

Australian Forest Plantations – An overview of investment opportunities, support mechanisms and challenges – a global, national, state and regional perspective

A background paper to the keynote address prepared for
'Prospects for high value hardwood timber plantations in the 'dry' tropics of
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INTRODUCTION

Domestic investors are realising the benefits investments in forestry offer. International investors are also focusing on the potential the Australian industry can provide. It is an opportune time to consider the investment potential of the forest and wood products industries in this region, and the wider benefits the sector provide.

This paper considers plantation investment opportunities, support mechanisms and challenges in global, Australian, State (Queensland) and Regional (Far North Queensland) contexts.

An introduction to the Australian investment climate

The Australian forestry sector is entering a period of growth and expansion because of the increasing availability of fibre resources and new investment in the industry. More than \$9.5 billion has been invested in the forestry sector since 1994, including \$3.4 billion invested in new plantations, over \$3 billion in processing and over \$3 billion for mergers and acquisitions.

Australia's domestic market provides a solid platform for investment strategies that aim to increase production, replace imports and value-add along the supply chain. It can also act as a springboard to new export markets. Australia is well placed to take advantage of the expanding wood and fibre markets of the Asia-Pacific region.

The Australian Government aim is to provide a broad economic framework conducive to investment – however, it is private companies and the public who provide the capital. It is only with cooperative learning and decision making between all partners along the supply chain that Australia will realise the full range of opportunities provided by the forest and wood products sector.

An introduction to investment mechanisms

Direct investment in the sector through, for example, plantations or processing and manufacturing facilities, or indirect investment through shares, managed funds or superannuation schemes, offers significant long-term opportunities to investors.

International investors

International companies can no longer rely on high yield, low-cost native forests for their wood and fibre supplies. Issues such as resource depletion increased sovereign risk and the emergence of certification compliance are restricting access to this resource. What are these companies doing about securing a stable and consistent supply of high quality raw materials?

Many are entering into agreements with Australian businesses, either directly or with other partners, to set up plantations, both here and in other countries in the region. These investment strategies

¹ This paper was prepared with the assistance of the 2020 Vision partners.

² DAFF, 2004 compiled with assistance from URS Forestry and Jaakko Poyry Consulting

offer modest and stable returns and can include owning forests and wood processing facilities. Historically, investments in plantations have provided total real returns (net of inflation) of 6-10%, and nominal returns of 9-15%³. Another key benefit of forest ownership is resource security. Direct ownership also provides for influence over the quality of timber being produced and maximising market opportunities and profits.

International companies⁴ are also investing in wood processing in Australia in order to take advantage of Australia's growing domestic demand for wood and paper products and position themselves within the Asia-Pacific region for future growth opportunities. Environmental credits may also provide returns to investors in the future while also improving our environment.

Australia's competitive commercial environment has attracted significant foreign investment over the past five years, with nearly \$7 billion (compared to around \$2 billion from 1994-98) being invested in the forest and wood products sector.

Australian investment

Many international timber companies have invested in processing facilities within Australia and there has been increased investment in the industry via shares in listed companies. However there has been a trend among Australian 'mum-and-dad' investors in recent years to invest in Managed Investment Scheme 'prospectus'-based plantations. These are plantations where professional managers usually supervise establishment and management operations while ownership remains with individual investors. This has happened because managed plantation investment scheme companies have been able to create products which are tax effective, relatively low risk and offer direct returns to investors in these products. The investment environment is directly supported by the *Taxation Laws Amendment Act (No. 1) 2002*, the ATO Product Ruling system and mechanisms such as ASIC trading requirements which demonstrate government and industry support within the *Plantations for Australia: The 2020 Vision* framework.

There is also research that shows that the inclusion of timber assets in an investment portfolio can substantially reduce portfolio volatility⁵. As economic growth and interest rates decline, the return on timber investments generally increases. Individual funds in the US are investing more than US\$13 billion in timber companies, a significant investment pool for supporting this sector.

THE GLOBAL PICTURE

Generally the consumption of timber products, like some other commodities, increases with improvements in regional living standards and rising levels of disposable income. The increasing world demand for wood products is supported by population and economic growth. World population growth averages approximately 1.6 per cent per annum and is expected to reach 7.1 billion by year 2015 compared with 6.1 billion in 2000⁷.

The demand for wood products internationally is expected to increase by around 1.2 per cent each year until at least 2010⁸. This market is demand driven. The Food and Agriculture Organisation (FAO) notes that since the early 1990's, the world timber trade is less reliant on upstream products and is favouring trade in downstream value-added processing timber products such as furniture and builders, carpentry and joinery products.

³ www.htrg.com/htrg/educate/timber_invest/timber.html

⁴ For example: Weyerhaeuser, Carter Holt Harvey and Norske -Skog.

⁵ HTRG, 2000

⁶ www.htrg.com/htrg/educate/timber_invest/timber.html

⁷ www.un.org

⁸ www.fao.org

Europe, North America and Japan account for 80 per cent of world trade in forest products⁹, and most forecasts of consumption and production rates in Europe and North America indicate these markets should remain relatively stable.

Improved economic growth in the Asia-Pacific is expected to significantly increase the world demand for forest products and by 2010 the region's net imports may exceed 200 million tonnes⁹. Looking at individual markets, Japan is the region's largest buyer of wood products. The region's fifth largest market, Korea, imports over 80 per cent of its wood needs¹¹, and China is quickly becoming a significant importer, particularly as access to its own timber resources becomes increasingly restricted by greater regulation and control.

Asia Pacific

The Asia-Pacific market provides many trade opportunities.

Firstly, the region's demand for paper products is expected to double by 2010 and secondly, the region is expected to remain a net importer of softwood¹².

There is also uncertainty as to whether some Asian-Pacific countries can maintain their supply of high-yield, low-cost wood from native forests. In many of those countries, the availability of natural timbers is steadily being reduced, greatly limiting the amount of wood available to local processors. China, for example, faces a shortage of 60 million m³ of timber supply arising from their ban on logging¹³. Concurrently there has been a decline in timber supplies from North America as environmental concerns slow production.

As regional economies mature imports of value-added products, such as paper and secondary-processed wood products, by Asian-Pacific countries will potentially increase, even though emerging regional economies such as China and India will continue to import significant quantities of raw materials.

Value-added products

The international trade in value-added wood products¹⁴ is expanding rapidly, while the trade in raw products remains relatively stable. The forest products sector is estimated to contribute about 1 percent of world gross domestic product and to account for 3 percent of international merchandise trade¹⁵. The US and the European Union are the major producers, importers and exporters of value-added products, with furniture the most traded product.

