released its National Forest Industries Plan (NFIP), entitled *Growing a better Australia, A billion trees for jobs and growth*. The key goal of the NFIP was the planting of a billion plantation trees over the following ten years.²³ The NFIP forecast that the addition of a billion plantation trees would result in the creation of an additional 18,000 jobs in forest industries.²⁴

1.32 The Department of Agriculture, Water and the Environment (DAWE) stated that the Australian Government committed to the following three actions to support the plantation of a billion trees in a decade:

- undertaking a review of the water requirements in the Emissions Reduction Fund (ERF) farm forestry and plantation methodologies to enable forestry to fully participate in the ERF
- working with industry and state governments to allow Regional Forestry Hubs to maximise their capacity to accommodate plantation expansion in the right places
- reviewing other legislation, policies and processes that may be unintentionally restricting plantation expansion.²⁵

1.33 DAWE emphasised that while the objective of the NFIP is to support the expansion of plantations, the actual planting of new plantation trees 'is a matter for state and forestry agencies and the private sector.'²⁶

Plantation Concessional Loan scheme

1.34 To support the objective of planting a billion trees, the Australian Government has announced a plan to introduce 'Plantation Development

²³ Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 2.

²⁴ Australian Government, *Growing a better Australia: A billion trees for jobs and growth*, p. 5.

²⁵ Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 2.

²⁶ Department of Agriculture, Water and the Environment, *Submission 14.1*, p. 2.

Concessional Loans to encourage foreign and domestic investment in plantation establishment'.²⁷

- 1.35 It is anticipated that the Australian Government will invest \$500 million in the Plantation Development Concessional Loan (PDCL) scheme which aims to support the development of 150,000 hectares of new plantations.²⁸
- 1.36 DAWE advised the Committee that a consultation paper relating to the PDCL scheme had been released in November 2019 seeking feedback from industry. DAWE stated, however, that the PDCL was yet to commence, as it had been 'delayed due to the priority given to industry recovery work arising from the 2019-20 bushfires and the COVID-19 pandemic'.²⁹ DAWE added that while concessional loans are not currently available for industry it is something the Department is 'working on as a priority'.³⁰

Regional Forestry Hubs

- 1.37 In 2016, the Forest Industry Advisory Council (FIAC) recommended that the Australian Government establish forest industry centres or hubs in regional areas 'with varied, high-quality wood resources that are close to wood processors, pulp and paper mills or export facilities.' FIAC added that the 'forest industry can identify appropriate sites' for developing the hubs.³¹
- 1.38 As part of the NFIP, the Australian Government announced that it would be creating nine Regional Forestry Hubs (hubs). The hub locations are as follows:
- south west Western Australia
 - the Green Triangle of South Australia and Victoria
 - Tasmania (originally North/North West Tasmania)³²
 - north east New South Wales
 - Gippsland Victoria
 - South West Slopes of New South Wales
 - central west New South Wales

²⁷ Department of Agriculture, Water and the Environment, *Submission 14*, p. 12.

²⁸ Department of Agriculture, Water and the Environment, *Submission 14*, p. 12.

²⁹ Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 3.

³⁰ Ms Rosemary Deininger, Acting Deputy Secretary, Department of Agriculture, Water and the Environment, *Official Committee Hansard*, 29 October 2020, Canberra, p. 3.

³¹ Forest Industry Advisory Council, 2016, *Transforming Australia's forest products industry*, p. 7.

³² Department of Agriculture, Water and the Environment, *Submission 14.1*, p. 1.

- south east Queensland
- north Queensland.³³

1.39 DAWE described each of the hubs as having ‘existing concentrations of wood supply resources, significant existing processing and/or manufacturing operations, established domestic and/or international transport links, and strong potential for growth’. DAWE added that each hub includes stakeholders from industry as well as state and local governments and each will undertake strategic planning and analysis to support the growth of forest industries in its region.³⁴

1.40 DAWE described the key tasks of the hubs as being to:

... identify new plantation opportunities, add value to existing infrastructure and processing capability, and maximise community participation. Hub priorities include encouraging local mills to invest in greater capacity and efficiency; increased use of mill and harvest residues, including bio-energy, biochar and fertilisers; and exploring opportunities for new product manufacturing.³⁵

1.41 DAWE reported that the hubs are in the ‘initial stages of cooperation’ but that planning is underway in some of the hubs. The Green Triangle Hub, for example, released a strategic plan in 2019 envisaging ‘an additional 200 million trees by 2030, covering about 150,000 new hectares’.³⁶

1.42 In the South West Slopes region of NSW the hub has been incorporated in the Softwoods Working Group (SWG), a joint industry and community group that has been in existence since 1987. SWG stated that its structure provides a ‘forum to examine strategic issues and prepare plans to focus on regional community development based on the local plantation industry.’ SWG reported that its membership included private and public forest growers, timber processors, local governments, Regional Development Australia committees, state government agencies, and the Forest Industry Council.³⁷

³³ Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 2.

³⁴ Department of Agriculture, Water and the Environment, *Submission 14*, p. 11.

³⁵ Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 4.

³⁶ Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 2.

³⁷ Softwoods Working Group, *Submission 3*, p. 2.

- 1.43 The Tasmanian Forest Products Association (TFPA) reported on progress within the Tasmanian hub, stating that stakeholders in the hub had identified the following four themes as priorities for its work:
- access to land and land use policy for plantation forest investment
 - supply chain and infrastructure
 - climate change and carbon policy
 - culture, skills and training.³⁸
- 1.44 AFPA reported that the forest industry has been calling for the creation of two additional hubs, in the north of the Northern Territory and in south east New South Wales.³⁹ The Forestry Industry Association Northern Territory (FIANT) noted that the forestry industry in the Territory currently employs 170 full time equivalent staff and manages 42,000 hectares of plantations and has the potential to grow. Outlining the possible role of a Northern Territory hub, FIANT stated that:
- ... a founding priority of the hub will be to establish a taskforce to analyse the factors that are limiting productivity and efficiency in the sector, [the creation of a hub will also] facilitate the Territory achieving a Carbon Farming Initiative certification and will therefore allow the industry to participate in the Emissions Reduction Fund.⁴⁰

State and Territory Government Policies

- 1.45 DAWE provided details of some of the forest industry programs being undertaken by state and territory governments. In particular DAWE highlighted the following:
- in 2018, the NSW Government allocated \$71.8 million over four years to support the forestry and wood products industry including \$24 million for the Forestry Corporation of NSW to invest in plantations
 - in 2019, the Victorian Government released a plan to transition the industry from native forests to plantations by 2030
 - in 2020, the WA Government invited private sector investment with an aim of planting 50,000 new hectares of plantation.⁴¹

³⁸ Tasmanian Forest Products Association, *Submission 27*, p. 3.

³⁹ Australian Forest Products Association, *Submission 9*, p. 4.

⁴⁰ Forestry Industry Association Northern Territory, *Submission 25*, p. 2.

⁴¹ Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 3.

- 1.46 The Victorian Government reported that, in 2017-18, it committed to investing \$110 million into the expansion of plantations in the Gippsland region. The Victorian Government will also seek to leverage additional private sector funding for new plantation development. The expansion of the plantation estate is designed to 'meet potential supply gaps resulting from the 2019 announcement that native forest harvesting will be phased out by 2030'. The Victorian Government added that 'the primary intent of the program is to make available increased volumes of wood for local processing'.⁴²
- 1.47 The Tasmanian Government drew attention to the role of Private Forests Tasmania (PFT), a statutory authority dedicated to facilitating private forestry. The Tasmanian Government stated it was the only organisation of its type in the country and noted that it played a key role in the development of farm forestry projects in the state.⁴³

Committee Comment

- 1.48 The forest industry is a key generator of income for regional Australia, as well as being a critical supplier to the building and construction sector. While in many regions it remains one of the most significant industries, the gradual decline in the extent of the Australian plantation estate is a cause for concern.
- 1.49 Plantations require long-term investment and so business decisions that are made today will affect the industry for decades to come. The fact that, for many years, more land has been removed from the plantation estate than added to it will, therefore, have a continuing impact on the supply of timber available for domestic timber processors.
- 1.50 Reversing the decline in the plantation estate has been a goal of government policies for many years, both at the federal and the state and territory level, but to date these policies have had limited success. The Committee welcomes the Australian Government's plan for the growth of a billion new plantation trees in a decade but notes that, while it is still relatively early days, this has yet to result in a tangible expansion of the plantation estate. The Plantation Concessional Loan scheme may help to drive new investment and the Committee urges the Government to move forward with the scheme.

⁴² Victorian Government, *Submission 30*, p. 6.

⁴³ Tasmanian Government, *Submission 20*, p. 5.

1.51 The Committee also welcomes the recent establishment of nine Regional Forestry Hubs across Australia. Focussing development in a hub model enables transport costs to be minimised and it also provides a valuable forum for growers and processors to work cooperatively to develop the industry. The Committee notes, however, that the forest industry has been calling for the establishment of two additional hubs in the NT and south east NSW. Given the potential benefits from the implementation of the hub model the Committee recommends that the Government establishes these two additional hubs.

Recommendation 1

1.52 The Committee recommends that the Australian Government establishes two additional Regional Forestry Hubs, in the north part of the Northern Territory and in south eastern New South Wales.

2. Impact of Black Summer Bushfires

Introduction

- 2.1 The recent Black Summer Bushfires (2019-2020) inflicted significant damage on native and commercial forests, as well as businesses and regional communities. The destruction of commercial plantations has placed the timber industry under significant pressure.
- 2.2 This chapter will outline the impact of the Black Summer Bushfires on commercial plantations across Victoria, NSW, and SA. Examining the effect of recent bushfires on supply chains, it will identify key areas of concern for industry in the short and long-term. These include limited local feedstock in some regions with the consequence of significant additional freight costs for some producers.

Review of the Evidence

Extent of Bushfire Damage on Commercial Forests

- 2.3 The Australian Forest Products Association (AFPA) asserted that the ‘biggest recent threat to Australia’s plantation estate and processors’ was the Black Summer Bushfire season.¹ The Department of Agriculture, Water and the Environment (DAWE) estimated that, as of 28 April 2020, approximately 8.5 million hectares of forest were potentially affected, comprising

¹ Australian Forest Products Association, *Submission 9*, p. 8.

8.3 million hectares of native forests, 130,000 hectares of commercial plantations, and 22,000 hectares of other forests.²

- 2.4 While the area of plantations within ‘the fire extent was much smaller than that of native forests, this represented a significant proportion of the commercial estate’.³ Furthermore, given that, on a per hectare basis, plantations generate a much greater volume of wood than their native forest counterparts, DAWE emphasised that the destruction of even small areas of plantation forest carried considerable implications for timber supplies.⁴
- 2.5 AFPA estimated that 50,000 hectares, or roughly 40 per cent, of the softwood plantation area in the South West Slopes and Bombala regions of NSW was ravaged by bushfires. Over 6,000 hectares of plantations in north east Victoria were also subject to fire damage, while approximately 95 per cent of privately owned plantations on Kangaroo Island in South Australia were adversely affected.⁵ Indeed, Kangaroo Island Plantation Timbers Ltd (KIPT) reported that: ‘Fire losses by the timber industry on Kangaroo Island exceeded the combined losses for all other agricultural enterprises in South Australia.’⁶

Impact on Log Supply

- 2.6 Inquiry participants made clear that recent bushfires have placed the timber industry under significant strain, particularly in respect to access to log supply which many identified as an area of ongoing concern even prior to the natural disaster.⁷
- 2.7 As previously discussed, there has been no growth in the size of the Australian plantation estate for a least a decade. Inquiry participants stressed that this lack of growth had placed pressure on the industry and that this has been exacerbated by the destruction of plantations during the recent fires.

² Australian Government Department of Agriculture, Water and the Environment, *Submission 14*, p. 3.

³ Australian Government Department of Agriculture, Water and the Environment, *Submission 14*, p. 4.

⁴ Australian Government Department of Agriculture, Water and the Environment, *Submission 14*, p. 4.

⁵ Australian Forest Products Association, *Submission 9*, p. 9.

⁶ Kangaroo Island Plantation Timbers Ltd, *Submission 15*, p. 6.

⁷ See for example: Australian Forest Products Association, *Submission 9*, p. 1; Australian Government Department of Agriculture, Water and the Environment, *Submission 14*, p. 3; Hyne Timber, *Submission 24*, p.2; Pentarch Forestry, *Submission 19*, p.2.; and Softwoods Working Group, *Submission 3*, p. 3.

- 2.8 The situation led some inquiry participants to express concern that they may be unable to meet future demand, with negative flow on effects forecast for other areas of the economy. MGA Independent Retailers and Timber Merchants Australia (MGA TMA), for example, stated that: ‘Recent catastrophic bushfires in the Tumut, Bombala and Bathurst regions will affect timber production and availability from the Tumut and Tumbarumba region where significant volumes of pine are and have been grown and produced for the domestic housing and building market.’⁸
- 2.9 Similarly, SWG cautioned that the adverse effect on plantations has the potential to constitute a ‘huge hit on the economies of the regions ... particularly in the loss of jobs’. They estimate that industries established in the South West Slopes of NSW generated 2,000 direct jobs and about 5,000 indirect jobs in the region, ‘so, if you just extrapolate 40 per cent, the numbers are quite high’.⁹
- 2.10 Referring to its sawmilling operation in Tumut, AKD Softwoods (AKD) forecast that: ‘There will be 70 to 80 jobs lost sometime between [October 2020] and probably June or July next year, when the harvest level reduces. That’s an outcome from the bushfires.’¹⁰
- 2.11 In response to the negative impact of the bushfires on the timber industry, the Australian Government has announced that it will provide \$40 million to the Forestry Recovery Development Fund. This will provide grants of between \$1 million and \$5 million to privately-owned processors who are facing long-term reductions in log supply.¹¹ DAWE stated that:
- [This would] enable wood processing facilities to develop new processing lines for their business, including upgrades to existing facilities and technologies, and new facilities that complement existing activities. The aim is to support industry to adopt smarter, more efficient practices in product

⁸ MGA Independent Retailers and TMA Timber Merchants Australia, *Submission 4*, p. 4.

⁹ Mr Peter Crowe, Chair, Softwoods Working Group, *Official Committee Hansard*, 28 August 2020, Canberra, p. 6.

¹⁰ Mr Shane Vicary, Chief Executive Officer, AKD Softwoods, *Official Committee Hansard*, 23 October 2020, Tumut, New South Wales, p. 1.

¹¹ Mr Andrew Wilson, Director, Plantations and Innovation, Department of Agriculture, Water and the Environment, *Official Committee Hansard*, Canberra, 29 October 2020, p. 4.

processing and forestry operations and, in turn, provide regional jobs and support regional communities.¹²

Salvage Operations

- 2.12 Partially mitigating against the short-term impact of the bushfires is the major salvage operations currently underway to harvest damaged wood in fire-affected areas. Participants estimated that the amount of burnt wood will be in the millions of tonnes, with Pentarch Forest Products (Pentarch) asserting that the Black Summer Bushfires have ‘created the largest volume in need of salvage harvesting in our history’.¹³
- 2.13 It is critical that these operations be carried out as quickly as possible. AFPA stressed that: ‘In the aftermath of a large bushfire, there is a tight salvage timeframe where burnt timber that is deteriorating, and at risk of pests and diseases, needs to be harvested.’¹⁴ Pentarch stated that ‘most softwood areas can be salvaged and utilised within 12 months but are then unsuitable for domestic construction usage’.¹⁵
- 2.14 Unfortunately, the impact on hardwood forests is even greater ‘as the wood fibre is generally then not suitable for export pulp/paper-based processing’ which means that fire-damaged hardwood forests are often written off altogether and replanted.¹⁶
- 2.15 Additionally, AFPA stated that: ‘The sheer volume of such timber and the difficulty of storing those logs or processing them into timber or fibre products frequently makes export the only viable option.’¹⁷
- 2.16 In order to assist industry in their salvation operations, the Australian Government has provided \$10 million to the Salvage Log Storage Fund in order to ‘boost mill capacity to process and store short-term surpluses in burnt logs’.¹⁸ DAWE stated this fund would minimise the overall resource

¹² Australian Government Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 4.

