Forest Industry Advisory Council

Submission
Meeting Future Market Demand
Australia's Forest Products and Forest Industry
Strategic Directions Paper

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PFOLSEN AUSTRALIA

Prepared by : Pat Groenhout
Suite 2, 1st Floor | 120 Upper Heidelberg Road | Ivanhoe | VIC 3079
P: 61 3 9490 5400 | F: 61 3 9497 2008
E: ausinfo@pfolsen.com | www.pfolsen.com/au

Table of Contents

Author: ....
Pat Groenhout 05 June 2015
Managing Director

Summary

PF Olsen Australia commends the Federal Government and Forest Industry Advisory Council for initiating this industry discussion. It is a unique and timely opportunity for the whole forest and forest products sector to contribute to a consolidated future vision and actions to deliver greater efficiencies and productivity and improved interaction through the supply chain. We trust that the process will also work to reinforce ongoing industry collaborative efforts across many of the themes addressed.

As a forest grower and third party services provider, our submission focuses on those areas where we feel we have expertise and opinions that will add value to the strategy.

PF Olsen Australia appreciates the opportunity to contribute to the Strategic Directions process and we look forward to continuing to work with the Government and FIAC to see our industry better placed for the future.

Introduction

About PF Olsen Australia

Established in 2005, PF Olsen Australia has grown to become Australia's fourth largest plantation manager, with approximately 150,000 hectares of hardwood and softwood plantations under management and around 1 million tonnes per annum harvest. We are also Australia's largest independent forestry services provider. We manage client forests ranging in size from 50 hectares to 135,000 hectares. We believe that gives us a unique insight into some of the opportunities and challenges facing forest growers in Australia.

Head-quartered in Melbourne, PF Olsen Australia has operations in every Australian state, with regional offices located in key timber growing regions including Lismore (northern NSW), Bathurst, Tumut, Traralgon, Hamilton (Green Triangle), Kangaroo Island and Albany in Western Australia.

PF Olsen is actively engaged in a range of industry good activities covering safety management, research, pest and disease management, genetics and tree breeding, forest management, forest operations research and forest management certification.

Unique perspective

The Australian forestry sector has undergone considerable change and consolidation over the past 5 years. The arrival of institutional investment has brought a dramatic change in forest ownership and a re-focus on vertical integration to an evolving sector.

As a large scale third party forest manager, PF Olsen Australia brings a unique and fresh perspective to the strategic challenge, as well as considerable experience with this new dynamic from the operations of our parent company in New Zealand.

Vision and Objectives

1. What should be the vision for the forest products sector in the coming decades?

Strong vision for a positive industry philosophy

In a practical sense, it would be appropriate to reflect a vision which is focused on an expanding sector capable of meeting a larger proportion of Australia's wood and wood products demand, internationally recognised for the quality of forest management and attracting new investment from Australia and overseas.

From a philosophical perspective, the vision should encapsulate the "Sunrise Industry" concept previously put forward by the Australian Forest Products Association – that is, an industry seizing opportunity and taking positive steps to address and improve the way it is perceived by the broader community.

2. What specific objectives underpin this vision?

Suggested objectives

Some objectives that might be effectively incorporated to achieve the vision include:

- Better coordinated research and development activities, including integration of objectives through the supply chain.
- Better coordinated and aligned advocacy.
- Expansion of plantation area in key regions, supported by appropriate investment in infrastructure and processing.
- Improved plantation productivity.
- Increased processing capacity, particularly in relation to higher value products.
- Development of effective policy solutions to encourage or facilitate investment and re-investment in forest growing and wood processing.

Issue 1: Market trends and pressures

3. What forest products does Australia have a local and/or international competitive advantage in producing?

Commodity trading environment

The Australian forest products sector is currently locked into a commodity market dynamic. This means that for significant amounts of timber produced in Australia, there are viable and often cheaper alternatives (in both domestic and export markets).

Our two major forest products are softwood plantation timber for construction and hardwood plantation timber for fine paper production. While the quality of timber products produced from Australian plantations is among the best in the world, it is apparent that existing markets do not necessarily value that quality.

Other advantages

Australia is one of the world's premier forestry investment targets. This is the case because of the quality of forest management, high regulatory standards, relatively secure investment environment and legal framework for business. On the recent trade delegation to China, led by Senator Richard Colbeck, a consistent theme voiced by our hosts was that they value "safe" wood – that is timber products sourced from locations such as Australia which are produced sustainably and are demonstrably from legal sources.