World trade in furniture is worth nearly US\$200 billion. Major importers are the USA, Germany, Canada, China, the UK and Poland. World trade in furniture is expected to grow by 4 per cent annually for the next decade, and currently corresponds to about 1.02 per cent of world trade of manufactures¹⁶.

Australia has natural advantages in developing export opportunities for some high value products, such as niche furniture, based on promoting the unique qualities of our native hardwoods. However, we must not take our eyes off existing markets (for example Japan) and other emerging opportunities, including China and India for products like prefabricated housing, hardwood veneer and multi storey building systems.

⁹ www.fas.usda.gov

¹⁰ The Need for Change – Positioning Australia's Forest Industry for the Changes/Opportunities for Tomorrow . Jaakko Poyry, 2000

¹¹ www.cintrafor.org

¹² Investment Opportunities in the Australian Forest Products Industry , Margules Poyry 1998

¹³ Chief Executive Officer of MTC , www.mtc.com.my

¹⁴ Value-added wood products are produced from the further transformation of sawn -wood and other wood-based material, excluding further processed panels sold as such (ECE/FAO 2000).

¹⁵ www.fao.org/forestry

¹⁶ www.fas.usda.gov

Recent statistics show China's wood flooring consumption reached 220 million square metres in 2002. The volume of the solid wood flooring component was about 90 million square metres, a year-on-year increase of 5.5%. The overall growth in demand for wood flooring strengthened the market share of laminated flooring. Local analysts predict that the total consumption of solid wood flooring in 2003 will exceed 120 million cubic metres.

www.globalwood.org/news/c042102.htm

One of the key structural changes in Australia's forest and wood products industry needed to realise these opportunities is the development of greater vertical integration systems between the primary and secondary processing sectors.

The global forest products trading environment is based on a complex set of interactions; however Australia is a "player" and actively pursues access to international trade opportunities.

Bilateral arrangements

In addition to the bilateral and regional market access opportunities that Australia is pursuing – with the USA and China for example – the Australian Government has not overlooked the forest product trade barriers that will be addressed in the World Trade Organisation (WTO) Doha Round of multilateral trade negotiations. Specifically, forest products are being addressed under the umbrella of non-agricultural market access negotiations. Multilateral trade rounds can be long and difficult affairs, but they potentially offer the greatest rewards.

Focus on Asia

The broader Asia-Pacific region is a topic which is important as this industry becomes more internationally focused.

Forecasts of European and North American consumption and production of wood products show these markets will remain relatively stable. However, the Asia-Pacific region's improved economic development is expected to significantly increase the demand for forest products and, by 2010, net regional imports may exceed 200 million tonnes. The forecasts suggest most of the imports will be value-added products, such as pulp and paper.

Within the Asia-Pacific region, Japan is the largest buyer of wood products. The region's fifth largest market, Korea, imports more than 80 per cent of its wood needs. China is rapidly becoming a significant importer, especially as greater regulation and control restrict access to its own timber resources. India is also considered to have increasing potential as an importer.

Focus on China

China imports six million tonnes of paper products a year — 42 per cent high-grade printing and writing paper and 22 per cent coated paper. By 2010, it will need another 3.7 million tonnes of pulp — that's 18.5 million tonnes of wood — to meet its growing demand. And in the next 20 years more than 600 million of the population will have moved into the middle to high-income bracket - more people than the combined populations of Europe, North America and Japan.

However, China has plans to install an extra 60 million tonnes of paper production capacity by 2010 .

China's accession to the World Trade Organisation (WTO) in December 2001 was a watershed event — not only for Australia— but for the world economy.

China's WTO membership guarantees Australia access to this valuable market under predictable, transparent and enforceable rules. The country's commitment to tariff reductions and imposition of limits on future tariff rate rises will make China a relatively open economy by world standards.

Strengthening and deepening trade and economic relations with China is a major priority for the Australian Government.

In October last year, Australia signed the Trade and Economic Framework with China, setting the direction for developing the strong and rapidly expanding trade and economic relationship between our two countries.

A key element of the framework is a commitment to undertake a joint feasibility study into a possible Australia-China free trade agreement (FTA).

It follows the FTA negotiated recently with the United States, which resulted in an immediate zero tariff level on all forest product exports to the US. The FTA provides exciting opportunities for the paper and paperboard industry, as high US tariffs on paper products have historically been an obstacle to deeper market access.

The completion date for a joint feasibility study into a possible FTA between Australia and China is 31 October 2005, and the Australian Government will be working to ensure favorable outcomes.

THE AUSTRALIAN PICTURE

The Resource

Australia's expanding plantation resource base is the foundation for increasing participation in the expanding Asia-Pacific market. Australia has a total forest area of approximately 164 million hectares, 162 million of which is native forest and 1.6 million of which is plantation forest. 11 million hectares of multiple-use native forests and 1.6 million hectares of plantation forests produce nearly 27 million cubic metres (18 million cubic metres from plantations) of fibre, valued at just over \$1.4 billion. More than 1,100 mills and processing facilities turn this fibre into \$15 billion of products. The products include 3.06 million kilotonnes of paper and paper products, four million cubic metres of sawn wood and two million cubic metres of panels¹⁷.

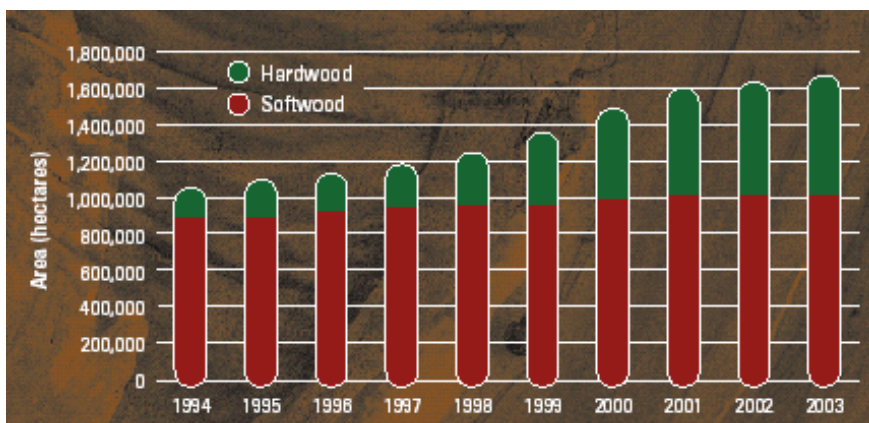
The plantation resource is 39% hardwood and 61% softwood. Over \$3.4 billion has been invested in plantations in Australia since 1994. Plantation areas have increased by 50 per cent since 1990 and since 1997, more than 500,000 hectares of new plantations have been established with the support of *Plantations for Australia: The 2020 Vision*.

