### J. W. Gottstein Memorial Trust Fund

The National Educational Trust of the Australian Forest Products Industries



#### HOW GROWER ASSOCIATIONS IN EUROPE HAVE FOSTERED GREATER PARTICIPATION OF PRIVATE LANDHOLDERS IN THE FOREST INDUSTRY

**Cameron MacDonald** 

2013 GOTTSTEIN FELLOWSHIP REPORT

#### JOSEPH WILLIAM GOTTSTEIN MEMORIAL TRUST FUND

The Joseph William Gottstein Memorial Trust Fund was established in 1971 as a national educational Trust for the benefit of Australia's forest products industries. The purpose of the fund is *"to create opportunities for selected persons to acquire knowledge which will promote the interests of Australian industries which use forest products for the production of sawn timber, plywood, composite wood, pulp and paper and similar derived products."* 

Bill Gottstein was an outstanding forest products research scientist working with the Division of Forest Products of the Commonwealth Scientific Industrial Research Organization (CSIRO) when tragically he was killed in 1971 photographing a tree-felling operation in New Guinea. He was held in such high esteem by the industry that he had assisted for many years that substantial financial support to establish an Educational Trust Fund to perpetuate his name was promptly forthcoming.

The Trust's major forms of activity are,

- 1. Fellowships and Awards each year applications are invited from eligible candidates to submit a study programme in an area considered of benefit to the Australian forestry and forest industries. Study tours undertaken by Fellows have usually been to overseas countries but several have been within Australia. Fellows are obliged to submit reports on completion of their programme. These are then distributed to industry if appropriate. Skill Advancement Awards recognise the potential of persons working in the industry to improve their work skills and so advance their career prospects. It takes the form of a monetary grant.
- 2. Seminars the information gained by Fellows is often best disseminated by seminars as well as through the written reports.
- 3. Wood Science Courses at approximately two yearly intervals the Trust organises a week-long intensive course in wood science for executives and consultants in the Australian forest industries.
- 4. Study Tours industry group study tours are arranged periodically and have been well supported.

Further information may be obtained by writing to,

The Secretary, J.W. Gottstein Memorial Trust Fund, Private Bag 10, Clayton South, VIC 3169, Australia secretary@gottsteintrust.com The information contained in this report is published for the general information of industry. Although all reasonable endeavours has been made to verify the accuracy of the material, no liability is accepted by the Author for any inaccuracy therein, nor by the Trustees of the Gottstein Memorial Trust Fund. The opinions expressed are those of the author and do not necessarily represent the opinions of the Trustees.

Copyright © Trustees of the J.W. Gottstein Memorial Trust Fund 2001. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior written permission of the Trustees.

#### ABOUT THE AUTHOR



The author (left) with Ben Gunneberg, Secretary General of PEFC at the Irish Forest Grower Association Field Day on James Bennett's private woodlands in Mountrath, County Laois when the Irish Forestry Standard was officially launched.

Cameron MacDonald is Chief Operating Officer at HVP Plantations. HVP Plantations owns 160,000 ha of softwood and hardwood plantations in Victoria from which they sell around 3 million tonnes of log products per annum to sawmills and paper mills. HVP Plantations also has a joint venture softwood export wood chip business in Geelong.

Cameron graduated from the University of Melbourne in 1989 with a Bachelor of Forest Science (Hons) and has subsequently gained a post-graduate degree in accounting and a MBA from the Melbourne Business School. He has more than 20 years' experience in the industry in both the plantation and native forest sector covering both operational and finance roles.

#### ACKNOWLEDGEMENTS

I would like to personally thank the Gottstein Trust for providing the financial support to undertake this study tour and for HVP Plantations for allowing me the time to undertake the travel.

I also want to acknowledge and thank the many people who assisted in this project through arranging introductions and, most importantly, to those that I interviewed for being generous with both their time and their perspectives on the topics covered.

