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Submission

Meeting Future Market Demand

A strategic Directions Issues Paper: Forest Industry Advisory Council.

Introduction

The Forest Industries Federation WA (FIFWA) is the association for the timber industry in Western Australia. FIFWA is representative of almost all the major companies and businesses that operate in the WA timber industry, including commercial plantation growers, harvest and haul operators, and processors in both the native and plantation sectors.

We appreciate the opportunity to comment on the Forest Industry Advisory Councils Strategic Direction Paper *'Meeting Future Market Demand: Australia's Forest Products and Forest Industry'* (hereafter referred to as the Paper) to help shape government policy settings to enable the industry to meet future market demand.

1. Resource Security

Maintaining an adequate estate with secure ongoing supply arrangements is essential for both the native and plantation sectors of the industry to meet future timber demand in Australia. The right to plant and the right to harvest timber that has been planted and/or regenerated are fundamental concerns to ensure this security.

Plantation Forests

As recognised in the Paper plantation establishment in Australia has stagnated and trends suggest an overall decline in the plantation estate.

In Western Australia the State government made significant investments in pine plantations in the 1980's and 1990's, however other than some regeneration of plantation south of Perth there has been virtually no new investment in pine plantations since. In Western Australia there has been steady reduction in the state owned pine plantations and in the past 15 years the total estate has declined from 60,000 ha to 52,000ha in 2013. Without significant new investment it is anticipated

that this trend will continue and a combination of factors including fires, drought, urban development and a decision not to replant the Gngara plantation will reduce the state owned estate to as little as 40,000ha by 2020.

Hardwood plantations (primarily bluegum grown for woodchip exports) expanded rapidly in WA under managed investment schemes, (particularly in the late 1990's and early 2000's). However the global financial crisis and the subsequent collapse of some MIS companies brought an end to this expansion and since this time there has been a consolidation of companies and a reduced rate of replanting.

There is approximately 413,000ha of plantations in Western Australia and declining.

Native Forests

A lack of resource security in the native timber sector has been a principle concern in Western Australia. With minimal private native forestry in WA the estate is essentially held and managed by the state. Multiple changes in state government policy have dramatically reduced the size of the estate available for timber harvesting and therefore the allowable cut to the industry. Of the 2.4 million ha of state native forest, over 62% is in conservation reserves, prohibiting timber harvest, (although not necessarily prohibiting other disturbance activities such as mining). The conservation estate consists of 100% of the old growth forests as well as large areas of the industry's well managed and productive regrowth forests which had previously been harvested and regenerated for future timber production.

A lack of resource security generally has stifled investment in the WA timber industry.

Mechanisms to secure the existing timber estate:

a) WA Regional Forest Agreement

Across the sectors a declining estate is a real point of vulnerability for the future of the timber industry. Consideration needs to be given to mechanisms to secure the existing estate, protecting it from incremental decline.

The WA Regional Forest Agreement (RFA) is a bilateral agreement between the State and the Commonwealth, implemented to provide ecologically sustainable forest management, an expanded CAR reserve system and to provide opportunities for the wood processing industry by way of increased security of wood supply.

While there are a number of industry development commitments upheld by the WA RFA which remain a value to the industry, changes in state legislation increased native forest reservation and exceeded commitments made by the parties to the agreement for forest reservation. This dramatically reduced the envisaged levels of sustainable timber yield available to the industry. The introduction of the States '*protecting our old growth forests*' policy shortly after the signing of the WA RFA severely compromised the agreement.

RFA's should be a cornerstone of forest resource security, both for the plantation and native forest estates on public land however they have failed in this regard in WA. The RFA should therefore be strengthened in its renewal to provide the level of resource security intended.

The right to plant and the right to harvest are also critical considerations to ensure complete resource security. If either a native regrowth forest or a plantation is established and managed for the purpose of producing timber or pulp wood the right to harvest the plantation should not be in question. In Western Australia we have seen examples of challenges to harvest commercially managed regrowth forests and plantations at the time of harvest. Timber estates should be treated no differently to any other agricultural crop, in that they are grown for the purpose of harvest. Again the RFA should be strengthened to ensure the right to harvest is made explicit by the active forest management plans within the RFA area.