These actions and sentiments indicate that Australia has a significant competitive advantage associated with the legal and economic environment within which forests are managed and forest products are manufactured.

4. What is the potential demand for forest products in coming decades?

Population drives demand

The populations of Australia and our major export destinations are significant users of forest and timber products. As standards of living in our major export destinations improve, the demand for these products will continue to rise.

Domestically, Australia's population continues to grow and demand for housing is increasing. Australia is a net importer of timber and timber products, which begs the question whether there are opportunities to utilise more Australian grown forest products domestically.

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Internationally, Australia's wood and wood products exports to China in particular are increasing. Exports are largely in the form of softwood roundwood and hardwood woodchips to satisfy construction and paper demand.

The challenge is whether Australian manufacturing can be expanded to move the sector from a commodity to manufactured goods focus in relation to meeting both domestic and international demand.

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5. How can Australia best position itself for this demand, both nationally and internationally?

Capitalise on skills, reputation and capacity

As identified above, Australia is recognised for the quality of its forest management and manufacturing, political and financial security and potential capacity as a growth region for forestry.

There exists an opportunity to further exploit these positive attributes to attract domestic and foreign investment, which can be better facilitated by governments.

Exploit new free trade arrangements

In line with this, the recent developments in free trade arrangements with some of our most important trading partners in the region present a new frontier to exploit available investment and exporting opportunities.

Align investment demand with forest and manufacturing needs

As is discussed further in our submission, plantation expansion and investment in new processing technologies for emerging wood products. Facilitation of the alignment of investment demand with forest products sector investment requirements should be a head-line objective for the FIAC.

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6. What are the other drivers or disruptions that will potentially affect supply and/or demand?

Strength of the Australian dollar

The persistent strength of the Australian dollar is disruptive to all export businesses. Given the strength of existing competition in the forestry commodity markets, this is particularly problematic for our sector. It acts as a drag on investment through the marginal volatility of prices which in turn undermines investor confidence.

Cheap imports	Imported processed timber and timber products are very competitive with Australian manufactured timber. Embedded within the challenge of cheap imports is the issue of product sourced from "illegal" wood. Review of the effectiveness of the *Illegal Logging Prohibition Act 2012* (Com.), both in scope and implementation, will be instrumental in attempting to address this issue.
Building codes and regulations	Legitimate embedding of wood products into standards and building codes and regulations is a critical avenue for increasing the breadth and depth of market opportunities for wood products. FWPA's work in this respect should be recognised, encouraged and supported by both the sector and all levels of government.

Issue 2: Emerging uses and markets

7. Which emerging forest products have the greatest potential for Australia?

Not a processor

PF Olsen Australia is not involved in timber processing and as such has limited capacity to comment on this section. However, it is apparent that there are timber processing solutions that might feasibly be introduced to the Australian environment which could see a higher proportion of low grade timber used in alternative high-value products, rather than go to export, chip production or waste as is currently the case.

Some examples of potential focus areas are outlined below.

Engineered wood products

Cross laminated timber (CLT) and other high-value engineered wood products are increasing market share in construction applications around the globe. These products have found use in applications in Australia, but are being imported currently.

A focus on investment in the manufacture of high value engineered wood products in one or more key forestry regions in Australia is important if we are to capitalise on potential industry growth.

Biomass for energy production

The role of sustainably produced wood waste in energy production, while controversial, presents significant opportunity for Australian forest growers and processors.

8. What are some of the barriers to the development and/or uptake of these emerging forest products in Australia?

Barriers to investment

There are a number of barriers to manufacturing investment in Australia, including labour costs, attitudes to foreign investment, risk relating to long term growth prospects, lack of growth in the resource base, appropriate and incentives for small private growers. The latter could potentially be garnered through appropriate carbon sequestration recognition and pricing, and tax treatment incentives.

Policy and regulatory barriers

A good example of the policy and regulatory barriers for emerging forest products is the historically poor recognition of forests and forest products in Australia's carbon policy framework.

Misaligned jurisdictions

A challenge to operating a nationwide business in Australia is the misalignment of legislation, regulation and policy from state to state and between state and federal jurisdictions. This has the effect of increasing compliance cost, increasing the risk of non-compliance and reducing overall efficiency for business.

This misalignment ranges from forest management regulation through to issues such as safety management, workers compensation, payroll tax and long service leave.

Clearly these are not issues specific to the forest products sector. However they are a burden on business.

9. What opportunities exist to better utilise wood resources?

Similar solutions

The opportunities for better utilisation of wood resources are essentially the same as emerging forest products opportunities, which afford greater utilisation of wood produced from forests, reducing residues.