¹³ Pentarch Forestry, *Submission 19*, p.2.

¹⁴ Australian Forest Products Association, *Submission 9*, p. 7.

¹⁵ Pentarch Forestry, *Submission 19*, p.2.

¹⁶ Pentarch Forestry, *Submission 19*, p.3.

¹⁷ Australian Forest Products Association, *Submission 9*, p. 7.

¹⁸ Australian Forest Products Association, *Submission 9*, p. 7.

loss which comes from harvesting fire-affected timber.¹⁹ The Commonwealth also allocated \$15 million for Salvage Log Transport Assistance to help convey burnt logs to storage and processors. Drawn from the \$2 billion National Bushfire Recovery Fund, this support is currently available to transport timber from fire-affected areas in Victoria and NSW.²⁰

- 2.17 KIPT acknowledged Government assistance in salvage operations but emphasised that little can proceed on Kangaroo Island without the construction of a new seaport at Smith Bay. KIPT submitted an Environmental Impact Statement to State and Federal governments in March 2020, insisting they have sufficient capital to build the port themselves and will begin immediate construction upon receiving necessary approvals.
- 2.18 In the interim, KIPT reported they have begun transporting burnt timber from a small, temporary operation in Kingscote:

The pilot program will establish a route to market for the higher-value, at-risk softwood logs grown by KIPT and independent growers, and is the first step in creating much needed employment opportunities for island residents and south-east based forestry companies.²¹

Ensuring Long-Term Supply

- 2.19 Although salvage operations currently mitigate against short-term disruptions to log supply, inquiry participants made clear that decisive action is needed to swiftly replant and re-establish commercial forests, thereby safeguarding long-term access to domestic timber. AFPA, for example, argued that State and Federal Governments should, as a matter of urgency, facilitate the replanting of burnt plantations.²²
- 2.20 DAWE noted that governments are taking steps to alleviate some of the damage to commercial plantations. In May 2020, for example, the NSW Government announced plans to return the number of stocked trees in state-owned plantations to pre-bushfire levels within the decade. Drawing on the \$46 million in stimulus funding provided to the Forestry Corporation

¹⁹ Mr Andrew Wilson, Director, Plantations and Innovation, Department of Agriculture, Water and the Environment, *Official Committee Hansard*, Canberra, 29 October 2020, p. 4.

²⁰ Australian Government Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 4.

²¹ Kangaroo Island Plantation Timbers Ltd, *Submission 15*, p. 2.

²² Australian Forest Products Association, *Submission 9*, p. 9.

of NSW, they aim to ‘plant 14.5 million trees every year from 2021 onwards to replace the 50,000 hectares’ of burnt plantation, with the aim of returning to pre-bushfire stocking levels within a decade.²³

Bushfire Planning

2.21 Noting the ongoing threat of natural disasters, participants stressed that recovery planning for the industry needed to take the likelihood of future natural disasters into account. As OneFortyOne (OFO) stressed:

[The] biggest issue is around ensuring that our estate doesn’t burn down. The biggest risk facing this industry is not whether we expand. That is an issue in terms of creating new supply. But we’ve got to make sure that we protect the existing estate from fire.²⁴

2.22 OFO added that it has its own fleet of fire tankers and bulk water carriers and collaborates with other growers and government fire authorities. OFO called for the consistent application of restrictions on days of total fire ban, noting that a number of ignitions have occurred in the Green Triangle due to ‘adjacent landholder conducting activities on high fire danger days’.²⁵

2.23 In a similar vein, Pentarch asserted: ‘Fires and other natural disasters are creating a baseline loss that needs to be factored into the structure and assumptions of the existing industry’.²⁶ AFPA likewise emphasised that governments need ‘to recognise plantations as critical infrastructure assets in their bushfire planning going forward’.²⁷ Similarly, HVP Plantations (HVP) called for a ‘landscape level approach’ for bushfire prevention and suppression including ‘recognition of forestry plantations as a priority asset for protection’.²⁸

2.24 In order to avoid similar future destruction to the commercial estate, MGA TMA recommended new plantations be ‘located further apart, in order to isolate plantation fires and avoid the cumulative damage which

²³ Australian Government Department of Agriculture, Water and the Environment, *Submission 14.2*, p. 3.

²⁴ Mr Cameron MacDonald, Executive General Manager, OneFortyOne, *Official Committee Hansard*, Canberra, 23 September 2020, p. 20.

²⁵ OneFortyOne, *Submission 16*, pp. 9-10.

²⁶ Pentarch Forestry, *Submission 19*, p.6.

²⁷ Australian Forest Products Association, *Submission 9*, p. 9.

²⁸ HVP Plantations, *Submission 26*, p. 7.

results from them linking up.’²⁹ They also noted that more could be done to minimise fuel loads, a sentiment shared by AFPA who likewise advised that:

A whole-of-landscape approach be taken to land management and bushfire mitigation through mechanical fuel reduction as well as autumn/winter burns to mitigate wildfire risk to an acceptable level, and to harmonise existing land management regimes.³⁰

Short- to Medium-Term Supply Chain Disruptions

- 2.25 It will take a relatively long time, in some cases decades, for new plantations to reach sufficient maturity for harvest. In the meantime, a major concern for the timber industry will be the high costs associated with transporting logs for processing from those areas which remained relatively unaffected by the Black Summer Bushfires. As AFPA noted, some ‘producers will need to haul logs from plantations that are hundreds of kilometres away to continue to operate. The cost of hauling timber can be prohibitive’.³¹
- 2.26 The experience of Hyne Timber (Hyne) is illustrative of the general challenges facing the industry. Hyne reported that their Tumbarumba Mill in the South West Slopes region of NSW had roughly 40 per cent of its timber feedstock destroyed by bushfires. Previously, they sourced all their timber locally through an integrated supply chain in the South West Slopes region which supported roughly 5,000 jobs and generated almost \$2 billion in economic activity.³²
- 2.27 Since the bushfires, they have managed to identify a supply of logs within Australia that is currently exported overseas but could be contracted to Hyne instead. They anticipate they will import a volume of roughly 441,500 metres cubed at an additional freight cost of approximately \$30 million over a three-year period.³³
- 2.28 They estimated that this imported wood would allow them to provide:
- timber for 10,000 new homes
 - 104,526 tonnes of chip for Visy in Tumut to produce paper and packaging

²⁹ MGA Independent Retailers and TMA Timber Merchants Australia, *Submission 4*, p. 4.

³⁰ Australian Forest Products Association, *Submission 9*, p. 9.

³¹ Australian Forest Products Association, *Submission 9*, p. 6.

³² Hyne Timber, *Submission 24*, p. 2.

³³ Hyne Timber, *Submission 24*, pp. 2-3.

- 24,457 tonnes of bark for Corkhills in Laurel Hill to make commercial applications such as the potting mix
- 14,109 tonnes of dried wood shavings for Shandleys in Holbrook, which in turn supplies animal bedding for the commercial food sector.³⁴

2.29 Hyne also noted that the additional log and the retention of jobs within Tumberumba would be worth ‘something like \$70 million in salaries alone. It’s straight revenue equivalent to about \$90 million’.³⁵

2.30 While Hyne stressed their ability to compete in buying the logs, they argued that the anticipated added transport costs presented significant inefficiencies of scale:

It is prohibitive for Hyne because of the additional freight costs, which we can’t absorb as a business and can’t pass on to our customers competitively. We can’t compete with imported finished goods if we try and add that freight cost to our finished product. So the reality is that we’re going to have the continued export of quality sawlogs while we have increased imports of finished goods, and at the same time, [impacting] on our manufacturing, resilience, product flow and jobs in our own economy moving forward.³⁶

2.31 Hyne cautioned that this set of circumstances posed a significant threat to their business: ‘Manufacturing costs will increase significantly, and when coupled with the capital-intensive reinvestment requirements and no ability to pass these costs on to customers, the Mill will become unviable.’³⁷ They warned potential job losses would be devastating to the Tumberumba community, and stressed that ‘partial financial support from the NSW and Australian Governments is critical’.³⁸

2.32 There are several State and Federal support packages currently available to the timber industry, however, Hyne noted these do not specifically include transport support.³⁹ While the Commonwealth has allocated \$15 million in

³⁴ Hyne Timber, *Submission 24*, p. 3.

³⁵ Ms Katie Fowden, Manager, Strategic Relations, Hyne Timber, *Official Committee Hansard*, 23 October 2020, Tumut, New South Wales, p. 12.

³⁶ Ms Katie Fowden, Manager, Strategic Relations, Hyne Timber, *Official Committee Hansard*, 23 October 2020, Tumut, New South Wales, p. 13.

³⁷ Hyne Timber, *Submission 24*, p. 2.

³⁸ Ms Katie Fowden, Manager, Strategic Relations, Hyne Timber, *Official Committee Hansard*, 23 October 2020, Tumut, New South Wales, p. 12; Hyne Timber, *Submission 24*, p. 3.

³⁹ Ms Katie Fowden, Manager, Strategic Relations, Hyne Timber, *Official Committee Hansard*, 23 October 2020, Tumut, New South Wales, p. 13.

funding for Salvage Log Transport Assistance, for example, this does not appear to extend beyond the period of salvage operations for burnt timber. Hyne, therefore, recommended that:

The Australian Government provides short-term supply chain cost support for businesses, and therefore communities that depend on them who were severely impacted by the recent bushfires through existing programs, or by the establishment of a process for industry led bushfire recovery solutions where no current avenue for support exists.⁴⁰

- 2.33 This recommendation harmonised with that of AFPA, who likewise advocated for a 'Federal and State freight support scheme to underpin the increased cost of hauling timber greater distances following the "Black Summer" bushfires'.⁴¹

Committee Comment

- 2.34 The Black Summer Bushfires devastated regional communities and businesses across Australia. Unprecedented in scale, this natural disaster has also placed the timber industry under significant strain with large sections of the plantation estate damaged or destroyed. The Committee was impressed with the resilience of the timber industry in its determination to rebuild, however it acknowledges significant challenges moving forward.
- 2.35 While major salvaging operations will mitigate economic shortfalls in the near future, it is clear that a concerted effort is needed from businesses and governments to ensure the swift replanting of commercial forests in order to safeguard continued access to domestic timber supply. These efforts will need to take the likelihood of future natural disasters into account in recovery planning and implementation.
- 2.36 As domestic producers and processors wait for new plantations to mature, it is probable the industry will experience substantial supply chain disruptions. Notable among these is the often prohibitive additional freight costs associated with hauling timber great distances from regions left unscathed by bushfires. These increased transport costs will create significant inefficiencies of scale, and some participants expressed doubts about the ongoing viability of their businesses.

⁴⁰ Hyne Timber, *Submission 24*, p. 4.

⁴¹ Australian Forest Products Association, *Submission 9*, p. 2.

- 2.37 The consequent threat of unemployment is a source of real anxiety for some regional communities where economic activity is heavily reliant on the timber industry. The Committee welcomes Government packages that are supporting the timber industry in the wake of the Black Summer Bushfires. These include \$10 million for the Salvage Log Storage Fund and \$15 million for Salvage Log Transport Assistance, as well as \$40 million to the Forestry Recovery Development Fund. These are intended to help the industry conduct salvage operations and will support processors as they innovate and upgrade their facilities.
- 2.38 The Committee, likewise, welcomes the initiative of the NSW Government in its aim to plant 14.5 million trees annually from 2021 onwards in order to replace the 50,000 hectares of forestry plantation destroyed by the bushfires.
- 2.39 Initiatives such as these are vital to ensuring both the recovery and growth of the timber industry and will go a long way to ensuring ongoing access to domestic supply.

3. Market Dynamics in the Timber Industry

Introduction

- 3.1 The World Bank has projected that the global demand for wood fibre will quadruple by 2050.¹ Timber and other forms of wood fibre are now commodities and Australian producers are competing in global markets to supply the growing demand for wood products.
- 3.2 This chapter will focus on the dynamics of the Australian timber products market, in particular the relationship between growers and processors. Australian timber processors are facing constrained supply of the plantation timber they use to manufacture wood products. This chapter will look at the potential reasons for these supply limitations as well as how they might be addressed.

Review of the Evidence

Timber Supply and Demand Forecast

Timber Demand

- 3.3 Australia is currently a net importer of timber. In 2018-19, the value of imports (\$5.9 billion) exceeded exports (\$3.9 billion) by \$2 billion.² Demand

¹ Australian Forest Products Association (AFPA), *Submission 9*, p. 2.

² New Forest Asset Management, *Submission 11*, p. 2.

for sawn softwood is expected to continue to grow by 30 per cent to 2050, primarily due to housing commencements and GDP growth.³

- 3.4 ABARES forecast that, due to the increasing demand, the market will be increasingly reliant on imported sawnwood. ABARES added that this ‘represents a missed opportunity for the Australian forestry sector unless there are new policies or drivers to expand the current softwood plantation estate to meet growing demand’.⁴
- 3.5 The Housing Industry Association (HIA) elaborated on the role of construction in stimulating demand for timber as well as the risks involved in a reliance on imported products. HIA forecast that between 95,000 and 115,000 detached dwellings will be built each year in Australia and around 75 per cent of these will use timber framing for load bearing elements.⁵
- 3.6 Further, HIA stated that having a secure timber supply chain is essential for prices remaining competitive and not subject to fluctuations that could affect the viability of construction projects. HIA added that it was concerned that greater imports of timber could result in a risk of sub-standard or non-conforming timber making its way into the building supply chain and being used for structural construction components.⁶
- 3.7 Capital Battens suggested that shortened plantation rotations are also contributing to the need to import construction timbers as trees are being harvested before maturity resulting in a reduction in the older, stronger timber suitable for strength bearing applications.⁷

Outline of the Processing Sector

- 3.8 The Australian sawmill processing sector is made up of softwood and hardwood sawmills. Hardwood processors source timber from public native forests and commercial forests, while timber supplied to softwood processors is drawn solely from commercial plantations. Figures from 2016-17 reported by the Australian Forest Products Association (AFPA)

³ Whittle, L, Lock P & Hug, B, 2019, *Economic potential for new plantation establishment in Australia: outlook to 2050*, ABARES research report, Canberra, p. 7.

⁴ Whittle, L, Lock P & Hug, B, 2019, *Economic potential for new plantation establishment in Australia: outlook to 2050*, ABARES research report, Canberra, p. viii.

⁵ Housing Industry Association, *Submission 18*, p. 3.

⁶ Housing Industry Association, *Submission 18*, p. 3.