Mechanisms to protect the existing timber estate and the right to plant, harvest and regenerate this timber is the first step in providing a greater level of resource security for the future of the industry.

Recommendation: The RFA should be strengthened to provide a greater level of resource security to the industry; protecting the existing estate from incremental decline.

Recommendation: The RFA should ensure the right to regenerate managed forests and the right to harvest them periodically and at maturity.

b) Forest Management Plan (FMP)

The WA Forest Management Plan (FMP) is a 10 year plan for the management of state owned forests. The RFA overlaps a significant proportion of the FMP, although not entirely. The RFA is largely enacted through the WA FMP, yet the two plans are not well aligned. The FMP is currently a fixed 10 year plan, the RFA a 20 year plan. The interim 5 yearly assessments do not align nor is there a consistent renewal mechanism. Ideally the two plans should run parallel to each other, over a longer time frame of 20 – 30 years, with a rolling renewal mechanism and corresponding interim assessments.

Recommendation: Administration of the WA RFA and WA FMP should be aligned, and introduced under a longer term (20+ yrs.) rolling arrangement.

Mechanisms to expand the timber estate: new investment

As recognised in the Paper, retaining and building the timber estate is essential to meet future demand and boost the competitiveness of the industry.

a) MIS

The Managed Investment Schemes (MIS) in combination with the plantation taxation arrangement was successful in attracting private investment for new plantation establishment.

While it is recognised past practices of MIS companies and financial planners resulted in adverse impacts for investors, there have been several inquiries and reviews into the MIS structure and the plantation taxation arrangement. These reviews have resulted in significant changes to both the taxation arrangements and the ASIC disclosure requirements. Under a strengthened structure, MIS could continue to be a very effective mechanism to stimulate investment in private forestry.

Recommendation: Under the reformed structure, MIS should be supported by government and encouraged by industry to attract new plantation investment.

b) Off-Setting the fibre footprint

The Conservation Fund is an American organisation which has established a public-private fund to protect working forests in America. The Fund seeks private partnerships to purchase and expand working forests.

Apple have recently become a partner to the scheme purchasing two forests to help supply their packaging needs. This is a step beyond purchasing certified paper products, it is purchasing whole working forests to protect and increase the acreage of managed forests in America. The Conservation Fund is able to ensure the land remains dedicated to forestry into the future through forestry conservation easements on the land. This may be an emerging opportunity for attracting new investment and creating long term resource security in Australia, particularly as large corporations like Apple seek to offset their fibre footprint by investing in similarly managed forests around the world.

A model such as this may provide an opportunity for farm forestry and private native forestry which is often challenged in a competitive environment by the high cost of land.

Recommendation: Consideration should be given to how to attract investment in plantation expansion in Australia by undertaking a review of successful models internationally.

c) Offsetting costs.

Compliance costs are a major inhibiting factor against local manufacturing in Australia. Opportunities for offsetting these costs, particularly net energy costs could improve competitiveness for the industry. The Renewable Energy Target and associated tradeable certificates is one example of a potential opportunity to offset energy costs. The scheme was designed to credit energy generated from renewable sources. Biomass, irrespective of forest

type, is recognised as a renewable fuel source all over the world, but not yet in Australia. With the incentive of renewable energy certificates wood offcuts and forest residues could be used to generate energy, reducing the reliance on non-renewable coal or gas fired power and heat production.

The lack of incentives to make use of forest residues and wood waste for energy generation is a missed opportunity as far as taking full advantage of all the renewable energy options in Australia but also a missed opportunity for business operating in the industry to offset their energy costs, enhance competitiveness and attract new investment in the sector.