Forest residue bio energy

Favourable treatment of forest harvest residues for bioenergy production in Australia’s evolving carbon policy framework could unlock opportunities to transition this from concepts to tangible economic benefit.

Issue 3: Forest resources

10. What is required to ensure the plantation estate is able to meet future demand for forest products

Productivity a critical focus	Investment in productivity research is a critical requirement for ensuring the future capacity of the plantation estate – we need to identify ways to grow more wood per hectare so that: • The current estate can produce more wood; and • Returns are improved so that it makes sense to invest in future rotations and establish new plantations.
Production efficiencies	In addition to growing more wood per hectare, it is critical that we identify ways to remove that wood more efficiently (higher utilisation) and more cost effectively (harvest and transport costs).
Aligning grower objectives with market objectives	A historical gap has been the poor alignment between grower objectives (volume and recovery) and market objectives (timber characteristics). This is challenging given the long lead times between identification of required characteristics, breeding for them and growing trees that possess them. However, it should be a focus for future research efforts.

11. What is required to ensure the native forest estate is able to meet future demand for forest products?

Limited exposure	PF Olsen Australia has limited exposure to broad-scale native forest management and is not in a position to provide informed comment.

12. What opportunities are there to increase wood supply from farm forestry, private native forestry and Indigenous owned and managed lands?

Limited but important

There are limited but significant small-holdings in key forestry regions across Australia. These comprise a number of categories:

- Mature and mid-rotation softwood plantations in southern NSW, east and west Victoria, South Australia and Western Australia. These tend to be between 50 and 400 ha in size and owned by private individuals;
- Orphaned or ex-leasehold hardwood plantations in northern NSW/SE Queensland, Victoria's Green Triangle, Tasmania and Western Australia (including public sector/private share-farm arrangements);
- Small farm plantations scattered throughout productive areas of Australia;
- Private native forests, specifically in northern NSW/SE Queensland and Tasmania.

Challenges and Opportunities

Each of these categories presents different challenges and opportunities. However, a common theme is the difficulty that owners have accessing quality contractors and exercising commercial leverage to viably market logs. As a consequence, many small-holders receive relatively poor treatment in relation to harvest quality and stumpage returns.

There are commercial opportunities to maximise the contribution that these small holdings can make to sustainable regional wood flows. If this can be achieved, it is possible that commercial efforts could be teamed with policy support to create an environment which encourages replanting or even new plantings of tree crops.

Integrated land management

A significant challenge in relation to small private forest ownership is competition for land use – in many regions, tree plantations are viewed as competing with alternative agricultural uses for the same land. We believe that the government has an opportunity to develop policy solutions to encourage integrated land use where on a property by property or region by region basis, land owners are encouraged to identify, plan for and implement practical and commercial scale integrated management regimes that focus appropriate land use to specific on ground and market conditions. Innovative approaches are needed to encourage and incentivise landholders to invest in developing forest resources on their land. Efforts should be directed to landholders within the catchment of forestry hubs so as to maximise the potential for positive benefits for both the landholder, forest grower and processors.

Private native forestry

While relevant states have legislative and regulatory regimes in place to facilitate private native forestry, these are sometimes onerous and difficult to comply with. This has a number of adverse impacts which include:

- Poor environmental outcomes – as a consequence of poor harvesting practices and/or lack of intervention to improve forest quality;
- Poor returns to growers due to lack of effective education and marketing infrastructure;
- Inability to fully capitalise on this significant resource to underpin the long term viability of the native forest sector in key regions.

Issue 4: Innovation, research and development

13. What are the future research and development needs for Australia's forest products sector, and which of these needs are specific strengths and opportunities in the Australian context?

Plantation productivity

Plantation productivity is a critical research focus issue in Australia. In addition to relatively infertile landscapes, a substantial proportion of our plantation estate is approaching or into a second or third rotation – which brings recognised productivity decline.

Addressing plantation productivity has flow-on benefits with respect to investment – the ability to grow significantly more wood of higher quality per hectare would transform the economics of plantation establishment.

In broad terms this incorporates site management and nutrition, genetics and tree breeding, alternative species, nursery technology and practice, establishment technology and techniques, and silvicultural practice. The challenge is to identify priorities where early gains can be made and sustained.

Integrated research priorities through the supply chain

There exists an opportunity to integrate research priorities from the point of germination to the point of final processing in order to ensure the trees we grow today meet the requirements, as can best be understood, for future wood processing – whether it be fibre characteristics, timber characteristics or dimensions.