⁷ Mr Vince Erasmus, General Manager, Capital Battens, *Official Committee Hansard*, 23 September 2020, Canberra, p. 5.

showed that while there were less softwood sawmills (58) than hardwood mills (182); softwood mills accounted for 82 per cent of the total volume of sawlogs processed with hardwood mills responsible for the remaining 18 per cent.⁸

- 3.9 Since 2007, the number of hardwood mills had reduced by 64 per cent and the number of softwood and pine mills by 31 per cent. AFPA added that reductions in the hardwood sector were due to government decisions on resource availability and economies of scale whereas in the softwood sector factors included international competition and changes to markets and technology.⁹

Availability of Supply for Sawmills

- 3.10 While demand for timber is strong and Australia is currently exporting significant quantities of fibre, this does not mean that domestic processors necessarily have access to the timber they need. The outlook for softwood processors is challenging. ABARES have forecast that existing softwood supply shortfalls are likely to increase and persist for the long-term. If recent export levels are maintained, ABARES projects that by 2050 softwood sawlog supply will fall short of demand by 3.4 million cubic metres. This will result in 'imports of softwood sawnwood needing to double between 2020 and 2050 to satisfy growing demand'.¹⁰
- 3.11 In contrast, the Department of Agriculture, Water and the Environment (DAWE) reported that supply forecasts were positive for hardwood sawmills, stating the 'future availability of hardwood sawlogs from plantations and native forests will likely be sufficient' to meet the demands of the domestic hardwood sawmilling sector.¹¹
- 3.12 Both processors and growers highlighted the difficulties domestic processors can encounter in accessing sufficient timber supplies. For example, HVP Plantations (HVP) noted that there was already more demand for logs from its plantations than it is able to supply and that all its sawlog customers and some of its pulpwood customers are seeking additional supply.¹²

⁸ Australian Forest Products Association, *Submission 9*, p. 5.

⁹ Australian Forest Products Association, *Submission 9*, p. 5.

¹⁰ Whittle, L, Lock P & Hug, B, 2019, *Economic potential for new plantation establishment in Australia: outlook to 2050*, ABARES research report, Canberra, p. vi.

¹¹ Department of Agriculture, Water and the Environment, *Submission 14*, p. 8.

¹² HVP Plantations, *Submission 26*, p. 4.

- 3.13 In 2016-17, ABARES undertook a survey of timber processors which found that the most commonly raised issue of concern for mills was uncertainty around access to timber supplies, which was raised by 43 per cent of mills. ABARES noted that the reasons processors gave for these concerns often related to government contracts and access to public forests, a relatively minor number also mentioned concerns around the impact of log exports.¹³
- 3.14 This concern surrounding the availability of secure timber supplies was shared by most of the processors who participated in the inquiry.
- 3.15 The Softwoods Working Group (SWG) stated that, prior to the Black Summer fires, the processing sector of the South West Slopes region had ‘identified resource security as a major impediment to growth in the industry’. At that time, SWG estimated that 30,000 new hectares of plantation in the region were required to support existing activity and jobs in the processing industry. Since the fires, this situation has clearly worsened and now SWG estimates that current supply will drop by 44 per cent by 2023 and not return to current levels until the 2040s.¹⁴
- 3.16 Visy Pulp and Paper (Visy), a major processor in the South West Slopes region, stated that it sources approximately 900,000 tonnes of timber from areas more than 100km from its processing plant in Tumut. This figure is likely to rise due to the devastating impacts of the January 2020 bushfires on the Southwest Slopes region plantations. Visy explained that sourcing this timber from beyond its local region had sustainability implications and also was affecting ‘Visy Tumut’s international competitiveness and financial feasibility.’¹⁵
- 3.17 Plantation Treated Timbers (PTT) is a softwood mill in the Green Triangle producing treated timber products from small logs with diameters between 8cm and 20cm. PTT explained that it had knocked back a ‘considerable amount of orders ... over the preceding 3 years’ due to its inability to access logs.¹⁶ PTT noted that its experience was likely mirrored by the other post manufacturing processors as its customers were not moving to other mills.¹⁷

¹³ Downham, R, Gavran, M & Frakes I, 2019, *ABARES National Wood Processing Survey: 2016-17*, ABARES technical report 19.3, Canberra, p. vi.

¹⁴ Softwood Working Group, *Submission 3*, pp. 2-4.

¹⁵ Visy Pulp and Paper, *Submission 13*, p. 2.

¹⁶ Plantation Treated Timbers, *Submission 12*, pp. 6, 14.

¹⁷ Mr Peter Badenoch, Director, Plantation Treated Timber, *Official Committee Hansard*, 23 September 2020, Canberra, p. 3.

- 3.18 PTT is particularly concerned with what it sees as wasteful harvesting practices, as it stated that smaller diameter logs, which it and a number of other processors specialise in, are being left behind during harvesting. PTT stated that several plantation owners were refusing to provide short length logs on the basis that harvesting these logs is unsafe. As this type of material has previously been available, PTT sought clarification on the safety concerns but have not received any response. Overall, PTT questioned why smaller logs could not be provided stating ‘achieving full product recovery from harvesting operations is a relatively straightforward way of increasing the availability of logs.’¹⁸
- 3.19 Capital Battens, which also uses lower grade logs in its production of battens, was likewise concerned about the security of log supply and noted that what is currently being exported as pulplog is ‘eminently suitable’ for processors like itself and PTT.¹⁹
- 3.20 Beyond its own operations, PTT drew attention to the situation of a Chinese company named Shield Resources, which had attempted to setup an industrial plywood manufacturing plant in the Green Triangle but had been unable to source fibre. Shield then put forward a proposal for a \$50 million sawmill focussed on small diameter logs and again was unable to reach a supply agreement with plantation owners. Ultimately, Shield set up an export yard and commenced shipping whole logs to China.²⁰

Impacts of supply constraints

- 3.21 AFPA stated that processors need long-terms security of supply in order to make the investments needed to grow their businesses.²¹ This point was elaborated by Dr Alan Cummine, who stated:

...processing and value-adding in the plantation products and paper manufacturing industries involves investment of tens or hundreds of millions of dollars, which is not made unless the processor is confident of having access to the necessary plantation resource. The processors seek secure supplies of harvested wood of the nominated quality and specifications, delivered in

¹⁸ Plantation Treated Timbers, *Submission 12*, p. 16.

¹⁹ Mr Vince Erasmus, General Manager, Capital Battens, *Official Committee Hansard*, 23 September 2020, Canberra, p. 5.

²⁰ Plantation Treated Timbers, *Submission 12*, p. 14.

²¹ Mr Ross Hampton, Chief Executive Officer, Australian Forest Products Association, *Official Committee Hansard*, 23 October 2020, Tumut, p. 8.

sufficiently large volumes, consistently and continuously over a long period at competitive prices.²²

3.22 As an example of how increased supply could drive investment, PTT stated that it wished to increase its current log intake of 18,000 tonnes per year to as much as 35,000 tonnes, which would open up a range of value-adding opportunities. If this could occur, it would be in a 'position to invest a further \$3 million in capital expenditure'.²³

3.23 HVP emphasized the need for processors to grow and to achieve the economies of scale to compete in international markets, stating:

Sawn softwood is a commodity; international processors can already compete with Australian processors, as evidenced by the quantity of sawn softwood imports. Hence, Australian sawn softwood processors need to be able to grow to an internationally competitive scale to remain viable.²⁴

3.24 HVP drew attention, however, to how challenging it can be for the growers to provide, and processors to access, long-term secure supplies, stating:

To be able to produce a regular supply of pulpwood grade logs or sawlogs to sustain a mill, the combination of thinning and final harvest of logs needs to be replicated year after year. For example, if a mill requires 500,000 cubic metres of sawlogs every year, there must be sufficient areas that are subject to final harvest (supplemented by small sawlogs from areas that are second thinned) to supply that volume of sawlogs every year. This means that, if it takes 27 years until final harvest, then on average there needs to be 28 age classes (ranging from age 0 to age 27), each large enough to supply close to 500,000 cubic metres of sawlogs from final harvest.²⁵

3.25 Further, HVP showed how a mill's need for a consistent supply of fibre can result in timber being used in commercially sub-optimal ways. HVP explained that:

... the volume of logs required to sustain the Australian Paper mill in Gippsland means that both pulpwood grade logs and sawlogs are supplied to what should be a processor that only takes pulpwood grade logs.²⁶

²² Dr Alan Cummine, *Submission 28*, p. 5.

²³ *Plantation Treated Timbers, Submission 12*, pp. 13-14.

²⁴ HVP Plantations, *Submission 26*, p. 4.

²⁵ HVP Plantations, *Submission 26*, p. 2.

²⁶ HVP Plantations, *Submission 26*, p. 2.

- 3.26 Capital Battens added that due to the shortage of timber, Australian processors may be 'forced to import timber, much of which comes from questionable sources that use practices that are not environmentally sound and are far less socially responsible.'²⁷

Export of Australian Timber

- 3.27 ABARES reported that there was a significant increase in roundwood exports in the decade from 2010-11 to 2019-20. For softwood exports rose from 1.64 million cubic metres in 2010-11 to 3.85 million cubic metres in 2016-17 before stabilising. In 2019-20, softwood exports were 3.53 million cubic metres.²⁸
- 3.28 Hardwood exports grew from 230,000 cubic metres in 2010-11 to a peak of 727,000 cubic metres in 2018-19, before dropping to 580,000 cubic metres in 2019-20.²⁹ Pentarch Forest Products (Pentarch) highlighted that, in addition to logs, hardwood plantations produce approximately 7 million tonnes of woodchips which are exported per year. Pentarch added that there is a relationship between the export woodchip and log markets, so 'when the export woodchip market undergoes a market downturn then the export log market volumes are also reduced'.³⁰
- 3.29 PTT stated that information from industry sources suggested that in the period of 2013-18 approximately 1.7 million tonnes per year were exported from Portland, which accounts for approximately 50 per cent of the sustainable annual harvest of the Green Triangle. PTT added that prior to 2013 log exports were not above 300,000 tonnes per year.³¹
- 3.30 Figures supplied by DAWE broadly correlated with the figures suggested by PTT. Exports of sawlogs³² from Victorian ports (of which Portland is likely to be the major contributor) more than doubled between 2016-17 and 2017-18 (560,000 tonnes to 1.309 million tonnes) before falling in 2019-20

²⁷ Capital Battens, *Submission 17*, p. 3.

²⁸ Gavran, M, 2020, Australian forest and wood product statistics datasets, 2020, ABARES technical report, Canberra.

²⁹ Gavran, M, 2020, Australian forest and wood product statistics datasets, 2020, ABARES technical report, Canberra.

³⁰ Pentarch Forest Products, *Submission 19*, p. 3.

³¹ Plantation Treated Timber, *Submission 12*, p. 8.

³² Pine with a cross-sectional dimension of 15cm or more.

(699,000 tonnes). For non-sawlog pine³³, the greatest volume of exports were in 2019-20 (1.04 million tonnes) having more than doubled from the previous year (437,000 tonnes).³⁴

- 3.31 New Forest Asset Management (New Forests) commented that the export of softwood logs from the Port of Portland indicates that ‘the supply of softwood logs in the Green Triangle region exceeds domestic processing capacity for certain log grades, which are exported’.³⁵

Role of the Export Market

- 3.32 AFPA described the export market as a ‘pressure valve’ for situations where there is insufficient domestic demand. These situations include following natural disasters such as cyclones and bushfires where timber must be salvaged quickly and also longer-term market changes.³⁶
- 3.33 A longer-term issue, highlighted by AFPA, was the closure of the Kimberley-Clark pulpmill which until 2013 processed the ‘majority of pulplogs in the Green Triangle’. Following the closure of the mill, Green Triangle growers were forced to find new markets and ‘without an export market much of this material would have to be burnt or left to rot on the forest floor’.³⁷
- 3.34 The impact of a lack of a pulpmill in the Green Triangle was also referred to by growers such as HVP³⁸ and OneFortyOne (OFO). OFO added that an association of six Green Triangle growers had conducted a pre-feasibility study in an attempt to attract an investor willing to establish a pulpmill in the region but that this proved unsuccessful.³⁹
- 3.35 Growers also highlighted the outlet the export market creates for low grade material and smaller timber from thinnings and the potential risks of not removing this material. OFO suggested not removing forest residues would increase fire risks as well as attract damaging insects such as borers.⁴⁰ New

³³ Pine with dimensions below 15cm.

³⁴ Department of Agriculture, Water and the Environment, *Submission 14.3*, p. 18.

³⁵ New Forests Asset Management, *Submission 11*, p. 2.

³⁶ Australian Forest Products Association, *Submission 9*, p. 7.

³⁷ Australian Forest Products Association, *Submission 9*, p. 7.

³⁸ HVP Plantations, *Submission 26*, p. 3.

³⁹ OneFortyOne, *Submission 16*, p. 4.

⁴⁰ OneFortyOne, *Submission 16*, p. 4.

Forests, meanwhile, suggested the export of small logs and woodchips produced from thinnings provided growers with important early cash flow.⁴¹ HVP linked the export market to the ability to conduct thinning operations, stating that without this export market ‘the capacity to thin the plantations to promote growth of sufficient sawlogs for its customers, both now and in the future, would be at risk.’⁴²

- 3.36 PTT, however, questioned the need for growers to export smaller diameter logs, stating that could be sold to processors such as PTT and that ‘it is plantation thinning that is essential, not that the product is exported’.⁴³
- 3.37 HVP summarised the reasons that it undertakes export operations by stating that export markets:
- frequently provide a good return from HVP’s investment in plantations
 - provide sales opportunities where domestic markets either don’t exist or are not large enough – the market for lower grade logs in the [Green Triangle] is a good example
 - can accommodate sales that are of variable size duration and specification – this creates much needed flexibility in managing a softwood estates, particularly around thinning for future sawlogs
 - provide opportunities to sell logs salvaged from fire and storm damage that are unable to be utilised by domestic processors.⁴⁴

Impact of Exports on Domestic Supplies

- 3.38 Several domestic processors are of the view that the export of softwood logs is constraining log supply in the Australian market.
- 3.39 Capital Battens, for example, stated that it was constantly competing with exporters for access to softwood, and that:

...in the past decade, state owned forests have exported significant volumes of logs to Asia. Australia is not well endowed with plantation resources and this practice makes no sense – when the catastrophic bushfires are factored in it is even more implausible.⁴⁵

⁴¹ New Forests Asset Management, *Submission 11*, p. 3.

⁴² HVP Plantations, *Submission 26*, p. 3.

⁴³ Plantation Treated Timbers, *Submission 12*, p. 8.

⁴⁴ HVP Plantations, *Submission 26*, p. 6.

⁴⁵ Capital Battens, *Submission 17*, p. 2.

- 3.40 Similarly, Visy stated that the 'continued export of non-value added softwood forest products undermines regional domestic manufacturing and associated socio-economic benefits'.⁴⁶
- 3.41 PTT stated that, in its view, 'log exports from Portland are jeopardising investment in domestic processing in the Green Triangle and the flow-on socio-economic benefits'.⁴⁷
- 3.42 PTT highlighted the need of processors for solutions beyond the expansion of the plantation estate, stating that expanding the estate will not solve the problems 'if export prices spike and the forest managers decide to just put it all on boats again, it doesn't matter how big the estate is if the market operates as it does now'.⁴⁸
- 3.43 Given the shortfall in timber available to domestic processors, Visy called for a 'domestic manufacturing first policy'. A similar idea was proposed by Capital Battens, which suggested that domestic processors should have 'first right of refusal to purchase logs/fibre from state owned forests before logs go to export'.⁴⁹
- 3.44 Growers largely considered exports in a more positive light than processors. OFO noted that it undertakes export operations to sell pulp and log quality logs, and stated that this provides continuity to employees and contractors during domestic market downturns. OFO added that its export operations create 102 local jobs in harvesting, haulage, and export operations.⁵⁰
- 3.45 HVP reported that it exports mixed grade logs to China and that it regularly offered parcels of logs to domestic processors, but the prices offered almost always produce a lower return even accounting for the risks involved in exporting. HVP added that 'as a private commercial entity it does not accept that it should subsidise any domestic processors'.⁵¹
- 3.46 OFO reported that while previously it had exported sawlogs, since 2018 it has sold 100 per cent of its sawlogs to domestic processors.⁵² OFO added that

⁴⁶ Visy Pulp and Paper, *Submission 13*, p. 2.