Recommendation: Encourage efficiency improvements within the industry including through support for renewable energy production utilising forest and wood waste.

d) Carbon Policy

Land based carbon abatement schemes are also potential mechanisms to drive investment in the industry. With net carbon sequestration in forests and long term carbon storage in harvested wood products the industry is well placed to contribute to the carbon abatement effort. The timber industry in many ways should be at the forefront of carbon policy considerations. However, the current policy framework fails to recognise the carbon sequestration of managed forests over successive rotations, nor the carbon stored in timber products. If carbon credits could be obtained for commercially managed forests or for carbon stored within locally produced timber products this would undoubtedly attract investment in the industry.

Recommendation: Government policy should support and encourage the development of methodologies to credit carbon sequestration in commercially managed forests, and recognise the carbon stored in timber products.

Fire

Another aspect of resource security is dealing with the challenges of a drying climate and increased incidence of bushfire. Recently in Western Australia there has been significant loss of standing volume through bushfire.

With reduced active forest management in native forests, fuel loads have been allowed to build heavily to unprecedented levels, significantly contributing to the severity of bushfires. While prescribed burns offer a partial solution, timber harvesting also has a role to play in this space. Given a healthy residue market and the right government policy settings it is possible much of the fuel in the forest could be collected and converted to fuel for electricity, or liquid fuels. While making use of biomass is efficient, managing the fire risk is essential to protect the existing estate from bushfires.

Recommendation: Encourage active mechanical fuel reduction activities in the forest for commercial use (residue for bioenergy) and adopt non-commercial strategies (prescribed burning) to protect the public assets, the industry and regional communities from severe bushfires.

2. Strengthened regional approaches

The Paper raises the notion of forestry hubs- focusing development around the value chain of a region. We recognise the Bunbury region as one such existing forestry hub in WA, given the number of significant processors located within the region, an enhanced infrastructure network including port facilities and availability of support services. There are other regional areas with the potential to develop as forestry hubs with an effective national framework to promote infrastructure development, such as Albany.

The benefits associated with scale have plateaued in WA due to the declining resource base. While attracting new investment is necessary, attracting new investment in the right location is essential. Past efforts to expand the plantation estate such as MIS and 'Infinintree' resulted in a disjointed array of plantings some of which ultimately proved to be uneconomic to harvest due to their size or distance from processing facilities. One option to enhance the notion of forestry hubs may be to look at how to focus new investment within priority areas or within an economic transport distance to priority areas. Treating plantations as infrastructure within forestry hubs could enable them to be established through the issue of bonds or by way of long term interest only loans.

Similarly a national framework to focus infrastructure development such as transport networks (including critical road links between major routes) within forestry hubs and priority areas servicing the hubs could generate transport and haulage efficiencies. A national framework should give special consideration to the specific and unique requirements of heavy haulage vehicles to maximise transport efficiency, minimising interaction between freight and local traffic routes where possible. An example of such an initiative in Western Australia is the Road to Exports project by the Bunbury Wellington Economic Alliance. While there have been some successes, it remains a concern to industry major transport routes continue to be impinged upon by local residential development, traffic calmers, roundabouts and traffic lights.

Recommendation: Seek ways to prioritise new investment in plantations within a viable distance (e.g. 150km) of existing processing facilities.

Recommendation: seek a national framework to focus transport infrastructure spending around forestry hubs giving special consideration to the needs of heavy haulage vehicles to maximise transport efficiency

3. Research and Development

The Paper acknowledges the importance of R&D and states that *'Industries that do not innovate will inevitably lose market share to those that do'*. Yet there has been a major decline in R&D funding affecting forestry research at CSIRO, and the closure of Cooperative Research Centres (CRC's) and rural R&D corporations (RDC).

The foremost concern with this trend is the permanent loss of key personnel; scientists with specialist knowledge in forestry based research, which are not easily or quickly replaced.

In WA there has been interest in pursuing permanent CRC's to maintain a core group of specialist scientists with a structure to deliver flow through operational implementation.