¹⁷ ABARE, Forest and Wood Products Statistics

In coming years yields from plantations will continue to increase, with forecasts from the Australian Bureau of Agricultural and Resource Economics (ABARE) suggesting a 20% increase in plantation softwood fibre and a ten-fold increase in fibre sourced from plantation hardwoods by 2009.

Our forest sector is a major income generator that represents 7.5 per cent of our manufacturing output and 1 per cent of GDP¹⁸. The forest and wood products industry is one of Australia's largest manufacturing sectors, estimated to be directly employing around 130,000 people across regional and rural Australia.

Figure 1 Growth in plantation resource in Australia, 1994-2003



Source: BRS, National Plantation Industry Australia, 2004 Update

Investment Strengths of the Australian Forest Industry¹⁹

Australia has the attributes necessary to make forestry plantation investments profitable and environmentally and socially sustainable. These attributes include:

1. A biophysical environment suitable to cultivate healthy plantations;
2. Environmentally sustainable practices and certification;
3. Innovative technologies;
4. An internationally cost competitive industry;
5. Expert forestry professionals;
6. Strong demand for plantation timber;
7. Emerging markets for environmental services, including carbon credits;
8. Supportive Government Policy Frameworks and
9. Excellent Infrastructure

1. Biophysical Environment

Australia has been voted the number one country in the world for available arable land²⁰ and is ranked fourth (behind USA, Singapore and Canada respectively) overall out of the 60 countries and regional economies surveyed. 2.9 million hectares is currently considered physically and economically viable for timber production because of its close proximity to existing timber processing facilities. A range of suitable soil types provide suitable environments for healthy plantations, however the relationship between land cost and land suitability is a critical issue.

¹⁸ ABS, 2001

¹⁹ www.daff.gov.au/forestry/investment

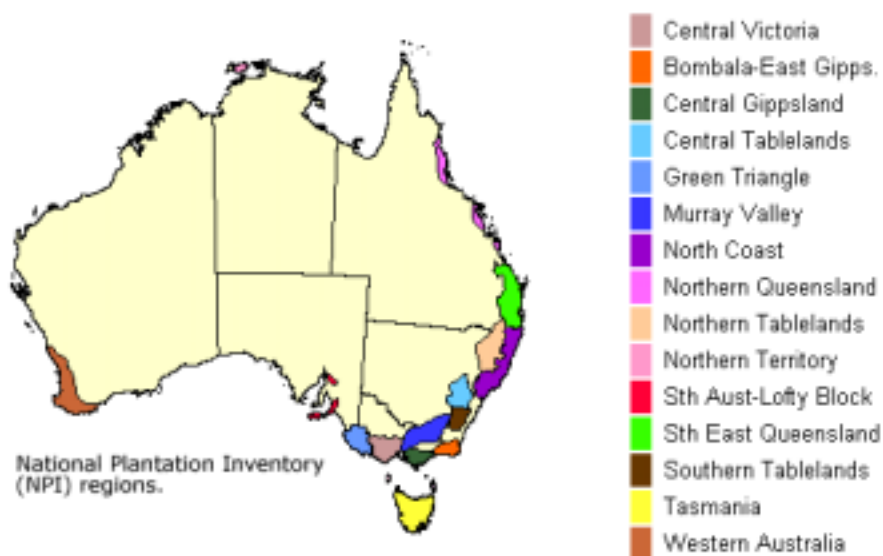
²⁰ www02.imd.ch/wcy/ranking/

Climatic conditions ranging from Tropical to Cool Temperate across Australia provide the opportunity to grow a wide range of species suitable to a variety of markets.

Australia's strict quarantine and pest incursion regime helps to ensure the long-term health of the plantation and protection from disease.

The Australian Government Bureau of Rural Sciences has developed an interactive on-line tool to help identify land suitable for commercial timber plantations in Australia. The Plantation Information Network can be located at www.brs.gov.au/plantations. Existing and developing plantations are generally within the National Plantation Development Regions illustrated on the map in Figure 2. There are also potential areas suitable for plantation development outside the currently defined regions, if market opportunities for environmental services become a reality.

Figure 2 National Plantation Development (NPI) Regions in Australia



2. Environmentally Sustainable Practices and Certification

Australia is a world leader in sustainable forest management. Plantations grown in Australia are being certified against independent third party certification or agreed standards eg Australian Forestry Standard (AFS) or Forest Stewardship Council (FSC). This enables forest and plantation managers to demonstrate that they sustainably manage their forests and plantations to maintain a balance of environmental, social and economic outcomes.

The Australian Forestry Standard

The AFS is Australia's national forest management certification standard, recognised by Standards Australia and (hopefully by 30 October 2004) the Pan European Forest Certification Council. It is based on the ISO 14001: 1996 and the Montreal Process, and is compatible with other international certification schemes.

www.forestrystandard.org.au

Forest Stewardship Council

The Forest Stewardship Council (FSC) is an international non-profit organisation founded in 1993 to support environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

The FSC Principles and Criteria are the basis for specific regional standards for sustainable forest management across the world's forest resource.

The distinctive FSC trademark - the check and tree symbol - as well as the letters FSC and words 'Forest Stewardship Council' enable customers to recognize responsible forestry products around the world.

www.fsc.org

Update 4 November 2004

The *Programme for the Endorsement of Forest Certification Schemes* (PEFC) 'mutually recognised' the Australian Forest Certification Scheme at the 8th General Assembly of the PEFC Council in Santiago de Chile on Friday 29 October.

3. Innovative Technologies

The Australian Government support for research and development underpins the globally competitive performance of our forest and wood products industries. The Australian and State governments — in partnership with industry — fund research programs through CSIRO, the Forest and Wood Products Research and Development Corporation and Cooperative Research Centres (cooperatively, \$6.3 billion has been invested in CRC programs since 1990 and there are 65 CRCs, of which three focus of the forest and wood products industry) that facilitate sustainable forest management, improve wood and fibre performance, increase wood and paper processing's efficiency and environmental performance, and increase value adding for wood and paper products.