⁴⁷ Plantation Treated Timbers, *Submission 12*, p. 14.

⁴⁸ Mr Peter Badenoch, Director, Plantation Treated Timber, *Official Committee Hansard*, 23 September 2020, Canberra, p. 4.

⁴⁹ Capital Battens, *Submission 17*, p. 2.

⁵⁰ OneFortyOne, *Submission 16*, p. 4.

⁵¹ HVP Plantations, *Submission 26*, p. 5.

⁵² OneFortyOne, *Submission 16*, p. 4.

it increased its sales of sawlogs to domestic processors from 850,000 tonnes per year in 2012 to 1.43 million tonnes per year in 2019-20.⁵³

- 3.47 Further, OFO reported that it had recently put out an expression of interest for domestic processors to take non-sawlog fibre that is currently being exported and that it was working with companies who had responded to the EOI on terms for future contracts.⁵⁴
- 3.48 Pentarch noted that many of the countries in Southeast Asia have ‘raw material deficits but advanced production systems’ and that some centres were using plantation hardwood as a replacement for ‘light mixed tropical hardwoods as substrates for such things as plywood’. Pentarch suggested that trade delegations to Southeast Asia should aim to help develop the export market for Australian timber and identify wood processing centres near ports in Southeast Asia.⁵⁵

Non-commercial export operations

- 3.49 A potentially concerning type of export operation was raised by AKD Softwoods (AKD). AKD, which is a vertically integrated grower and processor with a good understanding of the export market, believed export operations that could not be commercially viable were occurring in the Green Triangle and in Victoria. AKD suggested that ‘pocketbook traders’ were undertaking export operations based on agreements with foreign powers to supply fibre. AKD provided an example, stating there was an juvenile planation of a thousand hectares that was harvested and:

... trucked to Orbost [where there was a change of trucks], then it’s trucked to Geelong and containerised, then it went from the containers to the Melbourne port. Looking at the supply chain, knowing export log prices, it’s just physically not feasible—and especially when you’ve got the Dongwha supply mill right there, and other sawmills. And that’s not a one-off.⁵⁶

- 3.50 Similarly, Visy noted that it ‘had real concerns that some softwood log exporters receive market distorting subsidies from foreign governments’.

⁵³ OneFortyOne, *Submission 16*, p. 5.

⁵⁴ Mr Cameron MacDonald, Executive General Manager, OneFortyOne, , *Official Committee Hansard*, 23 September 2020, Canberra, p. 20.

⁵⁵ Pentarch Forest Products, *Submission 19*, pp. 3, 7, 8.

⁵⁶ Mr Shane Vicary, Chief Executive Officer, AKD Softwoods, *Official Committee Hansard*, 23 October 2020, Tumut, p. 2.

Visy was concerned that these subsidies were inflating prices making it difficult for domestic processors to compete.⁵⁷

Timber Supply Contracting

3.51 New Forests noted that there is a great deal of diversity in the length of timber supply contracts, stating that ‘contracts of between one month and 60 years currently exist in the industry’. New Forests added that processors and growers may have differing preferences in regards to contract lengths, stating:

Generally, processors will prefer longer term contracts, but only where there is some form of price protection. This competes with the economics for forest owners, who also prefer the security of long term off-take agreements as part of a portfolio approach to management, but often prefer mechanisms where price certainty is either secure, or includes potential mechanisms to capture and share the benefit of broader market price rises.⁵⁸

3.52 AKD noted that it seeks long term contracts with growers to ensure ‘to be able to sustain and support our capital investment’. While noting that it is normally able to reach an agreement with growers, AKD explained why plantation owners can be reluctant to sign long-term contracts, stating:

Forest owners tend to be a bit afraid of committing to any form of long-term contract unless they can hard code in some export parity equivalents [because] they don’t want to be selling their logs in three years time at a lower price than what they could be. So they’ll actually forego security in exchange for safeguarding against this fear of missing out [on a better price].⁵⁹

3.53 HVP suggested that the term of log supply contracts ‘has not been a significant issue’ among its customers. HVP explained that it only offered long-term contracts (~10 years) where processors requested the contract to support capital investments. More typically it offered medium term (~5 year) contracts or when there was uncertainty relating to availability short-term contracts of 1 to 3 years.⁶⁰

⁵⁷ Visy Pulp and Paper, *Submission 13*, p. 2.

⁵⁸ New Forests Asset Management, *Submission 11*, p. 3.

⁵⁹ Mr Shane Vicary, Chief Executive Officer, AKD Softwoods, *Official Committee Hansard*, 23 October 2020, Tumut, p. 2.

⁶⁰ HVP Plantations, *Submission 26*, p. 6.

- 3.54 PTT, however, stated it has not been able to negotiate any medium or long term supply deals with major plantation owners for the last 3 to 4 years.⁶¹
- 3.55 The Department of Primary Industries and Regions South Australia (DPIRSA) noted that there were concerns among processors that growers may be over-harvesting or harvesting before maturity and that this could reduce future log supplies. DPIRSA added that ‘some of this concern could be alleviated by longer term contracts between growers and processors, as is understood to be provided in other states.’⁶²

Box 3.1 Timber Contracts in the Green Triangle

Processors in the Green Triangle expressed concern about the scale and conduct of export operations undertaken by major plantation owners. In particular, PTT highlighted the operations of OFO, although it noted that the ONOs actions were examples of a systemic problem in the Green Triangle and beyond.⁶³

In 2012, OFO took over the SA Government’s forestry estate. As part of its lease agreement with the SA Government OFO is required to conduct ‘normal arms-length commercial terms which do not disadvantage domestic customers.’ PTT suggested that shortly after the estate was transferred to OFO there was a significant increase in exports and questioned whether OFO was conducting its operations in the spirit of the lease agreement.⁶⁴

PTT drew attention to two tender processes which it suggested were good examples of how difficult OFO is making it for domestic processors to obtain timber supplies. In these two tenders processors were required to:

- Take 80,500 tonnes over a 3 month period (equivalent to 322,000 tonnes per year) and be required to take logs of all diameters
- Take a parcel of logs comprising 136,000 tonnes of sawlogs and 60,000 tonnes of pulp logs in a three month period.⁶⁵

⁶¹ Plantation Treated Timbers, *Submission 12*, p. 5.

⁶² DPIRSA, *Submission 21*, p. 4.

⁶³ Plantation Treated Timber, *Submission 12*, p. 9.

⁶⁴ Plantation Treated Timber, *Submission 12*, pp. 2, 11.

⁶⁵ Plantation Treated Timber, *Submission 12*, p. 11.

These two tenders ended up being awarded to OFO's internal export operation. PTT explained that the 'relatively short period during which the high tonnage of tendered logs must be taken is beyond the intake capacity of domestic customers in the Green Triangle.'⁶⁶

It is not practical for processors to rapidly upgrade their processing capacity as this generally requires financing, research and evaluation of products, environmental approval processes, Forestry Stewardship Council or other certification processes, and staff training.

Additionally, PTT considered that the requirement to take multiple types of timbers was impractical as mills specialise in using particular logs suited to the products they manufacture.⁶⁷

In September 2020, OFO reported to the Committee that it had recently had its compliance with the plantation lease agreement audited by the SA Government and that it was found to be 100 per cent in compliance with its legal obligations under the lease.⁶⁸

Transparency in the Market

- 3.56 Many processors also drew attention to the lack of transparency around log prices in the export market. This information is considered particularly significant as domestic processors are expected, and indicted a willingness, to pay export parity price. Processors suggested, however, they were often unable to ascertain the level of the export parity price.
- 3.57 PTT added that it has had negotiations with forest growers that have lasted for three years where they have been told that they need to pay export parity price but not told what the price is; PTT believed this was a 'delaying tactic so as to not impede their export program'.⁶⁹ PTT added that, since 2018, export tonnages have declined somewhat but they have not seen any

⁶⁶ Plantation Treated Timber, *Submission 12*, pp. 10-11.

⁶⁷ Plantation Treated Timber, *Submission 12*, pp. 10-11.

⁶⁸ Mr Cameron MacDonald, Executive General Manager, OneFortyOne, *Official Committee Hansard*, 23 September 2020, p. 17.

⁶⁹ Mr Peter Badenoch, Director, Plantation Treated Timber, *Official Committee Hansard*, 23 September 2020, Canberra, p. 2.

increased log supply, PTT reported that ‘domestic processors are of a view that plantation owners are simply waiting for high export prices to return’.⁷⁰

- 3.58 AKD also noted issues around transparency in the market, particularly in South Australia, and suggested some owners had shown a ‘lack of interest’ in divulging accurate export prices.⁷¹ Similarly, Dr Gordon Bradbury highlighted a lack of price transparency in the Tasmanian market, which was acting as an impediment to farm forestry.⁷²
- 3.59 The Department of Primary Industries and Regions SA (DPIRSA) stated that the ‘poor pricing transparency of log exports may be exacerbating the concerns of processors regarding supply.’ DPIRSA also noted that the ‘New Zealand Minister for Primary Industries publishes data on indicative prices’.⁷³
- 3.60 Plantall Forestry Consultants (Plantall) reported that the Australian National University used to publish market values ‘but this stopped decades ago’. Plantall suggested there was a role for State and/or Commonwealth Governments to support the Australian Forest Growers to publish pricing information.⁷⁴
- 3.61 Dr Cummine, while highlighting the particular difficulties that farm foresters face in accessing accurate information, made a similar suggestion, stating:
- Regular publication of log prices related to grade would provide growers with the data essential to the sort of informed market that exists in other major forest growing countries, New Zealand being the closest example. ABS could collect raw data. ABARES could analyse that data, combined with analysis of markets, destination, end-use etc., and publish quarterly to protect confidentiality.⁷⁵
- 3.62 In addition to pricing information, PTT suggested that the publication of modelling relating to future supply would assist processors to make better investment decisions. Previously when plantations were largely in public

⁷⁰ Plantation Treated Timbers, *Submission 12*, p. 17.

⁷¹ Mr Shane Vicary, Chief Executive Officer, AKD Softwoods, *Official Committee Hansard*, 23 October 2020, Tumut, p. 2.

⁷² Dr Gordon Bradbury, *Submission 1*, p. 2.

⁷³ Department of Primary Industries and Regions SA, *Submission 21*, p. 3.

⁷⁴ Plantall Forestry Consultants, *Submission 23*, p. 5.

⁷⁵ Dr Alan Cummine, *Submission 28*, p. 12.

hands this information was available but PTT suggested it is now 'closely guarded by many of the private owners'.⁷⁶

Code of Conduct

3.63 PTT called for a code of practice, which should provide obligations so that:

- comparative pricing between domestic supply and export is transparent and clearly understood by all parties
- negotiations would be both timely, transparent and conducted in good faith.⁷⁷

3.64 AKD stated that it could be in favour of a code of conduct that could 'level the playing field' but it would be important that such a code does not impinge on the commercial rights of plantation owners. AKD would also be supportive of oversight from a body such as the Small Business and Family Enterprise Ombudsman, noting that for processors 'there's nobody to turn to at the moment'. AKD added that it would like to see a 'mechanism that enables the free market to work but ensures that we look after Australia's domestic supply chain first and foremost'.⁷⁸

3.65 DPIRSA reported that some industry participants were calling for a code of conduct and noted that the Australian Competition and Consumer Commission (ACCC) can make recommendations relating to market failures and 'assist with industry codes of conduct that seek to address imbalances in power relationships across supply chains and set expectations relating to contract terms and the provision of market information'.⁷⁹

3.66 Plantall noted that a Voluntary Code of Practice for Timber Plantations exists in Western Australia but described third-party certifications such as that of the Forest Stewardship Council as more effective, although Plantall noted such certifications can be too expensive for small growers.⁸⁰ The Voluntary Code in Western Australia is largely focused on workplace safety,

⁷⁶ Plantation Treated Timbers, *Submission 12*, p. 16.

⁷⁷ Plantation Treated Timber, *Submission 12*, p. 16.

⁷⁸ Mr Shane Vicary, Chief Executive Officer, AKD Softwoods, *Official Committee Hansard*, 23 October 2020, Tumut, p. 3.

⁷⁹ Department of Primary Industries and Regions SA, *Submission 21*, p. 3.

⁸⁰ Plantall Forestry Consultants, *Submission 23*, p. 5.

environmental impacts, plantation management, and infrastructure and planning issues.⁸¹

- 3.67 HVP drew attention to requirements to support local growers in certification standards such as Responsible Wood and the Forestry Stewardship Council. HVP stated any code of conduct beyond these certification schemes was ‘not justified, as the market currently works appropriately and there is no market failure’. HVP added that Government support for processors should ‘focus on mechanisms to improve the efficiency of processors, rather than imposing market distortions on growers.’⁸²
- 3.68 OFO agreed, stating that industry codes are ‘designed to address market failures rather than the interests of specific suppliers’. They also cited the Australian Treasury’s *Industry Codes of Conduct – Policy Framework*, which states codes of conduct ‘are not designed to protect smaller participants from competitive pressures that relate to bargaining power, access to markets or limited scale when purchasing.’⁸³
- 3.69 DAWE also referred to this policy framework and stated that the ‘Government would only prescribe code in very limited circumstances where there is a compelling case for intervention supported by robust evidence.’⁸⁴

Codes of Conduct in Other Sectors

- 3.70 Codes of conduct exist in some other agricultural industries, including the dairy industry and the horticulture industry. The Dairy Industry Code of Conduct, which came into effect on 1 January 2020, is a mandatory code which implements ‘enforceable rules about the ... business relationships between farmers and processors [by] setting out the key rights and obligations of each party’. The code requires farmers and processors to act in good faith, establishes a mediation and arbitration process to address

⁸¹ Forest Industries Federation WA, *Code of Practice for Timber Plantations in Western Australia*, <https://www.wa.gov.au/sites/default/files/2020-09/Code-of-practice-for-timber-plantations-in-Western-Australia.pdf>, Accessed 1 February 2021.

⁸² HVP Plantations, *Submission 26*, p. 11.

⁸³ OneFortyOne, *Submission 16*, p. 5.