14. What are the current inhibitors to private sector investment in research, development and extension and what role, if any, does the Australian Government have in addressing these?

Considerable investment occurring

There is considerable private sector investment in research, development and extension occurring in the forestry sector in Australia. As an example, PF Olsen Australia invests approximately $350,000 per annum in research and development both on behalf of clients and in its own right, and is actively involved across a broad spectrum of research and development.

We would argue that there is broad recognition within the industry about the need for industry to financially underpin its own research and development activities, and use this to leverage additional support from governments in relation to priority and/or public good investment.

Aligning research and management objectives

Research programs that do not reflect industry requirements and priorities will struggle to generate investment. FWPA has been particularly effective at achieving this alignment compared with other research organisations, albeit with limited funding.

Current proposals around a centralised research management function for the industry which allows for more cost effective investment through better priority setting and lower overheads are essential to providing the private sector with confidence that research programs are delivering tangible results for industry.

15. How can the framework for coordinating Australian forestry research and development be strengthened?

Current efforts

The forestry sector is currently investing considerable energy and effort into how best to structure forestry research and development into the future. The FIAC should consider the work being undertaken and engage with industry directly to determine where the Government and FIAC can best support and facilitate improvements in the delivery of research.

Issue 5: Consumer and community engagement

16. **How can domestic and international consumers be better engaged on the environmental, economic and social credentials of Australian forest products?**

Expertise required

This is an area requiring specialist expert input, which could be facilitated by FIAC and the Government. It is our view that any efforts should align with and support the work being undertaken by Forest and Wood Products Australia, with support from the Australian Forest Products Association and other representative organisations. It does not make sense to duplicate effort and costs.

17. **How important are consumer awareness programs to the future prosperity of the sector?**

Uncertain results

It is not clear how successful previous programs have been. FWPA has recently presented some metrics which suggest the its television advertising campaign with Planet Ark has been successful in informing community views about the relative environmental and sustainability benefits of wood when compared with other construction materials.

In order for success to be assessed, awareness programs should be constructed in a way that allows objective measurement to be undertaken.

Awareness programs may experience improved traction in the market place if/when the carbon sequestration benefits of wood based products are formally acknowledged within a national carbon policy framework.

18. **Can forest certification be better leveraged to achieve stronger demand and better prices for Australian forest products and, if so, how?**

Market access versus premium product

To answer this question it is important, first, to consider the drivers for certification. Historically these have been:

- **Market expectation** – this is specifically the case for pulp and paper products, where processors have an expectation that raw supply will be from certified forests and supply chains. Some Australian based processors also specify a preference for certified wood products;
- **Owner expectation** – institutional owners, in particular, have an expectation of certification for their forests, which is often a core part of the offering that they have made to investors.

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…continued	PF Olsen Australia sells forest products on behalf of clients to between 15 and 20 Australian and international customers. We have not received any premium for certified forest products. However, certification, whether to the Forest Stewardship Council or PEFC standards, affords us access to specific markets.
Preference for certification scheme	There is increasingly less concern shown by processors between the two forest management standards available for the Australian forest and forest products industries. Similarly forest owners are becoming less concerned with which certification scheme is used.
General consumer sentiment	Certification of timber and timber products has a very low level of consumer engagement and interest. There may be opportunities to increase this.
Certification in emerging markets	On the recent Australian forest industry trade delegation to Beijing and Shanghai, a common theme emerged that Chinese purchasers of forest products are becoming increasingly discerning in relation to “safe” wood – that is, timber and timber products which are sourced form demonstrably legally harvested forests. This is most readily demonstrated through certification. The driver for this appears to be the predominantly European markets that Chinese manufacturers are selling to. It also appears to be increasingly important to the Chinese Government. This presents a significant opportunity for Australian timber and timber products exporters, given the size of the Chinese market.
Conclusion	Price has not historically been a driver for forest management certification and given that forest products are sold within a competitive commodity market, it is unlikely that this will change. However it is clear that forest management certification provides access to a range of forest products markets and that this is a trend that is likely to increase not decrease. It is also increasingly apparent that choice of certification scheme is not a significant driver in relation to market access.

Issue 6: Strengthened regional approaches

19. How could forestry hubs better utilise resources and promote greater efficiencies and innovation?

Important area of work

Addressing this question is a considerable body of work in its own right. Each potential forestry hub has its own characteristics and commercial framework which must be considered in order to make it most effective. Each will also have different focus areas.