Wood-fibre yields from Australian plantations are amongst the highest in the world, and Australian scientists are continuing to work in conjunction with plantation owners to develop new technologies to keep Australia at the top. Innovations include:

- CSIRO's international award winning SilviScan technology which can undertake rapid measurement of wood-fibre properties in plantation timber;
- University of Melbourne Cooperative Research Centre for Wood Innovation's microwave wood modification technology which has potential to revolutionise timber processing efficiencies; and

- New species of hybrid trees which are salt and drought tolerant have been developed and R&D is on-going. This opens up new opportunities for plantation establishment in areas of Australia not previously considered viable for plantations.

4. An Internationally Cost Competitive Industry (when benchmarked against other countries in the Asia-Pacific region)

The World Economic Forum's *Global Competitiveness Report 2004-05* released on 13 October 2004 ranks Australia in the world's top 15 countries in terms of global competitiveness. Australia is ranked well ahead of many European industrialised nations and emerging Asian economies, including China (46th), however has slipped from 10th place in 2003 after being overtaken by Japan and the United Kingdom.²¹

Australia's timber industry is recognised as internationally cost competitive, with competitive strengths in plantation management, hardwood and softwood fibre costs, transport infrastructure and power generation. *For example:* most resources are located within 100 kilometres of processing facilities and easy access to major ports; Australia has restructured its shipping and transport industry, resulting in an internationally competitive service; and ship charges have fallen by an average of over 20% for Australia's five major ports while port loading and unloading rates are in line with those overseas.

Australia's regional electricity prices are highly competitive when compared with other timber producing countries. Electricity costs in Victoria, for example, are half those of Brazil. Australian companies are rapidly expanding the country's gas pipeline system and are among the most competitive suppliers of gas within the OECD.

International forestry and wood products companies from locations diverse as the US, Europe, Asia and NZ, have already recognised Australia's competitive strengths and have large forestry operations in Australia. These include Norske Skog, Hansol, Carter Holt Harvey, Hancock Timber Resource Group, Nippon Unipac, Weyerhaeuser World Timberfund and Marubeni.

Australia is strongly cost competitive in the production of softwood glue laminated lumber and hardwood pulpwood²². Our existing resources also include diversified processing facilities and specialised high value kiln drying processing capacity.

Broad Australian Government initiatives include the implementation of national competition principles, reducing business taxation rates and wide-ranging reforms of the tax system.

5. Expert Forestry Professionals

Australia has a highly skilled workforce with 2,500 professionally trained foresters. Professional forestry service providers in Australia can provide a wide range of support service to foreign and local investors, including planning, planting, silvicultural and harvesting services. State Governments operate specialised forestry agencies that can partner with forestry investors to provide consultancy services.

6. Strong demand for plantation timber

Australia has a large, and growing wood products processing industry, with clusters of processing centres located around the country. The demand from these processing clusters provides a long-term local market for sawn-wood, round-logs and other wood fibre from plantations. Australian

²¹ <http://www.weforum.org>

²² Investment Opportunities in the Australian Forest Products Industry, Jaakko Poyry @ www.daff.gov.au/forestry
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forestry companies have also established export markets to diversify income sources and ensure the best return from plantation timber.

A 2001 report by an independent consultancy firm indicated the newly established plantation resource within each of Australia's growth regions (Green Triangle, SW W.A. and Tasmania) could supply enough fibre — at least 750,000 tonnes a year — to support a world-scale kraft pulp and paper mill.²³

A new pulp and paper mill would provide increased value-adding opportunities for low-grade forest products, inject more than \$2 billion into regional Australia during construction, increase regional employment opportunities and provide forest growers with up to \$40 million a year in royalties.

7. Emerging markets for environmental services, including carbon credits

In addition to the wood fibre itself, there is increasing recognition of the value of the environmental services that can be generated from well positioned plantations. Environmental services include the sequestration of carbon dioxide, salinity reversal and discharge management aiding landscape recovery, and broader benefits for biodiversity protection, enhancement and restoration.

In Australia, carbon credits are recognised in law by State Governments as separate property rights to the wood-fibre and some plantation owners have already sold these rights in over-the-counter transactions, or indeed are holding them in anticipation of future global carbon-credit trading systems.

However at this stage there is no guarantee that these credits will have a value in the future and the mechanisms for trading are yet to be resolved.

More information on the current status of carbon trading in Australia is available at www.daff.gov.au/forestry/investment.

8. Supportive Government Policy Frameworks

Australia has a stable political and economic environment which offers security to long term investments such as forestry plantation investment. State Governments are actively working to balance the "right to harvest" entitlements of plantation owners with conservation principles, to provide certainty to plantation investments.

The Australian government, in partnership with State Governments, has developed a national approach to forest management, encompassing the National Forest Policy Statement, Regional Forestry Agreements, Plantations for Australia: The 2020 Vision Statement, and the Forest and Wood Products Action Agenda.

Government cooperation has put in place policies and programs to foster a positive attitude to investment, support industry confidence and stability, and encourage a greater willingness by industry to seek out new and more profitable markets.

There are limited Australian Government support and approval mechanisms relevant to plantation investments, all with transparent rules and certain time-frames for decisions. In addition to Tax law, there are two relevant approvals which may be required - the Environmental Protection Biodiversity Conservation (EPBC) Act and Foreign Investment Review Board (FIRB) approval.

²³ Investment Opportunities in the Australian Forest Products Industry, Jaakko Poyry @ www.daff.gov.au/forestry
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- **Taxation:** The Australian Government has sought to boost industry competitiveness by reforming Australia's taxation system, particularly through the passage of the *Taxation Laws Amendment Act (No. 1) 2002*. The Act recognises the unique long term characteristics of forest investments through taxation treatment of plantation investments.

In plantation forestry, most costs are incurred in the year of establishment. In Australia these establishment costs are tax deductible in the year that they are incurred and can be off-set against other income generated in Australia. Corporate tax on assessable income (revenue less allowable tax deductions) is 30% and profits can either be re-invested in Australia or easily repatriated.

- Environmental Protection Biodiversity Conservation (EPBC) Act approval will only be required if a plantation project is likely to have a significant impact on one of seven defined matters of national environmental significance. These are Ramsar Wetlands, nationally listed threatened species and ecological communities, listed migratory species, nuclear actions, Commonwealth Marine Waters and National Heritage Places. Further information is available at <http://www.deh.gov.au/epbc/index.html>.
- Foreign Investment Review Board (FIRB): The Australian Government's foreign investment policy on forestry is welcoming and objections to proposals are rarely raised. Approval is generally granted provided the acquisition relates the principal activities of the forestry venture and is not contrary to the national interest. Further information is available from the Foreign Investment Review Board at www.firb.gov.au.