⁸⁴ Department of Agriculture, Water and Environment, *Submission 14*, p. 13.

disputes, and empowers the ACCC to monitor the conduct of farmers and processors to support compliance.⁸⁵

- 3.71 The code arose from a 2018 ACCC report which found that information asymmetry and significant imbalances in bargaining power between processors and farmers had resulted in a range of market failures and inefficiencies in production. The ACCC recommended the establishment of a mandatory code of conduct.⁸⁶
- 3.72 The development of the code included three rounds of public consultation running from October 2018 to November 2019, with the final public consultation focussing on the exposure draft legislation.⁸⁷
- 3.73 The Horticulture Code of Conduct is also a mandatory code of conduct prescribed under the *Competition and Consumer Act 2010*. The horticulture code came into effect in March 2017 and is designed to improve the clarity and transparency of trading arrangements between growers and traders in horticulture.⁸⁸

Committee Comment

- 3.74 Australia's timber processors tend to be key businesses in the towns in which they operate, bringing much needed revenue and employment to their regions. The Committee was therefore concerned to hear that, almost uniformly, Australia's softwood processors are struggling to access the supply of logs needed to keep their mills operating optimally. Given the growing demand for local timber products, it is even more frustrating that many processors would be in a position to expand their operations and bring significant economic benefits to their communities if only they could secure access to a stable supply of timber.
- 3.75 Australia is a net timber importer, importing timber valued at nearly \$6 billion and exporting timber valued at nearly \$4 billion. Timber is a global commodity, and as such, it is not necessarily a negative situation for the

⁸⁵ Australian Government Department of Agriculture, Water and the Environment, *Dairy Industry Code factsheet*, viewed 5 February 2021, <https://www.agriculture.gov.au/ag-farm-food/meat-wool-dairy/dairy-dairycode>.

⁸⁶ Australian Competition and Consumer Commission, *Dairy inquiry: Final Report 2018*.

⁸⁷ Australian Government Department of Agriculture, Water and the Environment, *Mandatory dairy code of conduct*, viewed 5 February 2021, <https://haveyoursay.awe.gov.au/dairy-code-conduct>.

⁸⁸ Australian Competition and Consumer Commission, *Horticulture code of conduct*, viewed 5 February 2021, <https://www.accc.gov.au/business/industry-codes/horticulture-code-of-conduct>.

Australian wood products industry to be involved in global imports and exports.

- 3.76 Nevertheless, the size of the figures involved give an indication of the growth opportunities available to the processing sector, if they can access the supply they need to support investment and drive growth.
- 3.77 Australia's plantation estate was largely planted either directly by state governments or with the assistance of state or federal incentives. Given the integral role of taxpayer funding in establishing the resource; it is not unreasonable to think that Australian industry should be given every opportunity to develop businesses based on adding value to the resource.
- 3.78 No inquiry participants suggested that there is no role for exports in the timber industry. Export markets provide an important 'pressure valve' when domestic processing is not available, as is being clearly shown by the role of exports in supporting the salvage operations taking place in bushfire damaged plantations. Additionally, the lack of a pulp mill in the Green Triangle is an example of a structural issue which results in unavoidable exports.
- 3.79 The Committee was pleased to hear from growers that they aim to prioritise domestic processing wherever possible. In some instances, however, it seems fibre is being exported that could be profitably processed in Australia.
- 3.80 One of the key difficulties facing processors is the lack of transparency in regard to export market prices. Processors indicated they are willing to pay export parity prices but they are often unable to ascertain the export price for the timber they are seeking to buy. Neither the Committee, nor processors, are suggesting that growers should subsidise the businesses of processors by providing discounted prices. Processors are willing to pay a fair price – if they can determine what a fair price is.
- 3.81 It appears there is a path to mutual benefit, but it may require changes to how contracts are negotiated and an improved level of transparency in the market. The log parcels available for purchase need to involve realistic quantities and timeframes and processors should have the opportunity to access logs even if they are not within the traditional definition of a sawlog. If priced appropriately, there is no reason why growers should be disadvantaged by providing products that can be realistically processed by smaller mills.
- 3.82 The optimal solution is for growers and processors to agree long-term log supply contracts that provide processors with the opportunity to make

investments in improving the scale and technology of their mills. It would be hoped that the long-term benefits of supporting the growth of an efficient domestic processing sector and reducing the risks inherent in relying on export markets are being considered by plantation owners.

- 3.83 It is not the role of government, however, to become involved in business-to-business contract negotiations unless there is clear evidence of market failure.
- 3.84 The Committee believes there is an argument for the development of a code of conduct for the timber industry, but it is the Committee's preference that such a code of conduct be generated by the industry itself. The Committee asked AFPA about the development of a voluntary code of conduct for the plantation sector. AFPA indicated that developing a code would take around a year to complete and would require government support. The Committee does not have a view on the specifics of AFPA's proposal but suggests that DAWE works with the industry to develop a voluntary code in the most efficient and cost-effective way possible.
- 3.85 The Committee also suggests that after the code has been in operation for two years it should be reviewed by the ACCC to ensure it is having the effect intended.
- 3.86 Additionally, the Committee believes that the Government could play a beneficial role in improving the transparency of the marketplace. The Committee is recommending that DAWE work with key stakeholders to identify how an index of relevant timber prices could be established to aid negotiations between growers and processors. The indicative index of radiata pine log prices⁸⁹ is a potentially useful model developed by the New Zealand Government.
- 3.87 Finally, the Committee has heard concerning reports that foreign powers are engaging in non-commercial export operations to gain access to fibre supplies and that these actions are distorting prices and making it even more difficult for domestic processors to access log supplies. The Committee has only received limited evidence relating to these issues and so is not recommending any action but it is a situation which should be monitored by state and federal governments.

⁸⁹ New Zealand Ministry for Primary Industries, 'Wood product markets', <https://www.mpi.govt.nz/forestry/new-zealand-forests-forest-industry/forestry/wood-product-markets/>, Accessed 1 February 2021.

Recommendation 2

3.88 The Committee recommends the Department of Agriculture, Water and Environment supports the industry, in the most cost-effective means possible, to develop a voluntary code of conduct to facilitate access to timber by Australian softwood processors.

- **The voluntary code would be underpinned by the relationship between plantation owners and timber processors.**
- **The industry should aim to undertake the development and implementation of the code as quickly as possible, ideally within 12 months.**
- **After two (2) years of operation, the code should be reviewed by the Australian Competition and Consumer Commission and any changes recommended by the ACCC should be implemented.**

Recommendation 3

3.89 The Committee recommends that the Department of Agriculture, Water and Environment, in consultation with key stakeholders, develop an index of relevant softwood log prices. The Department then undertakes to publish the index and ensure its continued maintenance and currency.

4. Promoting Plantation Growth

Introduction

- 4.1 The Australian plantation estate has not experienced any significant expansion for a decade, and yet meeting the projected shortfall in the log supply available to processors will require the establishment of 200,000 to 250,000 hectares of new softwood plantations.¹
- 4.2 One of the key difficulties limiting plantation expansion is the cost of initial plantation establishment and the long period until returns can be garnered. This chapter discusses barriers to expansion and how they might be addressed.
- 4.3 Despite these difficulties, there are also developments in the forestry sector which may create the conditions for growers to invest in new plantations. In particular, the climate benefits of the carbon stored in plantations offer a potential new income stream for growers. Additionally, there are a range of innovative new wood products which could drive greater demand for timber. This chapter considers these issues, as well as the significant scope for greater integration of forestry into existing agricultural businesses.

¹ Whittle, L, Lock P & Hug, B, 2019, *Economic potential for new plantation establishment in Australia: outlook to 2050*, ABARES research report, Canberra, p. 11

Review of the Evidence

The Development of the Existing Plantation Estate

- 4.4 The Australian softwood plantation estate began to take its current form in the 1960s and 1970s when the Commonwealth offered long-term, minimal interest loans to the state and territory governments. The objective of this loans program was the establishment of around 30,000 hectares of softwood plantation per year. This objective was largely achieved with an average of 33,738 hectares established each year between 1975-76 and 1989-90. Since 2006-07, ABARES described the softwood estate as having reached a steady state of around 1 million hectares.¹
- 4.5 The hardwood plantation estate began to experience rapid growth in the mid-1990s, following the introduction of the *Export Control (Hardwood Wood Chips) Regulations 1996*, which removed the need to obtain a license to export woodchips. Growth further increased with the introduction of the *Managed Investments Act 1998*, which ‘allowed investors to claim immediate tax deductions for investment costs associated with establishing new timber plantations’. Hardwood plantation establishment peaked in 1999-20 when 126,210 hectares were planted, ‘mostly occurring on cleared agricultural land in Western Australia, Victoria and Tasmania’.²
- 4.6 The boom in hardwood plantation establishment ended in 2008-09 when a number of managed investment schemes collapsed and by 2011-12 the establishment of new hardwood plantations had virtually ceased. As outlined in Chapter 1, the extent of hardwood plantations is now declining and ABARES has forecast that it may decrease by 80,000 to 100,000 hectares over the next 10 to 15 years.³

¹ Whittle, L, Lock, P, Hug, B, 2019, *Economic potential for new plantation establishment in Australia: Outlook to 2050*, ABARES research report, Canberra, p. 2.

² Whittle, L, Lock, P, Hug, B, 2019, *Economic potential for new plantation establishment in Australia: Outlook to 2050*, ABARES research report, Canberra, p. 2.

³ Whittle, L, Lock, P, Hug, B, 2019, *Economic potential for new plantation establishment in Australia: Outlook to 2050*, ABARES research report, Canberra, p. 3.

Barriers to Plantation Growth

- 4.7 The Australian Forest Products Association (AFPA) explained that the current Australian plantation estate is still largely a product of government investments made in previous decades, stating:

We're moving from a time when state governments and the federal government essentially owned forestry in Australia, and that's why we have the trees we have [they] were planted by federal and state government programs, with low-interest loans out of the federal government.¹

- 4.8 In recent years, the ownership structure of the sector has changed, however, as AFPA elaborated:

That world has changed in the last 20 to 30 years to a privately owned world, pretty much, except in WA and in New South Wales; they are the last remaining areas where the state has a big softwood estate. In the new world, the ownership is really in superannuation funds, who do a terrific job of managing the estate we have. But superannuation funds aren't in the business of planting greenfield sites; they're in the business of providing annuity returns to their members.²

- 4.9 APFA added that during this period where ownership is transferring from public to private organisations there has been a lack of investment in new plantations, stating:

So, in this period between the old world and the new, we've lost any incentive to plant, except for other things such as carbon payments, which obviously might turn the rate of return up. But, until the rate of return meets [the rate of return an investor or farmer] could get for doing something else, you're not going to do it just because you love the sight of a tree. And that's what's happened in Australia.³

¹ Mr Ross Hampton, Chief Executive Officer, Australian Forest Products Association, *Official Committee Hansard*, 23 October 2020, Tumut, p. 7.

² Mr Ross Hampton, Chief Executive Officer, Australian Forest Products Association, *Official Committee Hansard*, 23 October 2020, Tumut, p. 7.

³ Mr Ross Hampton, Chief Executive Officer, Australian Forest Products Association, *Official Committee Hansard*, 23 October 2020, Tumut, p. 7.

Rates of Return

- 4.10 AKD Softwoods (AKD) highlighted the cash flow difficulties caused by the length of time between planting and harvesting in the plantation industry, stating:

One of the biggest issues is cash flow. Everybody will talk about rate of return and its pretty hard to actually work out a discounted cash flow over 30 years. Most discounted cash flows don't really work after seven years—once you start putting in discount rates. The way to make it work, as land costs are high, is enabling cash flow at the start.¹

- 4.11 Softwood Working Group (SWG) noted that the 7 per cent internal rate of return (IRR) generally required by private investors cannot be achieved by forestry under average conditions. The private sector, therefore 'is unlikely to make major investments in plantation establishment'. SWG suggested that the major barriers to achieving a higher IRR were the upfront costs (including land, roads, and plant establishment) and the fact that 78 per cent of the revenue is not generated till harvest, approximately 30 years after investment.²
- 4.12 Dr Alan Cummine stated that 'all other countries with significant timber plantation industries provide some sort of government financial support—either direct funding, or through various incentives for private investment'.³ New Forests Asset Management (New Forests) made a similar point, suggesting that 'without some form of [government] incentive there will be no new plantations established'.⁴
- 4.13 New Forests noted, however, that even incentives may not necessarily create the economic conditions for plantation growth. New Forests explained that typically plantations generate rates of return around 3 to 4 per cent per year, which are insufficient for institutional investors. Even if the concessional loans were available with 'very generous' terms New Forests did not expect

¹ Mr Shane Vicary, Chief Executive Officer, AKD Softwoods, *Official Committee Hansard*, 23 October 2020, Tumut, p. 4.

² Softwood Working Group, Submission 3, pp. 5-6.

³ Alan Cummine, *Submission 28*, p. 9.

⁴ Mr David Shelton, Director, Investments, New Forests Asset Management, *Official Committee Hansard*, 23 September 2020, p. 20.

these would make sufficient difference to lead to rapid plantation establishment.⁵

- 4.14 Pentarch Forest Products (Pentarch) also highlighted the cost difficulties faced by harvesting contractors, the majority of which are small to medium sized businesses. These contractors are required to purchase 'advanced technological and high capital cost mechanised equipment, creating a high barrier to entry'. In addition, Pentarch pointed out that those harvesting contractors must have a continuity of work in order to remain competitive and contain costs.⁶

Cost of Land

- 4.15 HVP Plantations pointed to the cost of land as a significant barrier to plantation establishment, particularly in areas that are 'within economic haulage distance of existing forestry hubs and processors.' These costs include stamp duty and for many larger growers Foreign Investment Review Board costs.⁷
- 4.16 Similarly, SWG nominated land access as the biggest barrier facing the plantation industry. SWG stated 'private investors are balking at the cost of land, they are balking at the rate of return they can receive.' SWG reported that they have been undertaking an analysis of land availability and found that it was possible to achieve 30,000 hectares of plantations on this land in New South Wales (NSW) using low quality land not well suited for other agricultural activities.⁸
- 4.17 SWG reported that, in 2018, the NSW Government had allocated \$24 million to purchase land for forestry. SWG estimated this would enable the purchase of approximately 3,000 hectares but noted that little land had been purchased to date. SWG recommended that the NSW Government purchase land opportunistically with an aim of establishing plantations. SWG suggested these plantations could be established by public companies or by private companies using leasing or partnership operations.⁹

⁵ Mr David Shelton, Director, Investments, New Forests Asset Management, *Official Committee Hansard*, 23 September 2020, p. 16.

⁶ Pentarch Forest Products, *Submission 19*, p. 6.

⁷ HVP Plantations, *Submission 26*, p. 7.

⁸ Mr Peter Crowe, Chair, Softwoods Working Group, *Official Committee Hansard*, 28 August 2020, Canberra, p. 8.

⁹ Softwood Working Group, *Submission 3*, pp. 6-8.

- 4.18 SWG informed the Committee that the total cost of purchasing 30,000 hectares would be \$320 million over ten years and stated that this capital outlay could be recouped by 'lease fees paid by the grower over the period of the first rotation (30 years)'. SWG added that the land would remain in government ownership and become an appreciating asset on the government balance sheet.¹⁰
- 4.19 HVP noted that land costs have always been a problem which is 'the reason that almost all of the existing softwood plantation estate was developed by state governments'. HVP advocated a similar solution to SWG, suggesting a:
- ...measured program of land purchases by governments, at market prices and in the vicinity of forestry hubs, over a time frame that did not drive up land prices. That land could then be leased to growers at rates consistent with forestry being the highest and best use.¹¹
- 4.20 The Victorian Government recognised the difficulties caused by high land costs and low IRR and stated that 'further incentives are required to strengthen the economics and competitive environment of new plantation development'. The Victorian Government added that it is investing \$110 million in plantation development in Gippsland with the investment structured to leverage additional private investment.¹²

Access to Water

- 4.21 OneFortyOne (OFO) described water access as 'the single biggest impediment to the supply chain in the Green Triangle region' and suggested that current South Australian water allocations could result in 'a loss of more than 25,000 hectares of plantation in the South Australian portion of the Green Triangle'.¹³ Similarly, New Forests called for the removal of these state water licensing arrangements which it claimed were limiting plantation establishment.¹⁴
- 4.22 OFO also questioned the currency of the data used as the basis for water allocations and called for government investments in 'future research

¹⁰ Softwood Working Group, Submission 3, pp. 6-8.

