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Minister for Energy
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The House Standing Committee on Agriculture and Water Resources
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CANBERRA ACT 2600

TASMANIAN GOVERNMENT SUBMISSION

INQUIRY INTO TIMBER SUPPLY CONSTRAINTS IN THE AUSTRALIAN PLANTATION SECTOR

The Tasmanian Government welcomes the opportunity to make a submission to the House of Representatives Standing Committee on Agriculture and Water Resources Inquiry into Timber Supply Chain Constraints in the Australian Plantation Sector.

Tasmanians are proud of our world class sustainably managed forest industries. Tasmania was the first jurisdiction to sign a Regional Forest Agreement (RFA) with the Australian Government in November 1997. The RFA recognises the strong and comprehensive forest management system that operates in this State, which provides for an ecologically sustainable forest management regime and delivers economic and ecological outcomes for the benefit of Tasmania.

Tasmania was also the first state to implement a Wood Encouragement Policy, to help promote the use of more wood in homes, offices and feature design work. The long term storage of carbon in wood products is another benefit that can come from the utilisation of products sourced from our forests, assisting in the management of climate change driven by increasing carbon in our atmosphere.

Tasmania's forestry operations produce responsibly-sourced wood that is both renewable and sustainable. Once harvested the forests are regrown, reflecting the ultimate renewable status of wood, and providing a resource for future generations. In addition, our reserve estate protects over half of our forested lands, and includes more than one million hectares (over 80%) of Tasmania's old growth forests.

The total value of Tasmania's forest industry, including flow-on effects, was more than \$1.2 billion in 2015-16. At that time the industry in Tasmania employed around 5 700 people directly and indirectly. Of those, there are 3 076 direct jobs involved in primary and secondary processing, and 2 651 indirect jobs generated in other industries as a result of demand from the forest industry. When direct jobs up to the point of primary processing are compared, the largest proportion of direct jobs in the industry in Tasmania (41 per cent) were generated by native forests, followed by softwood plantations (33.3 per cent) and hardwood plantations (25.7 per cent).

The total land area of Tasmania is 6.81 million hectares. Of this 3.4 million ha (49.2 per cent) is forested. The forested land is made up of 91 per cent native forest and 9 per cent plantation. There are 812 000 ha of Permanent Timber Production Zone land (PTPZ) – of this, less than half (46 per cent)

contains native forest available for wood production. The private native forest estate comprises approximately 744 000 ha of unreserved native forest.

Tasmania’s private forest estate continues to underpin further growth in the forest products processing sector with associated benefits in economic growth for regional communities and the State more generally.

In total, there are approximately 309 000 ha of plantations on public and private land in Tasmania. This is comprised of approximately 75 per cent hardwood plantations and 25 per cent softwood plantations.

Total wood production in the state in 2018-19 was 5.85 million tonnes. Of this Tasmania’s hardwood and softwood plantations, located primarily on private land, produced approximately 4.51 million tonnes of wood fibre in 2018-19.

The major products sourced from Tasmania’s forests are sawlogs, peeler billets and woodchips.