9. Excellent Infrastructure

Australia has well established forest and transport infrastructure at the national, state and regional levels, including a modern national and regional road and transport system, a competitive rail network and 11 deep water ports

Restructuring in Australia's shipping and transport sectors, has significantly reduced costs and wharf-side delays²⁴. Our port loading and unloading rates are now comparable with most overseas ports. Over the past five years ship charges have fallen by an average of nearly 20% at Australia's five major ports, while stevedoring charges have decreased on average around 10%.

There has also been a considerable upgrading of Australia's national, State and regional road networks²⁵. On average, Australian governments spend around \$7 billion each year on maintaining and improving our 800,000 kilometres of public roads.

THE QUEENSLAND PICTURE ²⁶

The processing of forest products was one of the earliest manufacturing activities in Queensland, and the industry's products and activities underpinned much of the state's early development.

The Queensland plantation estate totals about 212 855 hectares. The National Plantation Inventory 2004 Update indicated that 30 520 hectares are hardwood species and 181 088 hectares are softwood. Queensland has 12.8 percent of the national plantation estate; 4.5 percent hardwood and 18.3 percent softwood. 13 percent of Queensland's total plantation estate is privately owned, with nearly 80 percent of hardwood plantations in private ownership. Currently the estate is dominated by softwood species managed with longer rotations to produce a range of high value timber products.

²⁴ www.dotars.gov.au

²⁵ www.austroads.com.au

²⁶ Information in this paper includes extract from 'The Queensland forest industry – An overview of the commercial growing, management and processing of forest products in Queensland' Dept of Primary Industries and Fisheries, Queensland 2004
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Table 1 Plantation areas in Queensland December 2003

Area (ha) under plantation as at December 2003			
	Hardwood	Softwood	Total
Public	4,617	178,367	182,984
Private	24,372	1,756	26,128
Joint	1,531	965	2,496
Total	30,520	181,088	211,608

Source: National Plantation Inventory, 2004 Update*

* - does not include 1,247 hectares for which tenure information is limited

Timber Queensland calls for 40 000 hectares hardwood target

'Queensland's hardwood timber industry has called on the state government for "a renewed commitment to facilitate a transition to a vibrant hardwood plantation sector" and has asked it to target development of 40 000 hectares of hardwood sawlog plantations in South-east Queensland and the Western Hardwoods Area by 2010. Timber Queensland says this will require the establishment of a further 5000 hectares a year in addition to the areas already committed by DPI Forestry.

Timber Queensland also wants to see additional plantings occur in Central and North Queensland where, it says, land availability and climate should enable the establishment of wider commercial plantation regions.

It says that the transition out of native forests will continue to require further establishment of a substantial plantation resource as an internationally-competitive, plantation-based industry will require much larger volumes than those currently processed from native forests.'

Source: A3P 'making connections' newsletter October 2004

Plantations provide 2.1 million cubic metres (or 76%) of timber for primary processing. In 1999-2000 the local forest industry supplied 83 percent of the demand for forest products in Queensland with the State being a net importer of overseas forest products.

An estimated 860 000 cubic metres of sawn timber products came out of the Queensland industry in 2002-03 of which 88 percent was sold locally. Queensland consumes 1.1 million cubic metres of sawn timber product each year. Overall the Queensland forest industry is not highly export oriented with around 5.5 percent of the total turnover of the forest industry being sold overseas in 1999-2000.

In Queensland, the processing sector uses about 2.8 million cubic metres of timber per year. Plantations provide the most (76 per cent or 2.1 million cubic metres) timber for primary processing.

The Queensland forest industry²⁷ is focussed on building its strengths to achieve or maintain international competitiveness, develop new products and attract investment. Conducting R&D is essential to maintain this focus. The Queensland Department of Primary Industries provides

²⁷ The term *forest industry* refers to those activities relating to the commercial growing, management and transformation (processing) of forest products in Queensland. The industry value chain is divided into five main segments: forestry, sawmilling, wood product manufacturing, paper product manufacturing and furniture manufacturing.

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extensive R&D capacity (more than \$2 M per annum) to the forest industry through initiatives such as:

- the *Forest Technologies Program*
- the *Innovative Forest Products Program*; and
- support for private innovation in areas including timber floor development; multi residential building; resin shake defect, timber preservation and capacity building.

Unlike some other plantation regions in Australia, Queensland has not experienced the expansion of private investment in plantations. A likely explanation²⁸ for this is the perceived risk with the tropical and sub tropical species that can be grown in Queensland (and northern NSW) c.f. *Eucalyptus globulus* in southern regions. An increased investment in R&D in terms of species, site selection and silviculture may ameliorate this situation.

Queensland Government Role

However the Queensland Government has encouraged private investment in plantations through joint ventures, improved legislation and regulation, information and advice.

State legislative²⁹ considerations are as follows:

- **Integrated Planning Act 1997:** The Integrated Planning Act 1997 (IPA) was intended to give significant harvest security for commercial timber growers in Queensland because it provides a means to secure all the necessary legislative approvals at the start of a commercial timber venture before significant financial investment is made. Once approved as a form of development, commercial timber production activities maintain their status as harvestable timber into the future.

The key harvest-security features of the IPA include treating commercial timber growing as a single "seed to sawdust" activity, giving local authorities the power to require approval for, or place conditions on commercial timber growing activities as a material change in use of the land; providing the option to classify new commercial timber plantation activities as self assessable or code assessable under local government planning schemes and clearly recognise and protect commercial timber production activities that were already in operation when the Act started (existing use rights).

However, since the IPA was introduced, it has become clear that the legislation is complex and not well understood by most stakeholders and a number of Local Governments propose using their powers under the IPA in ways that are inconsistent and inappropriate to new forestry developments. The introduction of the Queensland Forest Practices System (QFPS) codes of practice is anticipated to help clear the uncertainties and stabilise the regulatory framework.

- The plantation component of the **Queensland Forest Practices System (QFPS)** is intended to be the vehicle for plantation development on private land. The QFPS is still under development. A consistent state-wide Plantation Code of Practice, endorsed under the EPA 1994, is aimed at ensuring acceptance by local government of QFPS plantation standards, thereby making additional regulation unnecessary. The intent of the QFPS is to provide an integrated legislative approach to afford 'harvest security' to engender investor confidence, and at the same time, underpin environmental standards.