¹¹ HVP Plantations, *Submission 26*, p. 7.

¹² Victorian Government, *Submission 30*, p. 6.

¹³ OneFortyOne, *Submission 16*, p. 6.

¹⁴ New Forests Asset Management, *Submission 11*, p. 4.

initiatives including additional groundwater monitoring, subregional models, and additional groundwater dependent monitoring'.¹⁵

- 4.23 The Department of Primary Industries and Regions South Australia (DPIRSA) explained that commercial plantations in the Green Triangle area must secure water allocations (via trade or purchase) for their groundwater usage. DPIRSA added that the Forest Industry Advisory Council of SA has recommended that the government 'considers evidence-based proposals from industry to reform water licensing and increase water allocations in the Lower Limestone Coast'.¹⁶

Freight

- 4.24 AFPA raised the challenges of hauling timber caused by the regional restrictions on truck usage. AFPA explained that:

This places an unnecessary burden on hauling logs from point a to b and in some cases requires trucks to reduce their loads or [the number of trailers used] to allow for smaller loads to be hauled. The supply deficit of some individual sawmills could be reduced if impediments for transporting logs by more efficient truck configurations were streamlined and made consistent.¹⁷

- 4.25 OFO stated that timber industries rely on road freight to move their products to processors and that the 'safest and most cost-effective way to transport both logs and finished timber is via high productivity vehicles, i.e. A-double trucks'. OFO added that greater use of A-double trucks would require less truck trips thus reducing interactions with other road users, creating less diesel burn, and less road damage.¹⁸
- 4.26 OFO noted the limitations on A-double trucks travelling from SA into western Victoria and highlighted the Green Triangle Region Freight Action Plan Committee which includes representatives from industry, the SA and Victorian Governments, and local councils. OFO reported that the objectives of the action plan included providing pre-approved routes in Victoria for A-double trucks, reducing the complexity of permit applications, and improving infrastructure.¹⁹ DPIRSA also drew attention to the action plan

¹⁵ OneFortyOne, *Submission 16*, p. 6.

¹⁶ Department of Primary Industries and Regions South Australia, *Submission 21*, p. 4.

¹⁷ Australian Forest Products Association, *Submission 9*, p. 6.

¹⁸ OneFortyOne, *Submission 16*, p. 7.

¹⁹ OneFortyOne, *Submission 16*, pp. 7-8.

and stated that collaboration with the Victorian Government can 'assist with harmonisation between jurisdictions that result in efficiencies for both the domestic and exporting sectors'.²⁰

Limited R&D Capability

- 4.27 AFPA called for a significant increase in Australia's forestry research and development (R&D) capability. AFPA highlighted the decline in forestry research, stating that in 2008 forestry R&D funding amounted to \$104 million and employed 732 research and support staff. By 2019 this had declined to funding of \$20 million and employment of 70 staff.²¹
- 4.28 OFO also drew attention to Australia's declining research capability, noting that research helps the industry 'breed resilient tree stock, develop new products, protect assets from fire, and ensure water use is measured correctly'. OFO added that without support for research 'we are at risk of lagging behind our international competitors'.²²
- 4.29 AFPA compared this capability to the forestry research capabilities of Canada and New Zealand, both countries with significant forestry industries. Canada and New Zealand each have national forest research institutes employing large numbers of staff (600 in Canada and 299 in New Zealand). AFPA noted the creation of National Centres for Forest Product Innovation in Mt Gambier and Launceston, each established with \$2 million in Commonwealth funding. AFPA called, however, for the creation of a more extensive \$100 million forest research centre, which would build a critical mass of researchers and help 'accelerate commercialisation pathways through extension and technology transfer programs'.²³
- 4.30 AFPA also noted that forest products are the only agricultural sector with a cap limiting access to matched R&D funding. AFPA stated that industry research funding had reached this cap every year and so called for the removal of the cap to 'allow research and development of the sector to be on the same footing as other agricultural industries'.²⁴

²⁰ Department of Primary Industries and Regions South Australia, *Submission 21*, p. 3.

²¹ Australian Forest Products Association, *Submission 9*, p. 14.

²² OneFortyOne, *Submission 16*, p. 2.

²³ Australian Forest Products Association, *Submission 9*, pp. 14-15.

²⁴ Australian Forest Products Association, *Submission 9*, p. 15.

Plantations and Taxation

Managed Investment Schemes

- 4.31 The growth of hardwood plantations in the late 1990s and 2000s was primarily driven by private sector companies supported by the Managed Investment Scheme (MIS). During this period approximately 1 million hectares of plantations were established.²⁵
- 4.32 Dr Cummine noted that most of the forestry managed investment scheme companies had closed down between 2009 and 2011 causing widespread losses to businesses in the supply chain. Dr Cummine suggested that there were many contributing causes to the collapse of these businesses.
- 4.33 In particular Dr Cummine highlighted that, in 2008, a regulatory interpretation by the Tax Commissioner held that forestry MIS projects were not eligible for business tax deductions. This interpretation was later overturned in court, yet the six month period it was in force had a negative effect on the MIS-based businesses. Dr Cummine stated that it ‘damaged market confidence in these companies to the extent that their share prices collapsed’. At the same time the effects of the global financial crisis were being felt and there was a ‘rapid negative shift in attitude of the banks that had hitherto willingly provided finance for the MIS companies and their investors’.²⁶
- 4.34 Rather than being a model that should be abandoned, Dr Cummine suggested that MIS schemes remain ‘the most successful instrument in Australia so far for attracting private investment into large-scale plantation investment’. Dr Cummine, added that tighter regulatory protections for MIS investors are now in place and suggested:
- ...it should now be possible to restore confidence in forestry MIS as a workable means to once again attract private funding ... whether that can eventuate will depend to a large degree on the willingness of management companies, investors and the financial sector to rekindle their trust and commit to creating and offering revised MIS forestry scheme.²⁷
- 4.35 Similarly, Capital Battens believed the MIS had been ‘instrumental in successfully establishing vast tracts of forests in Australia’ and that its

²⁵ Department of Agriculture, *Plantation Development Concessional Loans: Consultation Paper*, p. 2.

²⁶ Alan Cummine, *Submission 28*, p. 7.

²⁷ Alan Cummine, *Submission 28*, p. 9.

shortcomings were easily fixed. Specifically, Capital Battens suggested abolishing upfront funding in favour of the provision of annual fees, and changing the role of the independent forester so it reports to an independent authority such as the Australian Securities and Investments Commission.²⁸

- 4.36 Plantall Forestry Consultants (Plantall) noted that some MIS plantations were poorly managed and planted in inappropriate locations such as areas of marginal rainfall and that these plantations have reverted back to agriculture in the last decade.²⁹ Similarly, the Tasmanian Government noted that the decline in plantations in Tasmania was due to the removal of poorly-performing MIS plantations, stating that recent years had seen:

...consolidation of second rotations around higher performing sites close to markets and non-replanting of uneconomic ex-managed investment scheme plantations ... the fact that a significant proportion of the un-replanted plantation area was poorly-performing, suggests a relatively minor impact on yield.³⁰

- 4.37 New Forests stated that many of these plantations were only established due to the 'size of the market distortion created by the MIS legislation' and over time these plantations had reverted to more valuable land uses, mostly as pasture.³¹
- 4.38 DAWE noted that the MIS schemes were successful at expanding plantations and that regulatory changes to the MIS were being implemented just as the global financial crisis hit and many of the companies collapsed. DAWE stated, however, that many MIS plantations were planted in unsuitable locations and that one of the aims of the National Forest Industries Plan was to ensure that future plantations were well located not 'established as isolated agricultural activities with no easy access to either market or port.'³²
- 4.39 Similarly, AFPA acknowledged the success of the MIS in driving plantation growth but stated that 'the next round of policy that [gets] trees into the

²⁸ Capital Battens, *Submission 17*, p. 2.

²⁹ Plantall Forestry Consultants, *Submission 23*, pp. 2-3.

³⁰ Tasmanian Government, *Submission 20*, p. 3.

³¹ New Forest Asset Management, *Submission 11*, p. 2.

³² Mr Andrew Wilson, Director, Plantations and Innovation, Director of Agriculture, Water and Environment, *Official Committee Hansard*, 28 August 2020, Canberra, p. 4.

ground has to have something to say about where the trees are planted and which trees are planted'.³³

Other Tax Issues

4.40 Perhaps the most significant taxation issue for the plantation industry is period inequity, which is created by the 'lumpy returns' created by the life-cycle of a plantation. Dr Cummine explained why this is an issue for growers, stating:

...most of the income in the occasional large income events (commercial thinning harvests and final clearfall harvest) are taxed at the forest grower's highest marginal tax rate, more income tax is likely to be paid on a plantation forestry enterprise than if the same total amount of income had been received and taxed annually – as occurs with most livestock, cropping, and horticultural enterprises.³⁴

4.41 Dr Cummine argued furthermore that growers who plan to use plantations as a form of superannuation can be particularly badly affected stories and face 'unexpectedly high tax liabilities'. Dr Cummine suggested that these liabilities have discouraged other potential growers establishing plantations.³⁵

4.42 The Institute of Foresters of Australia & the Australian Forest Growers (IFA & AFG) offered potential solutions to the tax issues faced by growers, these included:

- changes to the Capital Gains Tax asset value thresholds for small business concessions 'in relation to the private forests, to account for the appreciating nature of the asset'
- changes to the rules for self-managed superannuation funds (SMSF) 'so that plantation forests established and managed to provide retirement income can be transferred into SMSF'
- changes to the Farm Management Deposits (FMDs) scheme so deposits can 'be made on behalf of partnerships and family companies' and to change the 'withdrawal threshold in relation to death or retirement from

³³ Mr Ross Hampton, Chief Executive, Australian Forest Products Association, *Official Committee Hansard*, 23 September 2020, p. 12.

³⁴ Alan Cummine, *Submission 28*, p. 9.

³⁵ Alan Cummine, *Submission 28*, p. 11.

primary production, with a specific extension of three years or more for forestry.’³⁶

- 4.43 Similarly, Mr Steve Thomas argued that ‘the present FMD Scheme provides very limited incentive to landholders willing to grow commercial crops of trees’. Mr Thomas recommended a ‘new and specific scheme to create very powerful incentives to see a commercial tree crop as a component of a retirement package’.³⁷

Opportunities for Growth

Secondary Markets

- 4.44 Dr Cummine suggested that one of the potential ways of overcoming the disincentive created by time between planting and harvesting is to create a ‘secondary market’ where immature plantations may be sold separately to the land they are standing on. In this system, the initial grower would have the responsibility and risk of establishing a plantation for the first 8 to 10 years of its life and then have the option of selling. Dr Cummine added:

The ‘secondary’ or patient investor (e.g. a super fund or other institution) doesn’t want to take the early risk but will invest in a standing plantation that has survived, and can be measured, monitored and valued for decades with intermediate returns and a big harvest return.³⁸

- 4.45 Similarly, IFA & AFG noted that while growers in forestry managed investment schemes could trade immature plantations after four years, this ability did not extend to other growers. IFA & AFG stated that a ‘secondary market in standing forest without tax penalty would help make investment in long-rotation forestry more attractive.’³⁹
- 4.46 IFA & AFG added that the key current impediments occur when a grower wants to split the land from the plantation and sell one of these two assets while keeping the other. IFA & AFG stated that growers in these instances run into a ‘web of tax rules’ and state regulations, which creates a

³⁶ Institute of Foresters of Australia and Australian Forest Growers, *Submission 10.1*, p. 2.

³⁷ Steve Thomas, *Submission 22*, 1.

³⁸ Alan Cummine, *Submission 28*, p. 12.

³⁹ Institute of Foresters of Australia and Australian Forest Growers, *Submission 10*, p. 4.

disincentive to anyone planning to tend a plantation for less than a full rotation and also when 'dividing rural estates and assets within families.'⁴⁰

Farm Forestry

- 4.47 Farm forestry is a land management system in which trees are grown alongside crops or pastureland. For the purposes of this inquiry, the term relates specifically to the incorporation of small-scale commercial forestry into existing farming practices. AFPA provided examples of farm forestry, stating that it can include 'timber belts, alleys, contour plantings, and paddock tree plantings on marginal land'.⁴¹
- 4.48 IFA & AFG noted that there are at least 3,000 persons currently engaged in farm forestry, while AFPA estimated that farmers have established more than 150,000 hectares of small-scale planted forest across the country.⁴²
- 4.49 AFPA described farm forestry as an 'essential and growing component of the forest product industry'.⁴³ Similarly, Capital Battens emphasised its importance, stating that it 'has to be the answer to Australia's [plantation] problems'.⁴⁴
- 4.50 Dr Cummine explained that farm forestry has the potential to overcome the perceptions of some members of the community that plantations 'take over pastoral landscapes and dislocate farm communities'. Furthermore, Dr Cummine outlined the potential benefits of farm forestry, stating that 'integrating plantation forestry into farming operations could enable a forestry resource to be grown on existing farmland as a complement to agricultural food and fibre enterprises and without displacing farming landholders and land uses'.⁴⁵
- 4.51 Dr Cummine also highlighted that farm forestry has one significant benefit over traditional commercial forestry in that it does not require a capital outlet for land purchase. This cost is either converted to an annual cost when

⁴⁰ Institute of Foresters of Australia and Australian Forest Growers, *Submission 10.1*, p. 3.

⁴¹ Australian Forest Products Association, *Submission 9*, p. 17.

⁴² Dr Kevin James Harding, Deputy Chairman, Institute of Foresters of Australia and Australian Forest Growers, *Official Committee Hansard*, Canberra, 23 September 2020, p. 7.

⁴³ Australian Forest Products Association, *Submission 9*, p. 17.

⁴⁴ Mr Vince Erasmus, General Manager, Capital Battens Pty Ltd, *Official Committee Hansard*, Canberra, 23 September 2020, p. 2.

⁴⁵ Alan Cummine, *Submission 28*, p. 17.

a leasing arrangement is used or eliminated when the forestry operations are run by the farm business.⁴⁶

Wider Benefits for Farmers

- 4.52 The use of farm forestry practices is associated with a number of environmental and land improvement benefits. The Tasmanian Forest Production Association (TFPA) outlined some benefits, stating ‘trees on farms are used as shelterbelts for stock shade and wind breaks, to prevent and remediate soil erosion, to outcompete weeds, to manage salinity problems and as a secondary source of income’. Furthermore, TFPA asserted that: ‘Where farmers establish trees along waterways there is the added benefit of shading, reduced stock movement, and much improved stream habitat and water quality as a result.’⁴⁷
- 4.53 Highlighting the potential productivity benefits of farm forestry, AFPA drew attention to a CSRIO study which examined the use of commercial trees as shelterbelts. Analysing a paddock with a shelterbelt to its west and open land to its east, the study found that the western half had 30 per cent more biomass (3.3 tonnes per hectare) than the eastern half, which only had 2.6 tonnes per hectare: ‘The 25 hectare paddock (including 1 hectare of trees) is effectively growing the same quantity of pasture as a 28 hectare unsheltered paddock’. AFPA cautioned that ‘the project is still ongoing’ but anticipated that ‘the benefits of having trees on farms [will be] shown to supply additional benefits previously not widely recognised’.⁴⁸
- 4.54 Another important opportunity relates to the capacity of small-scale commercial forestry to help farmers reduce carbon emissions. AFPA recommended that Federal and State government policies to support the growth of farm forestry should include policies related to carbon storage and associated co-benefits.⁴⁹ Issues related to plantation carbon farming are discussed in more detail later in this chapter.