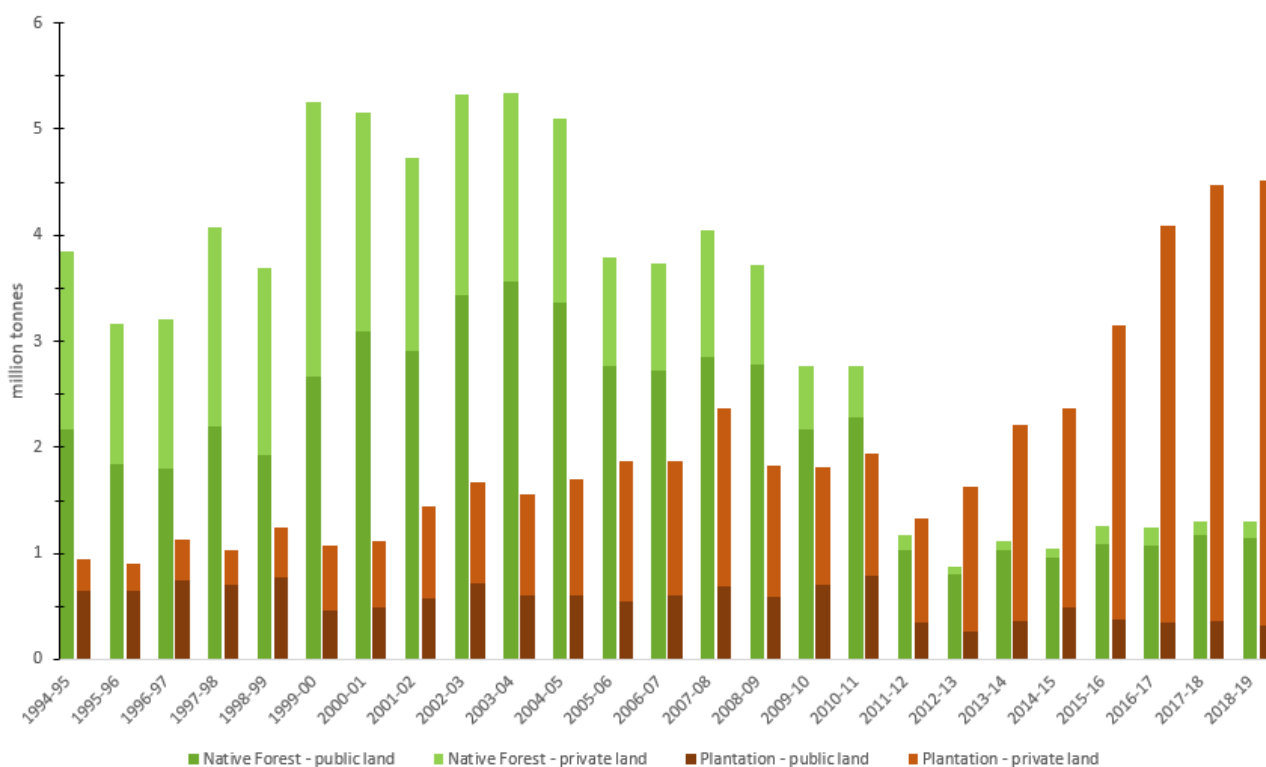


Figure 1: Sources of wood production in Tasmania over the last 25 years.

The recent growth in Tasmania’s plantation harvest is largely the result of expansion of the plantation estate in Tasmania in the 1990s and 2000s with those trees now reaching a harvestable age.

However, over the last decade there has been little to no net increase in plantation or farm forestry development in Tasmania due to a range of challenges. Tasmania is not alone, with similar declines in new plantation establishment over the last decade evident in other Australian states.

This, coupled with Australia’s current trade deficit of \$2 billion for forest products and the projected fourfold increase in global demand for timber and wood fibre products by 2050, means that the trend of a declining plantation estate in Tasmania needs to be reversed. I address the key areas of the inquiry’s terms of reference below.

Projected wood supply

As with other regions in Australia, the expansion of the hardwood plantation resource in Tasmania began in the early 1990s then accelerated rapidly from 2000 to 2010. Shining Gum (*Eucalyptus nitens*) has been the preferred plantation species in Tasmania, due in part to it being more suited to Tasmania's cooler climate, accounting for around 85 per cent of the total hardwood plantation estate. Blue gum (*E. globulus*), which generally has superior wood properties but is less cold tolerant, makes up most of the remainder. Blue gum is the preferred hardwood species established on the Australian mainland or in warmer parts of Tasmania.

In addition to establishing hardwood plantations for pulpwood production, Sustainable Timber Tasmania (STT) manages a proportion of its plantation hardwood estate for sawlog and/or peeler log production. Some of the earliest of these hardwood plantations are currently being harvested with trials being conducted on the suitability of these logs for sawn timber and veneer production. The softwood plantation estate has remained relatively steady over the long term, although there has been a slowing of activity over the last 10 to 15 years as establishment of hardwood plantations has taken precedence within the plantation industry.

Currently, of Tasmania's 309 000 ha of plantations, 230 000 ha are hardwood plantations (the second largest area after Western Australia) and 76 000 ha are softwood plantations. However, as noted previously, the establishment of new plantations in Tasmania has been slow and the overall area of plantation is slowly declining.

The private hardwood plantation estate provided the market with 2.9 million tonnes in 2018-19, the highest volume of logs on record. The dominant products for hardwood plantation logs were pulpwood woodchips (2.34 million tonnes), hardwood ply and veneer logs (342 300 m³) and unpruned sawlogs (229 680 m³). Nearly all these products were for the export market.

The Tasmanian hardwood plantation estate declined by 10 000 ha in 2018-19, and this continues the trend seen in recent years reflecting consolidation of second rotations around higher performing sites close to markets and non-replanting of uneconomic ex-managed investment scheme plantations. While the overall impact of reduced hardwood plantation area on future plantation yield is difficult to predict, the fact that a significant proportion of the un-replanted plantation area was poorly-performing, suggests a relatively minor impact on yield, providing productivity improvements in the second rotation can be achieved.