²⁸ Mike Shaw – pers comm. Oct 2004

²⁹ Plantations for Australia: The 2020 Vision 'Establishing plantations in Australia: A Review of Legislative and Regulatory Frameworks' (Draft September 2004)

Queensland Forest Practices System (QFPS)

Acceptance of the draft QFPS will remove national and local government approval requirements by establishing:

- local government of QFPS plantation practice standards such that additional regulation of these matters by different local governments is generally unnecessary
- an environmental system that will enable the Australian Government to recognise the Codes as meeting the National Forest Principles and therefore remove export license requirements for unprocessed timber products grown in plantations.

The lead role for developing the QFPS rests with the Timber Task Force of the Queensland Department of State Development. Other government partners in the process are the Department of Primary Industries (DPI), the Department of Natural Resources and Mines (DNR&M) and the Environmental Protection Agency (EPA).

- **State tree clearing guidelines** apply to Crown lands, and native vegetation cannot be cleared for plantations. Native vegetation clearing issues are excluded from regulation under the Integrated Planning Act, however Local Councils may use Vegetation Protection Ordinances (under the Local Government Act, 1936) to prevent clearing.
- With regard to **rights to plant, harvest and trade plantations** and their products, the Queensland Tree Tenure System amended the Land Title Act, 1994, to allow profits a prendre to be registered on land title: allowing landowners to sell an interest in the trees without having to sell the land or fell the trees.

Financial measures

The Queensland Government has also implemented a number of financial measures directly aimed at overcoming some of the impediments related to plantation forestry. These include:

- *Land Tax Deduction for Primary Production*, where land that is used for the planting and tending of trees in a plantation or a native forest is considered to be used for agricultural purposes if the trees are to be felled for timber, sold or the produce from the trees is to be sold. Land tax is assessed by the Office of State Revenue on the aggregate unimproved value of all freehold land owned by a person in Queensland;
- *Commercial forestry operations – land valuation concession*. The difference between a 'farming land' valuation and an 'unimproved residential' valuation can be significant, and have a major impact on local government rates and the amount of land tax levied on the property. The land valuation concession applies when landowners establish the commercial nature of their business, whether it be commercial forestry and/or any other primary production activities, that meet a series of financial criteria and returns on investment.
- *Lease or conveyance duty*. The payment of duties is a cost incurred by all businesses involved in land transactions. Exemptions from both duties on qualifying agreements for native hardwood plantations have been extended through to June 2005.³⁰
- The Local Government Association of Queensland Inc. in partnership with the Queensland Government, Greening Australia Queensland and Private Forestry SQ, has implemented the

³⁰ Mike Shaw. Pers comm. October 2004

Local Government Private Forestry Project³¹ to develop the 'Private Forestry Model Planning Framework'. The framework is a component of the QFPS and will assist Council Planning Officers, consultant planners, State Government Officers, Timber Industry Groups, Catchment Groups and private forest and plantation managers (companies and individuals) to provide an integrated approach to planning at both regional and local levels with an emphasis on sustainable development.

THE NORTH QUEENSLAND REGIONAL PICTURE

The North Queensland National Plantation Inventory (NPI) region totals 3.5 million hectares and extends from Yeppoon in the south to north of Mossman.

The Queensland Department of Primary Industry Forestry (DPI) is the principal forest grower in the region from Rockhampton through to Atherton. Details of the State owned plantation estate (mainly *Pinus caribaea* with smaller areas of *Pinus elliottii* and *Araucaria sp.*) and harvested volumes are provided in table 2 below.

The public plantation area totals around 23000 ha. There are also a number of small and scattered private plantations throughout the region but no concise data available on areas, age classes and potential yields. The farm forestry resource is comprised mainly of mixed hardwood species, including *Eucalyptus* and rainforest species, dating from the early 1990s and being unlikely to produce sawlogs until after 2020.

Table 2 Public Plantation areas in North Queensland

Management Area	Area (ha)	Established in 03/04 (ha)	Harvested yield (m3)
Atherton	3,624	42	24,109
Ingham	10,273	39	21,434
Rockhampton	8,594	518	66,493
TOTAL	22,491	599	112,036

90 percent of the above areas comprise softwood species, 2 percent hardwoods and 8 percent mixed species.

It is estimated that an additional 54 000 hectares are capable and potentially available for expanded timber plantation production in the North Queensland region.

³¹ Private Forestry Model Planning Framework, Local Government Association of Queensland Inc. (2002)

Australian forest plantations - an overview of investment opportunities, support mechanisms and challenges - a global, national, state and regional perspective - Joanne Roberts

A regional venture

The North Queensland Timber Industry will receive a major boost with the recent announcement that Pentarch Forest Products will purchase three million cubic metres of softwood plantation timber over 15 years from the 12,000 hectare DPI Forestry plantation resource at Ingham, Cardwell, Atherton and Cathu.

The government plans to expand its North Queensland plantations to 14000 hectares while Pentarch intends to establish 5000 ha of softwood plantation, with the aim of increasing regional availability of timber in the North Queensland 'region' to around 350 000 cubic metres per year by 2030.

Source: A3P 'making connections' newsletter October 2004

Infrastructure

Ports are located at Mourilyan Harbour near Innisfail, and also at Mackay, Gladstone, Townsville and Cairns.

The region has a well developed rail network, is connected by a major highway and a small network of roads extending around each of the major centres.

Softwood plantation sawlogs are processed at Ravenshoe and Bondoola. Several sawmills process native forest sawlogs, mainly derived from private land, and may provide markets for future farm forest timber products.

http://data.brs.gov.au/mapserv/plant/region_profile/docs/North%20QLD.pdf

Opportunities for partnership investment with your Natural Resource Management regions

Private Forestry North Queensland is supported through the Australian Government Natural Heritage Trust funding program for regional Private Forestry Development Committees. The role of these regionally based private forestry organisations is to enhance the economic development potential of their region through the expansion of the commercial plantation estate, the improved management of the private native forest resource and through the alignment of regional objectives and those government policies and programs that pertain to furthering regional industry development. Their role is also to achieve natural resource management outcomes (as funding is from NHT).

Private Forestry North Queensland is the PFDC for the North Queensland region. Its unique strength is in its strongly established linkages between industry, all levels of Government, the community and environmental groups in regional Australia. In addition to industry development Private Forestry North Queensland has an increasing role in leveraging their strong regional linkages to assist in implementation and monitoring of emerging natural resource management issues.