⁴⁶ Alan Cummine, *Submission 28*, p. 16.

⁴⁷ Tasmanian Forest Products Association, *Submission 27*, p. 3.

⁴⁸ Australian Forest Products Association, *Submission 9*, p. 19.

⁴⁹ Australian Forest Products Association, *Submission 9*, p. 18.

Overseas models

- 4.55 Capital Battens observed that farm forestry is ‘a well-established model around the world’.⁵⁰ In Scandinavia, the United States, and New Zealand, for example, private enterprises are integral to ensuring industrial wood supply. In the United States, approximately 50 per cent of all forest land is owned by individuals and families. These small producers participate in both domestic and international markets.⁵¹
- 4.56 This is also the case in Sweden, where several large cooperatives have been established to process, market, and sell wood products. Notable among these is Norra Skog, which AFPA noted ‘has 17,000 members and collectively produces and sells around 2 million cubic metres of wood each year’.⁵² Capital Battens also drew attention to Södra, ‘a company with 52,000 investors’.⁵³
- 4.57 Furthermore, AFPA stated that over 578,000 hectares, or 34 per cent, of plantation forests in New Zealand are ‘owned by private individuals with parcels of land no more than 10,000 hectares. The New Zealand Farm Forestry Association acts as a national network of farm foresters who share information for mutual commercial benefit.’⁵⁴

Challenges for Farm Forestry

- 4.58 AFPA stated that ‘farm forestry has not realised its full potential’⁵⁵ and inquiry participants identified several key challenges which hinder farm forestry in Australia. These include the tax barriers discussed above and the lack of pricing transparency discussed in Chapter 3. Additional barriers such as a lack of specialist knowledge among farmers, and problems relating to inadequate capacity and poor economies of scale are discussed below.

⁵⁰ Mr Wally Kluktewicz, Group Corporate Affairs and Industrial Relations Manager, Brickworks Ltd., *Official Committee Hansard*, Canberra, 23 September 2020, p. 6.

⁵¹ Australian Forest Products Association, *Submission 9*, p. 17.

⁵² Australian Forest Products Association, *Submission 9*, p. 17. Please note that the submission specifically referenced Norra Skogsägarna. The company has since [merged](#) with Norrskog to become known as Norra Skog.

⁵³ Mr Vince Erasmus, General Manager, Capital Battens Pty Ltd, *Official Committee Hansard*, Canberra, 23 September 2020, p. 2.

⁵⁴ Australian Forest Products Association, *Submission 9*, p. 18.

⁵⁵ Australian Forest Products Association, *Submission 9*, p. 17.

- 4.59 AFPA noted that individual farmers often lack forestry expertise and can find it difficult to access technical advice.⁵⁶ This was likewise observed by Plantall, who stated: ‘There is a deficit of knowledge in how to capture the value in commercial trees on farms’ including among agricultural advisors who rarely recommend forestry projects to farmers.⁵⁷
- 4.60 Dr Cummine identified the Master TreeGrower program as an effective means of redressing this problem. Established in 1996 and initially hosted by the University of Melbourne, Dr Cummine described the course as ‘highly practical, hands-on, peer-level, and focused on the farming operations unique to each farmer. This is the core of what must be balanced with the needs of the plantation processors.’⁵⁸
- 4.61 In conjunction with such programs, Dr Cummine recommended that governments strengthen ‘regional farm forestry extension services to help build the knowledge, practical skills and confidence of farmers and rural contractors to undertake specialised forestry operations.’⁵⁹
- 4.62 AFPA noted that small enterprises are often hampered by inadequate infrastructure for harvest and haul.⁶⁰ IFA & AFG cautioned that farm forests are unlikely to succeed if the infrastructure and access of the plantation location is not considered, stating:
- You can’t just park trees on that bit of land at the back of the property up on a steep slope because you don’t use it for anything else. When it comes to actually harvesting those trees, if you haven’t got ready access, the costs of putting in road infrastructure and getting in the equipment to harvest those steep slopes takes all the profit out of it.⁶¹
- 4.63 The need for secure and stable supplies can also make it difficult for timber processors to rely on small producers to meet demand. As AFPA noted: ‘While a farm forestry operation may produce only small volumes or have

⁵⁶ Australian Forest Products Association, *Submission 9*, p. 17.

⁵⁷ Plantall Forestry Consultants, *Submission 23*, p. 4.

⁵⁸ Alan Cummine, *Submission 28*, p. 15.

⁵⁹ Alan Cummine, *Submission 28*, p. 15.

⁶⁰ Australian Forest Products Association, *Submission 9*, p. 17.

⁶¹ Dr Kevin James Harding, Deputy Chairman, Institute of Foresters of Australia and Australian Forest Growers, *Official Committee Hansard*, Canberra, 23 September 2020, p. 11.

intermittent supply, customers require a large volume supplied consistently'.⁶² Similarly, Dr Cummine stated that:

An important consideration for many farmers and other private growers contemplating commercial tree planting – and an impediment that has often proven to be the final discouragement – are the difficulties small-scale forest growers face in assembling sufficiently large parcels of harvested wood to meet the needs of accessible processors.⁶³

Regional Hubs and Farm Forestry

4.64 As outlined in Chapter 1, the Australian Government has recently established nine Regional Forestry Hubs (hubs). Inquiry participants stressed that the hub model provided ample opportunity to integrate and maximise the capacity of farm forestry.

4.65 Capital Battens, for example, advised that, 'with timber hubs, you should have predefined areas [where trees grow well and] where government would encourage farmers [to pursue small-scale commercial forestry]'. It anticipated that, with time, 'cooperatives or entrepreneurs, with that stability, will find those opportunities and [further] develop those hubs'.⁶⁴

4.66 DAWE reported that the Government is currently developing a National Farm Forestry Strategy which will aim to integrate farm forestry into existing commercial supply chains, thus creating greater confidence in guaranteed supply for processors:

The aim of the strategy is to transform farm forestry as a commercial, timber-supplying enterprise by investigating aggregation tools, data needs, mapping and business models and navigating the challenges of changing land use. It will aim to help farmers explore opportunities for expanding farm forestry, creating future wood and fibre supplies, improving links with the forest industries, and increasing economic returns for farmers.⁶⁵

⁶² Australian Forest Products Association, *Submission 9*, p. 17.

⁶³ Alan Cummine, *Submission 28*, p. 15.

⁶⁴ Mr Wally Kluktewicz, Group Corporate Affairs and Industrial Relations Manager, Brickworks Ltd., *Official Committee Hansard*, Canberra, 23 September 2020, p. 6.

⁶⁵ Australian Government Department of Agriculture, Water and the Environment, *Submission 14*, p. 12.

Carbon Farming

- 4.67 AFPA drew attention to the potential sustainability benefits of plantation forestry noting that the major carbon abatement opportunities from the forest industry are:
- the carbon sequestered in growing forests
 - the carbon stored in durable wood and paper products
 - the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre-based products that have low embodied energy
 - the use of woody biomass for renewable energy (including for renewable heat and biofuels) thereby displacing fossil fuels.⁶⁶
- 4.68 In 2018, AFPA launched the forest industries climate change plan, entitled '18 by 2030', the plan sets the objective for the forest industries to remove 18 million tonnes of carbon dioxide equivalent by 2030, which equates to approximately 23 per cent of the Australian Government's emissions reduction target.⁶⁷
- 4.69 Plantall asserted that 'the economics of growing trees on farms are significantly enhanced now that carbon credits are available to plantations grown longer than 25 years.'⁶⁸ Similarly, DPIRSA stated that 'potential returns from the carbon market could also increase the uptake of forestry as an option for landholders and investors, while facilitating a raft of co-benefits'.⁶⁹
- 4.70 Inquiry participants noted that, alongside gains for farmers, increased agroforestry initiatives can assist other businesses in meeting their carbon targets. Plantall argued, for example, that 'there is a great opportunity for Western Australian gas and mining companies to offset their emissions by growing trees to the benefit of WA farmers, these developments should be landowner driven while using the best technology'.⁷⁰
- 4.71 AKD highlighted how carbon farming can create the possibility for mutually beneficial leasing arrangements for plantations on farms. The forest owner can lease some of a farmer's land in the knowledge that the generation of

⁶⁶ Australian Forest Products Association, *Submission 9*, p. 12.

⁶⁷ Australian Forest Products Association, *Submission 9*, p. 12.

⁶⁸ Plantall Forestry Consultants, *Submission 23*, p. 4.

⁶⁹ Primary Industries and Regions SA, *Submission 21*, p. 4.

⁷⁰ Plantall Forestry Consultants, *Submission 23*, p. 4.

carbon credits will create a steady income while the farm owner has the security of a part of their land earning a stable income.⁷¹

- 4.72 Mr John O'Donnell called for the Commonwealth Future Fund to use part of its \$165 billion fund to invest in plantations as a carbon abatement measure.⁷²

Emissions Reduction Fund

- 4.73 The Australian Government's Emissions Reduction Fund (ERF) is a 'voluntary scheme that aims to provide incentives for a range of organisations and individuals to adopt new practices and technologies to reduce their emissions'. When participants undertake eligible emission reducing activities they receive one Australian Carbon Credit Unit (ACCU) for each tonne of carbon dioxide equivalent gas they have sequestered or reduced.⁷³
- 4.74 The Clean Energy Regulator (CER) advised that in 2017, it completed the method for plantation forestry. This method sets the rules for participation in the ERF and since this time plantation projects have been eligible to participate in the fund. The CER added that it is about to begin a process of engagement with the plantation sector with the objective of updating the method for plantation project participation in the ERF.⁷⁴
- 4.75 The ERF method for plantation forestry includes the need to meet various conditions 'designed to help manage the effects of commercial tree plantings on water availability in locations where average annual rainfall exceeds 600 millimetres'.⁷⁵ DAWE stated that these conditions, commonly referred to as the 'water rule', have consistently been identified by industry as 'the biggest impediment to plantation expansion'.⁷⁶

⁷¹ Mr Shane Vicary, Chief Executive Officer, AKD Softwoods, *Official Committee Hansard*, 23 October 2020, Tumut, p. 4.

⁷² Mr John O'Donnell, *Submission 2*, p. 4.

⁷³ Clean Energy Regulator, 'About the Emissions Reduction Fund', <http://www.cleanenergyregulator.gov.au/ERF/About-the-Emissions-Reduction-Fund>, Accessed 22 January 2021.

⁷⁴ Ms Shayleen Thompson, Executive General Manager, Clean Energy Regulator, *Proof Committee Hansard*, 10 December 2020, Canberra, pp. 1, 5.

⁷⁵ Department of Industry, Science, Energy and Resources, 'Plantation Forestry method', <https://www.industry.gov.au/regulations-and-standards/methods-for-the-emissions-reduction-fund/plantation-forestry-method>, Accessed 22 January 2021.

⁷⁶ Department of Agriculture, Water and the Environment, *Submission 14*, p. 13.

4.76 DAWE advised that, in 2020, amendments were made to the water requirements for the ERF's plantation method which will enable plantation and farm forestry projects to participate in the ERF 'if located in an area where tree planting is unlikely to materially impact water availability'. These changes are initially being applied in the following five Regional Forestry Hubs:

- north east New South Wales
- South West Slopes of New South Wales and Victoria
- south east South Australian section of the Green Triangle
- south west Western Australia
- north/north west Tasmania.⁷⁷

4.77 AFPA called for the changes to the water rule to be applied to all the hubs, especially the Victorian side of the Green Triangle.⁷⁸ HVP also advocated for the need for these changes to be applied in western Victoria.⁷⁹

4.78 DAWE stated that it had identified the Victorian part of the Green Triangle as being an area 'that was already under significant pressure of water availability due to climate change and past plantation establishment'. DAWE added that it has been working with the Victorian Government which is currently attempting to identify areas in the Green Triangle where the risk to water resources from plantation expansion was low.⁸⁰

Climate certification and verification of credits

4.79 The Department of Industry, Science, Energy and Resources (DISER) highlighted the role of Climate Active, a government based system offering certification for businesses who are claiming to have become climate neutral. To achieve climate neutral certification, an organisation must use certified carbon credits, this includes ACCUs but also a range of international carbon credits. DISER advised that not all international credits could be used for

⁷⁷ Department of Agriculture, Water and the Environment, *Submission 14*, p. 13.

⁷⁸ Mr Ross Hampton, Chief Executive Officer, Australian Forest Products Association, *Official Committee Hansard*, 23 September 2020, p. 15.

⁷⁹ HVP Plantations, *Submission 26*, p. 8.

⁸⁰ Ms Kirsty Bunfield, Assistant Secretary, Department of Agriculture, Water and the Environment, *Official Committee Hansard*, 29 October 2020, p. 2.

Climate Active certification, only those that ‘meet similar integrity principles to the ACCU’.⁸¹

- 4.80 DISER also reported that while there were ongoing efforts to encourage the use of ACCUs only ‘about six per cent of offset units are ACCUs. The main reason for that ... is price, with ACCUs being around \$16 a unit, and international units being at a much lower rate—more around the \$3, \$4 or \$5 mark.’⁸² DISER added that the many of the international units were part of the Clean Development Mechanism system, overseen by the United Nations Framework Convention on Climate Change. This is a system with well established standards that has been running for a significant amount of time and so has led to a high level of supply of international credits, which DISER suggested was the primary reasons for the low international prices.⁸³
- 4.81 New Forests suggested that competitiveness of plantation carbon sequestration projects could be improved by raising the auction price and allowing ACCUs to be traded in ‘more lucrative global sequestration markets’ such as the European Union and New Zealand.⁸⁴
- 4.82 New Forests explained that, at the current prices, carbon credits were perhaps adding 1 to 2 per cent to the rate of return on plantations, lifting it to around 5 per cent per year. New Forests described this rate as ‘still subeconomic’, adding:

...it’s unlikely to generate any sufficient or rapid expansion of the industry, it’s not until you see carbon prices well north of [\$20 to \$30]—that you will start actually to catalyse plantation establishment at current land prices and with current economics and the capacity to pay from the current processing sector. That’s the limitation, and that’s why you are not seeing plantation establishment occurring, even with the 600-millimetre [water] rule being clarified for the hubs, which is greatly appreciated by industry.⁸⁵

- 4.83 HVP agreed that the net value of carbon credits needs to increase but noted that this could occur though an increase in the price but also through ‘lower

⁸¹ Ms Katrina Maguire, Acting Head of Division, International Climate and Technology Division, Department of Industry, Science, Energy and Resources (DISER), *Proof Committee Hansard*, 10 December 2020, Canberra, p. 2.

⁸² Ms Maguire, DISER, *Proof Committee Hansard*, 10 December 2020, Canberra, p. 3.

⁸³ Ms Thompson, Clean Energy Regulator, *Proof Committee Hansard*, 10 December 2020, Canberra, p. 4.

⁸⁴ New Forest Asset Management, *Submission 11*, p. 3.