The private softwood harvest volume of 1.24 million tonnes is considered to be within a long-term sustainable yield range that is being maintained by replanting of harvested areas. Minor year-to-year fluctuations are expected, including the decrease of 13 000 tonnes (1 per cent) in 2018-19 compared to 2017-18. Unlike the hardwood plantation estate, the softwood plantation estate has remained relatively stable.

STT manages 812 000 ha as a Permanent Timber Production Zone (PTPZ) dedicated to supplying the local demand for timber. Approximately 46 per cent of the PTPZ comprises native forests available for wood production and approximately 14 per cent comprises softwood and hardwood plantations managed by STT or other organisations. STT is legislatively obliged to make a minimum aggregate quantity (137 000 m³) of eucalypt sawlogs and veneer logs available to the industry each year. STT's yield modelling suggests that it will have the capacity to deliver the required amount over the next 90 years from a mixture of native and plantation eucalypts.

On average, those plantation logs will be of smaller diameter and different density characteristics than those currently processed from native forest. The log resource mix change over the coming years will require significant investment to re-tool some existing processing facilities and in new forms of domestic processing.

Log pricing and contracts

Most timber products, with the exception of some niche and specialty timber products, are regarded by end users as commodity products and are therefore price sensitive. Domestic demand can be fulfilled by both local and imported products. Imported products typically contain a smaller labour cost component, which increases competition and price pressures.

The bulk of the Tasmanian forest industry plays the role of raw material supplier for large-scale international manufacturers of timber based products. Domestically, wood products serve as inputs for construction, joinery, paper and cardboard.

Most of Tasmania's plantation estate is privately owned or managed, and its log pricing and contract terms are commercial in confidence. However, in general the higher value the product being produced, the longer the contract. For example, contracts to supply plantation wood to sawmills often span multiple years, whereas the large industrial plantation owners often have annual contracts to supply woodchips to Chinese and Japanese buyers. Some of the exported woodchips, and the majority of the exported whole logs, are generally sold on the spot market.

STT has long term contracts (until 2027) with a number of sawmills and veneer mills throughout the state. These contracts currently supply only native forest logs, but in the future may include plantation grown hardwood sawlogs, as its plantation estate matures and the yield from public native forest reduces.

Barriers to plantation establishment

Australia's plantation estate has been established or expanded largely through government funding, either direct funding in the case of softwoods or by providing tax incentives in the case of hardwoods, for example managed investment schemes. Plantations represent a relatively long-term investment subject to return uncertainties which acts as a deterrent for private plantation establishment. Investment decisions to establish new areas of plantation are complex; landowners and investors need to consider a range of issues, and small landowners in particular have shown a reluctance to invest with long growth times and the risk of pest, fire and climate-related impacts.

In private forestry the investment can be up to 30 years for a pine sawlog regime and the standard security requirements on loans needed to invest do not suit these timeframes (fibre or veneer log production can be considerably less). Most agricultural loan schemes are able to structure their loans for repayments to be linked to receipt of annual harvest proceeds. This is difficult to achieve for wood with such a long investment horizon. The commercial thinning of plantations during the growing stage to generate returns is possible in some limited circumstances. However, without other commensurate government policies facilitating the monetisation of non-wood values (for example carbon credits or natural capital), potential investors are wary of risking their other assets.

Infrastructure deficiencies have acted as a disincentive for new plantation establishment, especially in the south of the state. However, investment in critical transport infrastructure (predominantly rail) to link public and private forest supply from these areas to the log processors and ports in the north, has largely alleviated these constraints, noting that the cost of transport will always reduce profitability for those areas developed further from processing and export centres.

In Tasmania, broad scale native forest conversion to plantation was phased out over 15 years ago and large areas of cleared land are no longer readily available for conversion to plantation.

There persists some negative sentiment to growing trees for wood production particularly amongst smaller landowners. This is a barrier to investment in future plantations that will need to be overcome. This negativity can be seen to be largely derived from the outcomes of the managed investment schemes.

