

17 February 2014

The Hon Warren Entsch MP
Chair, Joint Select Committee on Northern Australia
(e) jscna@aph.gov.au

Dear Mr Entsch,

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide a submission for the Inquiry into the Development of Northern Australia.

AFPA is the peak national body for Australia's forest, wood and paper products industry. We represent the industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forest, wood and paper products.

As a land use sector and regional based industry, there is significant potential for the forest industry to play a major role in the economic development of Northern Australia. Expanding the plantation base would help to diversify land use and create opportunities for down-stream processing of forest products within the region.

The Existing Plantation Resource in Northern Australia

Investment in plantation establishment has been occurring in Northern Australia since the 1960s. The Australian Plantation Statistics (ABARES 2011) indicate that around 78,000 hectares of plantations are established across Northern Queensland (35,300 ha around Cairns, MacKay and Rockhampton), Northern WA (4,350 at Kununarra) and Northern Territory (29,000 ha on Tiwi Islands, 9,000 ha around Katherine).

However, these plantations tend to be fragmented, lacking the scale at a regional level necessary to support viable wood production facilities (eg. sawmill, wood based panels or pulp mill), thus limiting investment in further processing.

Further investment is necessary to complete the plantation estates in these regions and enable them to make a significant contribution to the economic development of Northern Australia. Once a plantation estate is achieved, with a relatively even area

of plantations established every year of a rotation, further investment in wood processing is likely to follow. However, investment in a large-scale wood production facility will not occur until the plantation resource in the region is of a scale sufficient to provide the relatively even annual flow of log resource necessary to support the log input demands of a wood processing facility over the long term.

A wood production facility requires a critical mass of resource within a transportable distance of its location. As an example, a medium-sized sawmill, with a log input demand of 200,000 m³ per year, requires a plantation area of at least 10,000 ha within a 150 km radius of the mill. This assumes a sawlog plantation on a 30 year rotation with a growth rate (mean annual increment) of 20 m³ per hectare per year.

Benefits from Further Expansion of the Plantation Resource

The regional economic benefits of a viable plantation resource are substantial, as wood product processing facilities are typically located in regional areas in close proximity to the plantation resource, due to the high cost of transporting a bulky product such as a plantation log. This adds considerably to the regional economic benefits of plantations, as in addition to the employment in plantation establishment and management, and harvesting and haulage, the plantation resource also supports manufacturing jobs in sawmills, and other wood processing facilities.

In addition to the development of wood production facilities, the presence of a plantation resource could also support the development of a cogeneration or bioenergy plant. This would offer the opportunity to provide low cost 'green' energy, using the residues from plantation harvesting and wood processing operations, to some of the more remote parts of Northern Australia. The remoteness of many parts of Northern Australia creates major challenges with infrastructure and utilities, particularly electricity generation. A bioenergy facility would not just meet the needs of the wood production facility, but could also provide sufficient energy to power local communities. This could also assist to diversify industries in these regions by attracting other industries that are currently unlikely to establish in these regions due to a lack of relatively low cost reliable electricity.

Policy Support and Incentives to Further Plantation Expansion

An expansion of the plantation resource, and the associated development of wood processing facilities and bioenergy generation, offers significant potential to drive economic development in Northern Australia. However, this expansion is currently constrained by a number of regulatory, planning and environment issues.

To create the right incentive for further investment to expand the plantation resource in Northern Australia and support development of wood processing industries in the region, AFPA recommends consideration be given to:

- improve policy and regulatory frameworks, including developing a forestry code of practice for Northern Australia
- facilitate land access agreements and collaboration with indigenous communities for plantation development projects
- greater investment in research and development specifically suited to plantation management in the north
- address long term infrastructure and planning requirements
- introduce new policies and incentive to support new plantation establishment.

Policy and regulatory framework

Queensland and the Northern Territory lack clear forest policy to guide local government's planning regulations and approval process for plantation development. This has resulted in wide variation in the way plantation development proposals are dealt with at the local level. Overall, local government approval processes tend to be cumbersome, uncertain, drawn out, and costly. This is significantly hindering further investment in plantation development in Queensland and Northern Territory.

What is needed is a consistent basis for land use assessment and planning by local government so that plantation development proposals are treated equitably with other land uses.

Most Australia states have developed forestry codes of practice to provide best practice guidelines and enable industry to demonstrate responsible sustainable

management. These are also used by local governments to guide planning regulations and approval processes for plantation development. A plantation code of practice based on sound science and operational, environmental, safety, community and legislative realities, provides a consistent basis on which local government assess plantation development proposals.

However, neither the Northern Territory nor Queensland have an approved or endorsed code of practice for forest plantations. The absence of a code of practice complicates the local government approval processes and creates uncertainty for investment in plantation development. While Queensland has developed two separate Codes which are currently in draft form, these Codes are yet to be approved and there is no planned deadline for finalising them. These draft Codes are goal-focused, offering little detailed guidance, and there is inadequate linkage to underpinning documents that plantation managers can use to tailor operations to site-specific circumstances.

***Recommendation:** develop forest policies and Codes of Practice to guide local government planning regulations and approvals for plantations in Northern Australia*

Collaboration with indigenous communities

There is significant potential to develop sustainable plantation resources and timber-based industries in Northern Australia on Aboriginal-owned land.

Around 18.5% of land in Northern Australia is owned and/or managed by indigenous communities. In comparison, privately owned land accounts for only 6.1% – substantially lower than that in southern Australia. As a consequence, the price of productive unencumbered (privately owned) land is very high in Northern Australia.

