

Timber recycles carbon

TIMBER QUEENSLAND POLICY STATEMENT

Queensland Plantations

October 2011

Queensland's historic \$2.7 billion forest and timber industry makes a strong and vibrant contribution to the State economy. Central to the ongoing prosperity of numerous local communities the Industry employs more than 20,000 workers who inject \$1 billion into rural and regional Queensland.

Commercial timber plantations provide:

- A positive contribution to our trade deficit in timber
- A decentralised industry that supports regional communities
- Long term carbon storage
- A green building product that is unmatched in terms of carbon footprint, sustainability and utility

Demand versus Supply

In the past Queensland met its own timber needs, today there is a growing imbalance in supply and demand. Only 88% of Queensland's timber needs are met with local production, and plantations contribute over 80% of this. There is a growing shortfall of timber sourced from Queensland and as a result timber imports are on the rise.

Population projections indicate the disparity between Queensland's demand and supply will worsen. Queensland expects to grow by 1.7 million people over the next 20 years, requiring almost a million new private dwellings. In the medium term, Timber Queensland expects that by 2020 demand for wood will have increased by 33%. With local production unlikely to increase significantly over that time, Queensland's timber resource will only meet 75% of our needs.

Imports are rising and despite attempts by the Australian Government to improve legality of imported timber, a proportion of imported wood still comes from illegal logging. There remain serious concerns about the sustainability of some imported timber, as well as meeting Australia's technical standards. Increased imports deliver limited benefit to the Australian economy; adding to the \$2.2 billion dollar trade deficit in forest and wood products, and fails to deliver regional socio-economic benefits or environmental services to Australia.

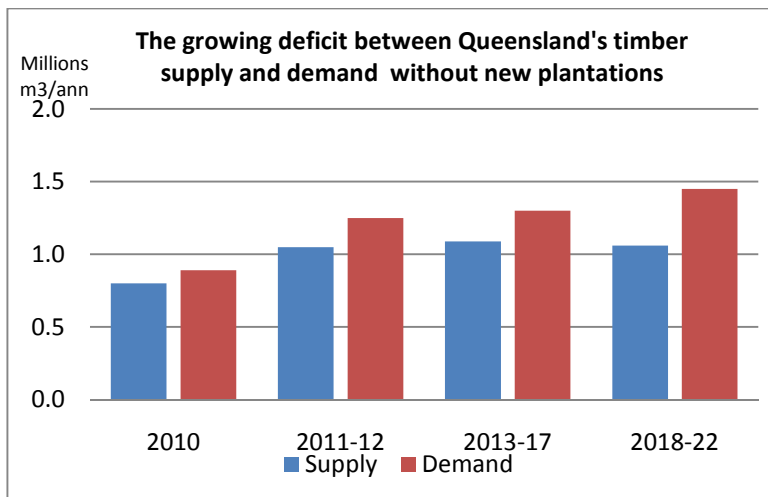
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Overall the Queensland industry is resource constrained - there is more than adequate capacity to process the available volumes of plantation and native forest resource. However, more resource is required if the industry is to maintain the ongoing investment in innovative new wood products and efficient processing that is required to compete against imports.

Timber Queensland estimates that at least 100,000 hectares of new sawlog plantations must be planted in Queensland to meet our future timber demand.



Action is needed today – both hardwood and softwood plantations grown over extended rotations are required to meet the needs for appearance products, structural framing, as well as timber suited to high strength and durability applications.

An expanded plantation estate will also boost the opportunity to export processed timber products and high value sawlogs, helping to offset Australia's \$2 billion forest and wood products trade deficit.

To achieve Timber Queensland's goal of 100,000 ha of new plantations, the industry needs:

- Legislative support to stimulate private plantation investment
- R&D funding to enhance Queensland's plantation productivity
- An opportunity to participate in the carbon market

Meeting demand – in a sustainable way

Queensland's timber plantations are part of the climate change solution. We know timber recycles carbon, in fact plantation forestry has been the major land-based activity that has been carbon positive over the last decade, sequestering 23 Mt of CO₂ in 2008, equivalent to 4% of Australia's total emissions. These were *not carbon-only plantations*, but production plantations intended for a continual cycle of harvest and replanting. Plantations that are actively managed for long term production of renewable timber offer a real opportunity to store carbon over the long term and deliver commercially viable abatement to meet Australia's greenhouse challenge.



Plantations can deliver a broad range of other important environmental benefits, particularly when established on previously grazed or cropped land.