Work that is and can be done to address these barriers

The Tasmanian Government has been working hard with industry to address the issues raised above and drive growth and investment in the plantation sector. To expand timber production, it is broadly understood that there are five main options:

1. increase productivity of the current estate
2. industry to expand rural land holdings for new plantation establishment
3. industry-landowner partnerships to increase the area of commercial tree plantations
4. enable financial incentives for planting trees (for example establish schemes which generate returns for natural capital and carbon storage)
5. use more of the tree; for example, more efficient log merchandising or harvest and processing of residues for bioenergy.

All options require new investment and have challenges. Industry will make its own decisions about the relative merits of these options on a case-by-case basis.

To promote tree-planting, our focus is on the requirements of farmers and how trees can be integrated within existing agricultural systems. Greater promotion and awareness of the benefits of trees in the farming landscape is identified as a priority in the Tasmanian Government's *Competitiveness of Tasmanian Agriculture for 2050* White Paper.

The White Paper, released after extensive industry consultation in March 2020, notes that the Government will recognise the economic value of agroforestry by working towards including it in its annual *Agri-Food ScoreCard*, which summarises the value of Tasmanian agricultural production (figures for the 2018-19 ScoreCard later in the year).

Tasmania is the only jurisdiction in Australia to have an independent statutory authority (PFT) dedicated to facilitating private forestry. PFT was established under the State's *Private Forests Act 1994* for the purpose of facilitating and expanding the development of Tasmania's private forest resource in a manner which is consistent with sound forest and land management practices.

PFT plays a key role in promoting agroforestry, including its current *Integrated Farm Forestry Demonstration Sites Program* involving co-investment from PFT, primary producers and the Australian Government's Smart Farming Grant to develop landscape best-practice forestry plantings in the state. The program is designed to establish several demonstration farms with significant farm-scale best-practice integration of shelterbelts and woodlots into the agricultural landscape.

As well as providing income from the sale of wood products, well-planned tree plantings can increase farm profits and productivity by providing shelter to crops and livestock, and protection from wind. Trees on farms provide social benefits that often extend beyond farm boundaries. If done well, partnerships with landowners can provide greater access to land with lower initial capital outlay, provide more co-benefits and be more politically acceptable than large scale land purchase. Conversely,

increasing the demand for locally produced higher value wood and fibre products would provide further incentives for new tree plantings.

The Tasmanian Government commends the Australian Government's initiatives, including this inquiry, to reverse the trend of a reduction in plantation area, and address barriers to expansion. Firstly, through the establishment and promotion of the two Emissions Reduction Fund forestry methods and more recently the release of the National Forest Industries Plan – *Growing a Better Australia; A Billion Trees for Jobs and Growth* which involved the creation of regional forestry hubs including the North-Northwest Tasmania Regional Forestry Hub. The Hub is currently undertaking important work assessing issues such as supply chain and infrastructure and land access challenges and opportunities. The Tasmanian Government will actively consider the recommendations in the Regional Forestry Hub assessment reports as they are finalised.

The Tasmanian Government is committed to a vibrant forest industry and has also invested in a number of policies and initiatives, guided by the Strategic Growth Plan for the Tasmanian Forests, Fine Timber and Wood Fibre Industry. Current policies and initiatives relevant to this inquiry include:

- the Tasmanian Wood Encouragement Policy
- the 2018-19 Tasmanian Bushfire Recovery and Supply Chain Analysis
- the Wood and Fibre Processing Innovation Program 2016
- Southern Tasmanian forest log merchandising and forest residue recovery trials
- investment in the Tasmanian Timber Promotions Board
- a suite of industry-based research projects through the National Institute of Forest Products Innovation
- work investigating how to drive growth in domestic processing and bioenergy
- Private Forests Tasmania's Integrated Farm Forestry Demonstrations Sites Program
- Private Forest Tasmania's Farm Forestry Engagement Plan.

The COVID-19 pandemic and associated supply chain disruption have brought into the spotlight the idea of sovereign manufacturing capacity, a reduced dependence on international exports of raw materials and an increase in value-adding activities. For example, in a recent address to the National Press Club in Canberra this year, the Minister for Industry, Science and Technology, the Hon Karen Andrews, stressed that although manufacturing exports have increased year-on-year, *"it's also true that we currently export far too many raw materials that we have the potential to value-add to through processing and manufacturing"*. The Minister pointed towards the need to secure our nation's economic sovereignty by building an even stronger local processing capacity, and in doing so, incentivise new plantation establishment by creating new higher value markets.

The Tasmanian Government would welcome the Australian Government's continued championing of the forest industries and support of programs such as those mentioned above, aimed at growing the industry and encouraging use of the "ultimate renewable".

Hon Guy Barnett MP
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