Traditional landowners have indicated an interest in developing forestry projects that provide economic, employment and other social benefits to indigenous communities. Two past examples of successful negotiation with indigenous communities, include plantation development on Melville Island NT and Miriam

Vale in Queensland. However, dialog and consultation with traditional owners tends to be a challenging process and can take several years to determine a community's goals in relation to prospective projects.

What is needed are policies to guide and facilitate negotiations with Aboriginal freehold landowners on large-scale tree plantations projects. These should establish fair and equitable procedures for negotiating land-use with indigenous communities and provide some certainty for investors in collaborative plantation development projects.

***Recommendation:** develop policies and procedures for negotiating with aboriginal freehold landowners to assist large-scale tree plantations development*

Research and development

The physical environment of the northern Australia creates significant challenges for plantation forestry, with the high-seasonality of rainfall (extended dry of 4-6 months), highly weathered soils, highly damaging pest and diseases, and aggressive weed competition. These represent major constraints to tree growth and survival, thus impacting on the physical and economic viability of plantation establishment.

To support further plantation expansion, further research and development is needed on the longer term growth characteristics of plantation species under the unique environmental conditions of Northern Australia. This should include research into specific silvicultural practices to contend with the extreme environmental conditions and control pests, diseases and weeds of Northern Australia.

***Recommendation:** research and development programs focused on the unique requirements for plantation development in Northern Australia*

Infrastructure and planning

The size and remoteness of Northern Australia presents significant challenges to forest products industries. Distance to wood processing facilities, ports and population centres creates price challenges and competitive pressures. This coupled

with poorly developed infrastructure over much of the region needs to be factored into future forestry development planning.

***Recommendation:** further investment in road networks and other infrastructure to support forestry product industries.*

General economic attractiveness of plantation establishment.

The characteristics of forest plantations create significant challenges in attracting large-scale private investment. Plantations are relatively illiquid assets with high initial costs and a long waiting period for a return. With few income events between establishment and harvest, profitability is sensitive to variations in the initial input costs, including land prices, labour and energy. Income is mainly received as one large lump at harvest, typically resulting in a large tax liability as investors are not able to spread returns over the life of the investment. Overall, the high initial costs and long waiting period result in a low rate of return on investment for longer rotations of typically 25 to 40 years.

Plantations also provide public good benefits plantations, which cannot be captured in the market system by a private investor. These include carbon sequestration, soil and water conservation, rehabilitation of degraded landscapes and recreational opportunities. The low rate of return of long rotation plantations and the inability of the plantation owner to capture and/or monetize the public good benefits, results in significant under-investment in plantations.

To address the economics of plantation investment, there is a need to develop policies and investment incentives that augment the high up-front costs and address short to medium term cash flow issues.

***Recommendation:** develop policies and incentive to address the factors limiting private investment in plantations*

Conclusion

The forest industry has considerable potential to play a role in the economic development of Northern Australia. Expanding of the plantation base will diversify land use and create opportunities for down-stream processing of forest products within the region.

Northern Queensland has significant capacity for plantation expansion. There are around 4.7 million hectares of cleared freehold land suitable for forest plantation establishment within 200 km of major population centres and ports of Brisbane, Rockhampton, Mackay and Cairns. Similarly, the Northern Territory has almost 2 million hectares of unencumbered freehold land, much of which would be suitable for plantation forestry.

In addition to the freehold land in Queensland and the Northern Territory, there is an extensive area of Aboriginal-owned land, either freehold or native title that would be suitable for plantation establishment.

In southern Australia, regions such as the Green Triangle (Mt Gambier SA to Portland Victoria), NSW central tablelands (Oberon, Bathurst) and Murray Valley (Tumut, Tumbarumba, Albury), have been built on past investment in plantation development. Through a commitment to plantation investment over the past 50 years, these regions now support strong a vibrant integrated forest product industries (supporting sawmills, wood-based panel production facilities, pulpmills and bioenergy plants), with high levels of employment in these industries and a substantial contribution to the regional economy.

Similar results could be achieved in Northern Australian regions of Rockhampton, Mackay and Cairns in Queensland, Tiwi Islands and Katherine in the Northern Territory and around Kununarra in WA, through further investment and incentives to complete the plantation estates in these regions.

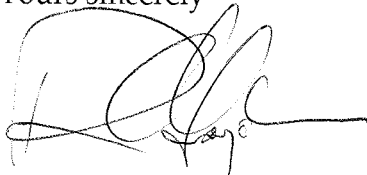
We are beginning to see the results of past investment in Northern Australia, with the Tiwi Plantation Corporation soon to begin harvesting the Acacia plantation resource on Melville Island in the Northern Territory. TPC has successfully negotiated a marketing agreement with Mitsui Corporation, Australia's the fourth largest woodchip exporter. This is likely to generate 100 new jobs for the Tiwi Island's

indigenous community. This is one small example of what can be achieved through investment in plantations in Northern Australia, but further investment, support and incentives are needed to expand the plantation resource to a sufficient scale so that it can achieve its potential to support the economic development of Northern Australia.

If the plantation resource is to expand and support development in further processing and bioenergy, thus realising its potential to drive economic development in parts of Northern Australia, then effort must be made to develop a code of practice for plantation development and management in Northern Australia, develop policy and procedures to support and encourage joint venture project with indigenous communities, support further investment in research and development specifically suited to plantation management in the north, address long term infrastructure and planning requirements, and develop policies and incentive to address the factors limiting private investment in plantations.

For any further queries or clarification on the details in this submission please contact Peter Grist on (02) 6285 3833 or peter.grist@ausfpa.com.au.

Yours sincerely



Ross Hampton
Chief Executive Officer