⁸⁵ Mr David Shelton, Director, Investments, New Forests Asset Management, *Official Committee Hansard*, 23 September 2020, Canberra, p. 16.

accreditation and management costs for bringing carbon sequestration credits to market'.⁸⁶

Life Cycle Carbon Storage

- 4.84 In addition, New Forests suggested that carbon sequestration calculations should also include 'the life cycle carbon stored in wood-based end products, not just in standing forests' and that the Government should provide incentives for the greater use of wood products in construction given their lower embodied energy.⁸⁷
- 4.85 HVP agreed with the need to recognise carbon storage in wood products, stating that 'current accounting treats this issue much more conservatively than evidence indicates is appropriate, in essence carbon sequestration credits are more valuable if they are recognised as taking carbon dioxide out of the atmosphere for longer'.⁸⁸

New and Emerging Products

- 4.86 HVP noted that a lot of material in softwood plantations such as branches and damaged sections of logs, as well as processing residue such as bark and sawdust are not used very efficiently. HVP added that markets for these products are still developing and that 'the conversion of these kinds of residue material into higher value products has the capacity to significantly increase the overall recovery of fibre from softwood logs'.⁸⁹
- 4.87 Similarly, New Forests stated that it has heard from sawmillers that they make 90 per cent of their profit from 30 per cent of the product. New Forests called for government incentives for the development of new products such as engineered wood, glue laminated timber, and composite products using wood fibre, sawdust, and plastic.⁹⁰
- 4.88 HVP also highlighted the potential of wood fibre in bio-materials that might include 'replacements for plastics, solvents, pharmaceuticals and entirely new products based on sustainable and bio-degradable products from trees'.

⁸⁶ HVP Plantations, *Submission 26*, p. 8.

⁸⁷ New Forest Asset Management, *Submission 11*, pp. 3-4.

⁸⁸ HVP Plantations, *Submission 26*, p. 8.

⁸⁹ HVP Plantations, *Submission 26*, p. 5.

⁹⁰ Mr David Shelton, Director, Investments, New Forest Asset Management, *Official Committee Hansard*, 23 September 2020, p. 18.

HVP called for governments to support the research and development needed to bring these products to market.⁹¹

Engineered Woods

- 4.89 Pentarch highlighted the developments in engineered wood products which can use both hardwood and good quality immature softwood. These engineered products can have electric and plumbing services, as well as doors and windows, contained in the panel enabling construction cost savings.⁹²
- 4.90 Similarly, the Housing Industry Association (HIA) emphasised the increasing importance of engineered timbers such as Cross Laminated Timber (CLT) and prefabricated walls in the construction industry and added that it expected demand for these products to grow over the next five years.⁹³
- 4.91 AFPA called for greater use of CLT stating that it was making the 'construction of entire buildings including multi-rise from timber a reality'. AFPA stated that apartments can be built faster and cheaper using CLT and the CO₂e emissions of an average CLT apartment will be 1,400 tonnes lower than the average apartment built of concrete and steel. AFPA added that CLT has been manufactured for more than a decade overseas but had only recently begun to be produced domestically.⁹⁴
- 4.92 Hyne Timber reported that it had invested \$56 million in the XLam manufacturing facility in Albury which is the only CLT manufacturing facility in Australasia. Hyne reported that the XLam facility is experiencing increasing demand for its engineered timber products.⁹⁵
- 4.93 AFPA recommended greater use of CLT as part of a 'carbon neutral city' policy which would prioritise the use of wood in building construction. AFPA explained that relative to other building materials such as 'steel, aluminium and concrete, timber products have very low embodied energy, with very low fossil fuel energy inputs'.⁹⁶ Similarly, HVP called for a

⁹¹ HVP Plantations, *Submission 26*, p. 9.

⁹² Pentarch Forest Products, *Submission 19*, p. 9.

⁹³ Housing Industry Association, *Submission 18*, p. 4.

⁹⁴ Australian Forest Products Association, *Submission 9*, p. 13.

⁹⁵ Hyne Timber, *Submission 24*, p. 2.

⁹⁶ Australian Forest Products Association, *Submission 9*, p. 13.

government 'wood first' policy to 'encourage the use of wood in new residential and especially commercial construction'.⁹⁷

Bioenergy

- 4.94 AFPA highlighted the potentially large benefits to both the forest industries and beyond from increased use of sustainably produced biomass for energy. AFPA stated 'sustainably produced biomass from timber processing activities (such as sawdust, timber offcuts and forestry waste) and other agricultural sources, can offer significant potential to contribute to Australia's renewable energy future.'⁹⁸
- 4.95 AFPA noted that under the Kyoto Protocol bioenergy is regarded as carbon neutral and stated that Australia was a 'laggard' in the uptake of bioenergy, falling in the 'bottom quartile of Organisation of Economic Cooperation and Development (OECD) countries with respect to bioenergy as a proportion of the total energy consumption'.⁹⁹
- 4.96 The Department of Industry, Science, Energy and Resources stated that forestry biomass can be used for thermal heat projects under the Emissions Reduction Fund.¹⁰⁰ DAWE indicated that greater use of forest residues for bioenergy was among the priorities for the new Regional Forestry Hubs.¹⁰¹

Committee Comment

- 4.97 For the past decade, the timber industry has not seen any meaningful growth in the extent of the Australian plantation estate. As discussed in Chapter 3 timber processors are facing chronic difficulties in accessing log supplies and one of the key barriers to addressing this shortfall is the absence of new plantations being established.
- 4.98 The economics of growing plantation trees are difficult. The costs of establishing a plantation are considerable, most significantly the cost of the land but there is also the cost of establishing road access for heavy machinery. Additionally, unlike most other crops, plantations do not provide a regular annual revenue source. While some returns may be made

⁹⁷ HVP Plantations, *Submission 26*, p. 9.

⁹⁸ Australian Forest Products Association, *Submission 9*, p. 10.

⁹⁹ Australian Forest Products Association, *Submission 9*, p. 11.

¹⁰⁰ Department of Industry, Science, Energy and Resources, *Submission 31*, p. 1.

¹⁰¹ Department of Agriculture, Water and Environment, *Submission 14.1*, p. 4.

once or twice through thinning operations, the vast majority of the returns are delivered at final harvest, which may be 30 years after the initial investment.

- 4.99 Given the decades wait before generating revenue, not to mention the risks from bushfires, plantations will always struggle to deliver the rates of return generally expected by long-term investors. The bulk of Australia's plantations have, therefore, been established with the support of governments, either through direct planting by state governments or by private companies with the help of government incentives.
- 4.100 One such incentive, the managed investment schemes (MIS), was particularly effective in driving plantation establishment in the 1990s and 2000s. Unfortunately, it was also notable for resulting in a number of businesses quickly collapsing and causing economic hardship through the timber supply chain.
- 4.101 Many MIS plantations were planted in inappropriate locations and have since transferred to other agricultural uses. Since that time there has been a strengthening of the MIS investor protections. Whether these schemes will regain investor trust and play a role in future plantation establishment is a matter for the market.
- 4.102 One lesson of the MIS collapse is that it is critical for any future growth to be the right trees planted in the right locations. The Australian Government's Regional Forestry Hub scheme is an important step in ensuring that the new plantations will be located where they can economically be harvested. The Government has also announced that it intends to offer concessional loans for the establishment of plantations. While, these loans have not yet become available, they should play a role in improving the viability of potential projects.
- 4.103 Taxation can also serve as a disincentive to plantation establishment. With the bulk of a plantation's revenue coming in a single year, growers can be hit with massive tax bills in the harvest year after years of generating no revenue. This 'period inequity' results in growers paying more tax than other businesses with a more regular revenue stream. The Committee also heard that farm foresters can be disadvantaged when attempting to use plantations as a form of superannuation.
- 4.104 Related to these issues, it can be difficult for growers to separate the plantation and the land it is grown on into individual assets. If it were easier to sell either the trees or the land individually this would help with farm succession planning as well as improving the liquidity of plantations assets.

- 4.105 The Committee supports the idea of policies that can overcome the disincentives and place the plantation sector on a level playing field. Equally, however, it is vital to ensure that new policies do not create market distortions and that plantations are only situated where they are the most appropriate land use.
- 4.106 Analysing the potential incentives and taxation reforms that could boost plantation expansion requires in-depth consideration, including of possible unintended consequences, beyond the scope of this inquiry.
- 4.107 The Committee is therefore recommending that the Productivity Commission undertake a thorough review of potential reforms to encourage plantation establishment. The review should consider potential incentives, taxation reforms, improving the liquidity of plantations, and opportunities to encourage plantation growth as a contribution to superannuation.
- 4.108 Farm forestry is currently only a small component of the Australian plantation industry, but in many other countries its role is much more substantial. One of the advantages of farm forestry is that it can remove the cost of purchasing land. If located in an area with good access to mills, such as in a forestry hub, plantations could offer a useful income diversification for farmers. Additionally, plantations can also provide environmental and productivity benefits for farms.
- 4.109 The Committee was pleased to hear that the Government is developing a National Farm Forestry Strategy. The Committee heard evidence to suggest that there is a need to assist farmers with developing technical skills related to plantation management. There is also a need to look at options to assist farm foresters to aggregate their harvests to create log parcels of a viable size for processors. The Committee is recommending these two issues are addressed in the National Farm Forestry Strategy.
- 4.110 There are a number of emerging markets for wood fibre, including from residues such as sawdust and branches, which could have a positive impact on plantation economics. Currently, the vast majority of the revenue available to a softwood grower comes from the sawlog with a large quantity of wood fibre wasted or used for low-value uses.
- 4.111 The development of engineered timbers, biodegradable plastics, and bioenergy could lead to greater utilisation of the whole tree, thus increasing the value of existing and new plantations. These materials not only offer economic opportunities, they also have environmental benefits by containing lower embodied carbon and creating less problematic waste streams than the products they replace. To fully realise the benefits of these

developments it will be necessary to establish Australian manufacturing facilities to process the residue fibre from growers.

- 4.112 Considering the potential for innovative new products to create demand for previously low-value fibre, the Committee was concerned at the state of forestry research and development in Australia. There appears to have been a substantial decrease in Australia's forestry research capacity since the mid-2000s. There is a need to increase our capabilities in this area to ensure that Australian companies can be at the forefront of commercialising new wood fibre products.
- 4.113 One of the greatest opportunities for the plantation industry is to add value to their assets is through carbon farming. Plantations sequester carbon from the atmosphere thus delivering substantial climate change benefits. The development of a market for these benefits provides a new and on-going revenue stream for growers.
- 4.114 The Committee was pleased to hear of the changes to the 'water rule' which has previously effectively locked plantations out of participation in the Emissions Reduction Fund. The Committee notes, however, that only half of the Regional Forestry Hubs have been made eligible for these changed rules and recommends that this opportunity is also provided to the remaining hubs.
- 4.115 The Committee also notes that the Clean Energy Regulator is about to commence a review of the methodology used to include plantation forestry in the Emissions Reduction Fund. The Committee suggests that this is a good opportunity to consider whether the abatement benefits of the carbon contained in manufactured wood products should also generate carbon credits.
- 4.116 Resetting the economics of plantation establishment will require development on a number of fronts. The diversity of issues discussed here, from carbon farming and new wood fibre products, to concessional loans and taxation reform, shows how much potential for change exists. With an innovative industry and appropriate policy settings there is reason to believe that the plantation industry may once again have the potential to expand.

Recommendation 4

- 4.117 The Committee recommends that the Productivity Commission undertake a review of the regulatory settings relating to the establishment of plantations. This should include current and potential incentives and**

barriers as well as existing and possible taxation regulations. In particular, the review should consider:

- possible options for minimising the impact of period inequity on plantation growers
- the taxation and superannuation effects of farmers engaging in farm forestry activities
- improving the liquidity of plantation assets
- any other potential incentives for, and barriers to, plantation growth and their broad economic impacts.

Recommendation 5

4.118 The Committee recommends that the Australian Government and State and Territory Governments support a significant increase in Australia's forestry research and development capabilities. In particular, this support should:

- focus on the development and commercialisation of new products with the potential to increase demand for Australian timber
- explore and adopt opportunities for increased on-shore value adding to Australian timber products.

Recommendation 6

4.119 The Committee recommends that the National Farm Forestry Strategy should include:

- information, tools, and extension services that support farmers to make decisions regarding plantation establishment and management
- options to assist farm foresters aggregate harvests to better integrate with the supply needs of processors.

Recommendation 7

4.120 The Committee recommends that the Clean Energy Regulator, during its review of the Emissions Reduction Fund method for plantation forestry,

consider the options for inclusion of the carbon abatement embodied in wood products.

Recommendation 8

4.121 The Committee recommends that work be accelerated to develop an Emissions Reduction Fund methodology for carbon stored in the built environment.

- **this work should be underpinned by ongoing work to enhance existing methodologies for farm forestry and plantation forests.**

Recommendation 9

4.122 The Committee recommends that recent changes to the Emissions Reduction Fund rules relating to rainfall levels for plantations be applied to all Regional Forestry Hub regions.

Recommendation 10

4.123 The Committee recommends that the Australian Government prioritise new carbon abatement projects which deliver co-benefits to the Australian economy beyond carbon storage, including, but not limited to, supporting local industry, creating and sustaining jobs, and generating new downstream manufacturing opportunities.

Rick Wilson MP

Chair

18 March 2021

A. Submissions

- 1 Dr Gordon Bradbury
- 2 Mr John O'Donnell
- 3 Softwoods Working Group
- 4 MGA Independent Retailers & TMA Timber Merchants Australia
- 5 Gladwin Legal
- 6 *Confidential*
- 7 *Confidential*
- 8 *Name Withheld*
- 9 Australian Forest Products Association
 - 9.1 Supplementary to submission 9
- 10 Institute of Foresters of Australia & Australian Forest Growers
 - 10.1 Supplementary to submission 10
- 11 New Forests Asset Management
- 12 Plantation Treated Timber Pty Ltd
- 13 Visy Pulp and Paper Pty Ltd
- 14 Australian Government Department of Agriculture, Water and Environment
- 15 Kangaroo Island Plantation Timbers Ltd
- 16 OneFortyOne
- 17 Capital Battens
- 18 Housing Industry Association

- 19 Pentarch Forestry
- 20 Tasmanian Government
- 21 Primary Industries and Regions South Australia
- 22 Mr Steve Thomas
- 23 Plantall Forestry Consultants
- 24 Hyne Timber
- 25 Forestry Industry Association of the Northern Territory
- 26 HVP Plantations Pty Ltd
- 27 Tasmanian Forest Products Association
- 28 Dr Alan Cummine
- 29 Northern Territory Government
- 30 Victorian Government
- 31 Australian Government Department of Industry, Science, Energy and Resources

B. Public hearings

Friday, 28 August 2020

Conference Call

Canberra

- *Department of Agriculture, Water and the Environment*
- *Softwoods Working Group*

Wednesday, 23 September 2020

Committee Room 1R3

Parliament House

Canberra

- *Plantation Treated Timber Pty Ltd*
- *Dr Alan Cummine*
- *Capital Battens Pty Ltd*
- *Australian Forest Products Association*
- *Institute of Foresters of Australia & Australian Forest Growers*
- *Brickworks Ltd*
- *OneFortyOne*
- *New Forests Asset Management*

Friday, 23 October 2020

Gundagai Room

Tumut Council Chambers

76 Capper St

Tumut

- *AKD Softwoods*
- *Australian Forest Products Association*
- *Hyne Timber*

Thursday, 29 October 2020

Committee Room 1R3

Parliament House

Canberra

- *Department of Agriculture, Water and the Environment*

Thursday, 10 December 2020

Committee Room 1R3

Parliament House

Canberra

- *Clean Energy Regulator*
- *Department of Industry, Science, Energy and Resources*