Given the changing nature of the resource both in native and plantation forestry, research into improving the quality of resource is considered essential work. Principally the areas of research of most interest to the WA industry include; Genetics. Tree breeding to enhance pest and drought tolerance, tree breeding to enhance specific characteristics for pulp or sawn wood production, water modelling to inform state water reform processes and timber durability testing.

International consortiums for R&D may provide opportunities to build on the body of scientific knowledge already in existence and minimise duplication.

Another key consideration is adopting voluntary matching for R&D. Amendments made to the Forestry Marketing Research and Development Services Act (2007) in 2013 enabled the FWPA to access compulsory levies and matching payments provided by the Australian Government. These amendments also allowed for the FWPA to claim matching payments for voluntary contributions. However the relevant regulations were never enacted. FIFWA has supported past lobbying efforts and maintains that the regulations allowing for voluntary matching should be enacted.

Recommendation: Review recent studies into R&D restructure, with a view to retain key scientific personnel and to enhance the body of knowledge in the Australian forest products sector.

Recommendation: Prioritise research according to industry requirements.

Recommendation: Enact regulations to allow for the voluntary matching of R&D funding.

5. Consumer and Community Engagement

Certification

The Paper states '*the forest products sector continues to be responsive to community views*'. This is true of both the native and plantation sectors the result being nearly all forests in Australia carry some level of forest certification. Certification should provide a market advantage, however while customers and retailers are increasingly requesting certified timber anecdotally only a small proportion of consumers actively seek out certified products.

Certification schemes should be transparent and credible; they should recognise the existing regulation surrounding forest management in Australia and not restrict trade or unnecessarily increase the costs of forest management.

The WA industry has expressed a view that there should be a greater promotion of the Australian Forestry Standard particularly internationally. Industry-Government trade missions should actively promote the Australian Forestry Standard to seek a greater recognition of the brand.

Recommendation: International Industry-government lead trade missions should actively promote the AFS/PEFC international brand.

Wood Encouragement policy

Wood first or wood encouragement policies are relatively common in countries such as Canada. Recently La Trobe City Council in Victoria adopted a wood encouragement policy to ensure wood is given careful consideration by designers, architects and builders for council projects in the region. For La Trobe the policy almost certainly will drive the need for technically skilled people, training, research and development. The Council's policy has also attracted AusTimber 2016, a major international event which will bring a large influx of visitors to the region.

Wood encouragement policies signify the importance of the timber industry to particular regional areas. It would be ideal for forestry hubs to adopt wood encouragement policies to promote the significance of the industry to the region whilst benefiting from local job creation, and associated demand for local skills and training.

National Curriculum

Attracting people to a career in forestry is essential for the future of the industry, however as acknowledged in the Paper there has been a significant decline in forest products sector enrolments, both in VET and university courses. It is a concern that declining enrolments are threatening the feasibility of training providers and educational institutions to deliver these courses.

It is possible school leavers are not seeking out employment in the forest products sector due to a lack of knowledge or understanding of the industry. While the Paper noted a number of national campaigns which have tried to address these problems in recent years e.g. the Growing Careers website the concerning trend continues. Stakeholders have questioned if the level of early education in forestry is lacking and if this is contributing to the trend.

Recommendation: Enhance the national curriculum by delivering a coordinated forest products industry educational package to schools, supported by adequate funding to ensure an effective rollout.

Conclusion:

We acknowledge the role of the FIAC committee is to generate an effective 'National Forestry and Fibre Plan' providing a strategy for all levels of government and industry to enhance production and competitiveness in the sector. It is a concern that Australia currently has a net timber products deficit, yet is the 7th most forested nation in the world. Achieving the full potential of the forest products industry will require strong commitment and cooperation between all levels of government and the industry. This submission makes a series of recommendations to help inform the National Forestry and Fibre Plan to this end.

FIFWA is again appreciative of the opportunity to make comments on the strategic directions paper '*Meeting Future Market Demand: Australia's Forest Products and Forest Industry*' and to have these comments thoroughly considered by the Forest Industry Advisory Council. For further queries or clarification on this submission please contact FIFWA on (08)9472 3055.