20. What have been the barriers to the establishment and efficient operation of forestry hubs to date, and what might be the role of the Australian Government in addressing these?

No simple answer

As reflected in the response above, there is no simple response to this question, as each hub has different characteristics.

21. If additional forestry hubs are to be established, where would they best be located?

Understanding the drivers for establishing hubs are important

Forestry hubs need to be within an economically viable haulage distance from both the forest growers' and processors' perspectives. This is on the premise that the forest resource servicing the hub is of sufficient current and/or future productivity hence commercial value to underpin it as a long term viable use of land. Other drivers need to be carefully assessed and analysed on the basis of detailed business case assessment.

Potential forestry hubs

Hub Location	Key characteristics
SW Western Australia	Key native, and softwood and hardwood plantation region. Significant export operations and processing.
Murray Valley	Premier softwood growing and processing region.
Green Triangle	Key softwood and hardwood plantation region. Significant export operations and processing.
Gippsland/ La Trobe Valley	Significant native forest and softwood plantation region. Processing centre
SE Queensland/NE NSW	Large softwood plantation resource and important public and private native forest resource. Significant processing

Issue 7: Infrastructure

22. What infrastructure will be required to respond to future demand for forest products?

Regional road infrastructure	Strategic review of road networks within forestry hub regions is required so as to target infrastructure investments which will accommodate changes in truck configurations. These changes in configurations are driven by both a need to continually improve safety for all road users as well as improving haulage efficiencies.
Improved port infrastructure and access in key regions	There is a considerable amount of congestion at ports which are utilised by the forestry sector in Australia. Improved infrastructure and accessibility in identified "bottle-neck" regions should be a focus of industry and government collaborative focus.
Rail infrastructure and hubs in key regions	With increasing globalisation of the forest and wood product trade, rail infrastructure from hubs to ports can be an enabling component for the future success of forestry hub developments. There is a case for specific consideration of how rail can be better utilised in the forestry supply chain.

23. What can be done to ensure better recognition and understanding of the sector's infrastructure needs?

Inventory and needs assessment	There is a need, on a region by region basis, to consider the dynamic interplay between regional harvest outlook, road infrastructure pressures and port capacity. Historically this was done for road infrastructure in some forestry regions and allowed for effective communication and planning between the industry, local government, other infrastructure users and state and federal governments.

Issue 8: Industry skills and training

24. What are the skills and training needs of the sector over the coming decades, and where are the current gaps?

Broad ranging skills requirements

There are a broad range of skills and capabilities required within the forestry and forest products sector in Australia. The changes in forest ownership and commercial focus over the past five years have brought the need for additional skills in the sector. From a forest management employer's perspective, gaps include:

- Tertiary level forestry education
  - Tertiary level forestry education has declined to the point where there are now very few, if any, professional forestry graduates emerging from Australian universities. This is not surprising, given the relatively low levels of employment hence low demand for student places hence inability to reliably fill courses. However, it does create a gap in professional skills that needs to be filled by either importing graduates or providing alternative training opportunities.
- Post-graduate/specialist technical forest management education
  - There is a gap in technical and specialist training in areas such as silviculture, forestry commerce, forest measurement and modelling. Addressing this gap will assist in addressing the reduction in degree qualified forestry graduates

25. Are Vocational Education and Training and university training providers well-positioned to meet the future skills and training needs of the sector?

Tertiary education

The availability of tertiary education in forestry has declined considerably over the past decade. There are now few, if any, Australian qualified recent graduates available for employment in forest management.

In the context of the size of the Australian forestry sector, and the ability for universities to support low numbers of students, this is not surprising. However, it does present a challenge to the sector in terms of employing skilled junior staff.

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In recent years the sector has generally addressed this by engaging overseas qualified employees, or employees with alternative professional backgrounds. This has generally worked well, and needs to be embraced as a sensible way forward. However, the sector could benefit from a well-constructed post-graduate and/or issue specific training agenda which provides a professional level introduction to critical subject matter. This would be supported by on-the-job training.

It is the responsibility of employers, collectively, to make the argument for and support the development of this training agenda. Nevertheless, support in achieving this is critical.

26. What improvements are required at an enterprise level to support the recruitment, development and retention of the sector's current and future workforce?

Enterprise commitment

If there is an appetite for addressing the existing educational and training needs in order to build the skills base across the forestry industries, it is important that individual businesses commit to the success of this by supporting staff training and contributing, where relevant, to the development and implementation of whole-of-industry training initiatives.

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