Regional NRM and investment opportunities

Fifty seven regions have been identified across Australia for the purposes of addressing natural resource management and sustainable agriculture priorities. The boundaries for each region have been established by agreement between the Australian Government, and State and Territory Governments. Each region has at least one regional body formed with the governance responsibility of undertaking the management and protection of the region's natural resources.

The North Queensland NPI region encompasses all Wet Tropics and part of the of the Burdekin natural resource management regions. The Burdekin Dry Tropics and Fitzroy Basin NRM³² regions are

³² www.nrm.gov.au/state/qld

designated as a National Action Plan for Salinity and Water Quality (NAP) Priority region by the Australian Government and are hence able to attract NAP investment, while all three regions are able to attract Natural Heritage Trust (NHT) and National Landcare Program (NLP) funding. NAP program funds are allocated for Regional Salinity and Water Quality priorities; NHT program funds for Regional Biodiversity priorities and NLP funding for sustainable agriculture priorities.

Both NAP and NHT investment is currently, or will be in the future, allocated via approved Regional Investment Plans developed from accredited (or interim) Regional Natural Resource Management Plans, while NLP investment is allocated in a separate call for projects administered by the relevant responsible regional bodies i.e. Burdekin Dry Tropics Board, Far North Queensland Natural Resource Management Ltd and Fitzroy Basin Association. (www.nrm.gov.au/state/qld/). Currently none of these regions have accredited Regional NRM Plans³³ although have been allocated the funding detailed in Table 3 for the 2003/04 and part of the 2004/05 financial years.

Table 3 Australian Government NRM Program Investment in the North Queensland Region

NRM Region	Burdekin Dry Tropics	Fitzroy Basin	Wet Tropics
2003/04 and part of 04/05 Australian Govt Funding source - (Total \$ approved including Australian Govt funding)			
NAP	\$	\$	\$
Foundation Funding	1.06 M	1.06 M	N.A.
Priority Action Projects	3.22 M	4.32 M	N.A.
NHT			
Foundation Funding	0.18 M	0.2 M	0.60 M
Priority Action Projects	0.19 M	0.51 M	0.55 M
NLP	?	?	?

The draft Regional NRM plans will have defined (or attempted to define) Regional assets and developed aspirational, resource condition and management action targets for the Regional assets.

As a regional Private Forestry Development Committee, Private Forestry North Queensland is well placed to initiate or strengthen partnerships with the regional NRM bodies to access the three investment programs. It is important to:

- Be part of the development, or have a sound understanding, of the Regional NRM plan – get involved in developing the targets
- Understand where plantation forestry fits in relation to assets, threats and management options
- Develop a Regional Private Forestry Strategy that is congruent with the Regional NRM plan and identifies the opportunities for working in partnership
- Identify opportunities for partnership via the Regional NRM facilitator
- Identify other potential partners – Industry, Local Government
- Work in partnership with your local and regional Landcare groups

³³ Colin Macdonald, DAFF Pers comm. October 2004

Environmental benefits – A developing regional opportunity?

The Australian Government is increasingly recognising the multiple benefits plantation forests can provide, including mitigating dryland salinity and combating land degradation. Through the Natural Heritage Trust, the Government has financed a major three-year project on Commercial Environmental Forestry, to develop a co-investment framework for plantations to deliver commercial and environmental outcomes.

The Commercial Environmental Forestry project will target areas where forestry can deliver reasonable growth rates and significant salinity benefits in the short term. This is another way to achieve the plantation expansion targets outlined in the 2020 Vision Statement needed to support the growth of the Australian forest industries.

The CEF Project aims to improve the economics of low to medium rainfall forestry by:

- co-ordinating existing research and undertaking new research to improve the feasibility of forestry in the low to medium rainfall zone;
- identifying the overlap of those areas where forestry growth rates are close to commercial and where salinity benefits can be achieved while protecting water resources;
- developing a forestry investment model whereby regional authorities can purchase the predicted environmental services of targeted plantations. If successful these public investments will be augmenting the traditional income from wood-flows, direct plantations to areas where they will deliver environmental benefits; and
- facilitating an auction process whereby private investors can bid for public co-investment in plantation projects in areas selected by regional authorities.

At the same time, the project will generate substantial private investment in the forest and forest products industry, and deliver important environmental and social benefits through salinity mitigation. The project is being implemented in the Goulburn Broken Catchment Management Authority Region in North East Victoria.

Contact person: Brendan.Moran@daff.gov.au

Partnerships with future and existing processors

Strategic partnerships across the supply chain are most effectively developed at the regional and local scale. It will be critical to the development of a sustainable and relevant plantation industry to actively be pursuing partnerships with stakeholders at all stages of supply from the paddock through to the consumer.

A series of questions to your PFNQ:

- Where is your processing industry based geographically in relation to the plantations?
- What wood does the processing industry need? How do they want it managed?
- Will silvicultural management be the difference between a sale and no sale?
- What is the range of potential final products?
- Does what you are growing link to a current need or a future perceived need?
- What about the industries that don't exist yet? Are you considering flexible silvicultural management regimes to produce a range of final products? Are you researching existing domestic and overseas markets for products to determine the competitive advantage North Queensland might have in production?

- In other regions processors have demonstrated their ability to dramatically restructure their processes and their products in relatively short periods of time in response to available forest and plantation resources. Are you having those conversations with potential or existing processors?

Cooperative marketing – would this work for you?