Timber plantations contribute to:

- restoring environmental values to cleared land, reducing the use of fertilizer and agricultural chemicals, and improving soil properties;
- preventing soil erosion and improving water quality;
- diverse recreational opportunities;
- fighting salinity and restoring the hydrological balance;
- providing habitat for native birds and other wildlife, and enhancing biodiversity well above the level of cleared farmland; and
- providing a resource to complement native forest timber supplies.

When located appropriately, tree plantations can also provide protection from wind for soils, crops and livestock, increasing the productivity of adjoining land.

Communities across Australia with a developed plantation industry benefit from the presence of this industry. Studies of their experiences indicate that the most significant socio-economic benefits are generally delivered some time after plantations are first established. The initial introduction of plantations into the region has been found to have little impact on rural populations, many of which are already experiencing change due to aging populations and farm amalgamation. However significant employment opportunities begin as the plantations mature, when a large and stable workforce is required for the harvesting, transport and processing of timber products.



Significant employment opportunities begin as the plantations mature

Although expansion of the estate needs to be focused around logical processing centres, this does not need to come at the expense of existing industries in those areas. Plantation expansion should be part of a suite of industries that provide for the diversification of rural communities.

Financing Queensland's plantation industry



The financial case for new plantation establishment has always been a challenge, with the long period between outlays on establishment and returns from harvesting being outside the realms of most traditional investments. Up until the 1990s, the only major investors in large scale plantations in Australia were governments, who recognised the impending need for a domestic source of timber.

Managed investment schemes (MIS) have been the major source of funding for plantations in the last



two decades. MIS allows small investors to pool resources in forestry projects in a tax effective manner. Tax arrangements effectively treat investors in forestry MIS projects as if they are carrying on a business rather than purchasing a capital asset, and as such allow for a tax deduction for establishment and management expenditure in the year of investment, and a tax liability in the year they receive returns.

The Global Financial Crisis exposed some serious problems with a number of MIS schemes, which subsequently failed. A number of these problems arose from a focus by both investors and scheme managers on short term financial gains rather than the long term viability of the plantation investment. Whilst Timber Queensland believes that MIS should continue to provide a vehicle for investment in timber plantations into the future, schemes will need to be able to clearly demonstrate their long term sustainability if they are to attract investors.

Governments will need to address remaining impediments to plantation expansion.

There has been a recent influx of institutional investors in plantation forestry in Australia, with international timber investment company Hancock Natural Resource Group purchasing Forestry Plantations Queensland from the Queensland Government in 2010. Most of the failed MIS plantation assets have also been purchased by institutional investors, although some are now under new management on behalf of the original MIS investors.

Timber Queensland believes that any significant expansion of the plantation estate will come from the private sector, but will require facilitation by Government. In particular, governments will need to address remaining impediments to plantation expansion, and some form of financial incentives may be required to attract sustainable investment into the sector. Importantly, expansion of the plantation estate needs to focus on delivering longer rotation wood for the domestic processing sector, which will ultimately deliver the best socio-economic outcomes for Queensland.

What can be done

The Queensland Timber Plantation Strategy 2020 commits the Queensland Government to addressing a number of impediments to plantation establishment. This includes improving the relationship between the plantation sector and local governments while addressing inconsistent and in some cases excessive regulation of plantation development. Government



will also facilitate a Code of Practice for Plantation Operations to help demonstrate the environmental credentials of plantations, as well as delivering the R&D needed to underpin a viable plantation industry in Queensland's unique climate.

Government investment in plantation carbon could help offset their emissions and help industry.

Timber Queensland supports this Strategy and believes it will help to strengthen future investment in this state. However more still needs to be done to attract the investment required to establish 100,000ha of new plantations,

A report published by Forest and Wood Products Australia in March 2011 identified a broad range of issues associated with attracting investment into plantations, and noted that direct Government investment to secure the carbon associated

with timber plantations as one of the more promising opportunities for Government to support expansion of the plantation estate.

This would deliver a win-win for all parties; allowing governments to help offset their carbon emissions whilst supporting expansion of a productive plantation estate that would underpin a sustainable regional industry with all its associated socio-economic and environmental benefits.

Conclusion

Plantations in Queensland support an important regional industry which generates significant socio-economic benefits. In order to maintain the competitiveness of the Queensland industry and meet the growing demand for wood products, Timber Queensland estimates that an additional 100,000 ha of long rotation timber plantations are required.

Whilst MIS drove investment in new plantations over the last 20 years, other forms of private investment are expected to dominate the establishment of the long rotation plantations in the future. Governments have an important role to play in supporting R&D to improve productivity and engender confidence, establishing the appropriate business and regulatory conditions for investment, as well as a possible role in direct investment in the carbon component of new plantations.