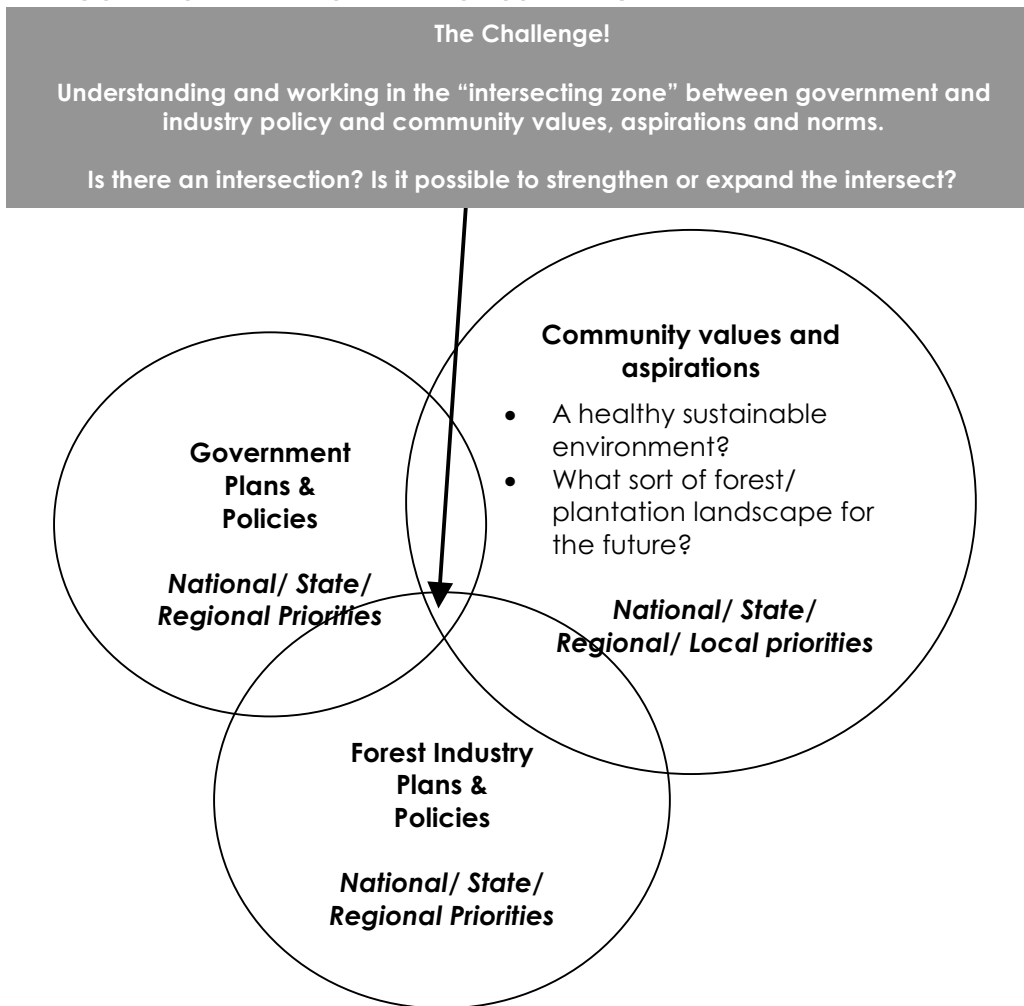
An inspiring example of cooperative marketing is being realised in south west Victoria, where farm foresters have set up a co-operative, SMARTtimbers¹ (Sustainably Managed Australian Regional Timbers), to market small quantities of their unique eucalypts and wattles, casuarinas or cypress, for high quality furniture or appearance products.

SMARTtimber's initial focus is on sugar gum (*Eucalyptus cladocalyx*) a South Australian species, which for over 100 years has been grown by farmers as a plantation species in Victoria's Western District, providing shelter for stock and some 40,000 cubic metres of firewood annually. The cooperative is pursuing value adding opportunities in furniture, flooring, decking and veneer for sugar gum, as well as seeking out prospective members who own sugar gum plantations. Architects have already placed orders for sugar gum decking, which provides a gross return of approx. \$2,000 per cubic metre. Projected returns for flooring are even higher at \$3-4,000 per cubic metre. SMARTtimbers has also undertaken trials on producing veneer from sugar gum, which promises the highest level of returns – up to \$14,000 per cubic metre – as well as the most efficient use of the timber.

In contrast, the stumpage for sugar gum logs paid by firewood harvesters to Western District landholders, ranges from \$5-20 per cubic metre. While it is true that the co-op's projected returns for decking, flooring and veneer all involve harvesting, haulage, storage, handling and processing costs, the net returns for those co-op members willing to make the investment show every prospect of, at least, doubling returns to landholders.

More info: http://www.australia.coop/cs_smarttimber.htm

The community participation and partnership opportunity



Understanding the social environment and planning for community participation we may better realise opportunities at a regional and local level in establishing significant plantation areas – this is a common experience of plantation companies as new ventures are established or existing estates expanded eg Tasmania, Bombala (SE NSW).

Some essential elements of industry/ business/ government/ community interactions or partnerships, developed in considering Landcare partnerships, which are equally applicable to forest industry/ community partnerships³⁴ are:

- A shared vision, developed together (at some level);
- Some common outcome (desired and/or real);
- Sharing knowledge and experiences about past, present and future (your grandchildren);
- Ongoing commitment – recognising the long term nature of plantation activities;
- Ongoing facilitation and technical support from some partner/party;
- Agreed predictable responsibilities, accountabilities and communication activities;
- Participatory decision making processes; and
- Celebrating successes.

³⁴ 'Being Investor Ready Toolkit' Victorian Action Plan for Second Generation Landcare 2004 - in press October 2004 – will be available on www.landcare.net.au November 2004

These elements are echoed in a review of collaborative forest management ³⁵ where the following principles and values are acknowledged as fundamental in approaching collaborative forest management:

- Pluralism – recognising different values, interest and concerns involved in managing forest resources;
- Being open to different types of resource management entitlements eg different tenurial arrangements;
- Avoidance of the placing of blame; focusing rather on future plans;
- Seeking transparency and equity in natural resources management;
- Allowing the civil society to assume ever more important roles and responsibilities;
- Harnessing the complementary capacities of different institutional actors,
- Linking entitlements and responsibilities in the context of natural resource management;
- Appreciating that the process is more important than the short term products;
- Learning by doing through on-going revisions and improvements in management;
- Preparedness to allow adequate time for mutual trust and co-learning to occur.

How are you addressing this in your region? What is the risk **of not** collaboratively planning for and managing new plantations?

Conclusion

There are several themes that need to be given ongoing consideration at various scales if the industry is to continue to expand in your region:

- Nationally we must support existing processors and attract new investments to use our increasing fibre resource.
- We must value-add to provide the products consumers want and to address our trade deficit in forest and wood products. If Australia does not provide the domestic wood products sought by consumers, then these products will be imported to meet the demand.
- Governments at all levels must provide consistent support and improve legislation to encourage sustainable plantation development
- As a fledgling industry for this region remember that you are part of an active global timber resource picture
- As a fledgling industry for this region remember that you are part of a local community and a regional landscape
- Actively seek the partnerships to ensure that the trees you are growing will provide the resource that the processors need - we must consolidate and develop markets.
- And, we must maximise and promote the benefits the industry creates.

What is your regional plantation future and what support do you need to implement it?

³⁵ 'Collaborative forest management: A Review' R. John Petheram, Peter Stephen and Don Gilmour Australian Forestry Vol 67 Number 2 June 2004

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