#### Table of Contents

1	EX	(ECUTIVE SUMMARY	6
2	PF	REAMBLE	7
3 P	PA LANT	ART ONE: ENCOURAGING AND FUNDING INVESTMENT IN NEW ATIONS – THE UK AND IRELAND MODEL	8
	3.1	Background	8
	3.2	Grants	9
	3.2	2.1 Forest Road Scheme	9
	3.2	2.2 Thinning and Tending Scheme	. 10
	3.3	Premiums	. 11
	3.4	Tax status	. 11
	3.5	Success to date	. 12
	3.6 privat	Establishing the business case for public investment in growing trees on te land	. 13
	3.7	Carbon benefits of UK grant schemes	15
	3.8	Flow on effects in developing the contracting sector	. 17
	3.9	Other mechanisms to promote investment in plantations	. 18
	3.10	Potential challenges with grant schemes	. 18
4	PA	ART TWO: PROVIDING SUPPORT TO GROWERS	. 22
	4.1	The role of government in the sector (www.mmm.fi)	. 22
	4.2	Providing advice to growers	. 25
	4.3 Produ	Using your numbers to gain political clout - the Central Union of Agricultu ucers and Forest Owners (MTK)	ral . 27
	4.4	State of the art data and systems support –Tapio (www.tapio.fi)	29
	4.5	Other observations from Finland	. 30
	4.6	Is the investment in support services justified?	. 31
	4.7	Grower Associations in Ireland	. 32
	4.7	7.1 Irish Farmers Association	. 32
	4.7	7.2 Irish Timber Growers Association	. 32
5	CC	ONCLUSIONS - WHAT CAN WE POTENTIALLY APPLY IN AUSTRALIA? .	. 34
	5.1	Direct government investment in growing trees	. 34
	5.2	Grower support services	35
	5.3	Overhaul of Australia's vision for the forest industry	35

#### 1 EXECUTIVE SUMMARY

The five take home learnings from this study tour are:

### 1. To be effective, government strategies need to add substance to lofty targets and establish the means that will facilitate their achievement.

Ireland and Finland have vibrant private forestry sectors developed on the back of clear policy settings that create a positive investment environment for all participants (albeit the Irish government is a direct investor in the sector). Success is enhanced where the industry governance mechanisms include stakeholders from across the spectrum of interested parties, not just those with an economic interest. Policy implementation plans reviewed on a regular basis ensure that goals are achieved and settings adjusted as required.

## 2. Industry should establish a business case for direct government investment in growing trees to establish critical mass in timber resources based on the public good benefits.

Ireland is investing €100m per annum on establishing a private plantation resource based on a business case developed by a respected economist that established that the returns to Irish economy will exceed the initial investment by the government. The economic business case and rationale that underpins this investment could be a model for securing government investment in Australia

# 3. Forest management services funded through compulsory levies or direct government support is critical to develop private growers' knowledge in growing trees and faith in timber markets thereby facilitating their ongoing participation in this sector.

Finland has established a management service network for private growers through a compulsory levy system facilitated by a significant established resource base. Ireland has established a similar network by allocating a fixed proportion of government grants for the establishment of plantations to the contractor workforce charged with putting the trees in the ground.

### 4. Government investment in support services such as provision of resource information can transition to fee-based services over time.

Resource and market information is critical to private growers. The Irish government has developed site productivity information to ensure planting programs funded by government target suitable sites. An NGO in Finland, supported by government contract work, has developed systems skills that are not only utilised locally but have been taken to the world through Finnish-sponsored foreign aid programs.

### 5. Private landowner support to provide the land base for plantation investment is critical for ensuring a sustainable estate is established.

Growers have a voice in the establishment and/or management of the private resource in both Ireland and Finland, primarily through the peak agricultural bodies. This enables the industry (private/industrial/processing) to present a united voice to Government that facilitates establishing a positive policy environment for the industry rather than one where government can sit on the fence and point to industry dissent. A closer working relationship with the National Farmers Federation in Australia is a logical starting point for the industry in Australia.

#### 2 PREAMBLE

Even though I was aware of the market distortions created by the European Union and more specifically the Common Agriculture Policy, I naively latched on to the fact that Ireland had established 200,000ha of private plantations as a possible solution to Australia's inability to fund investment in long rotation plantations. Whilst I quickly learnt that politically Europe is a totally different proposition relative to Australia, there are still concepts and approaches that we can learn from.

So I would encourage readers to take an open mind to what will be covered in this report, and before you denounce some of the ideas as "never working here", consider the thought process that has been followed, and more importantly how the needs of a key stakeholder (i.e. the landowner) have been placed front and centre in both expanding the resource base but also building a powerful coalition for the industry more broadly.

#### STRUCTURE OFTHIS REPORT

Having completed the study tour it became apparent that the logical sequence to the report is to look firstly at how you get trees in the ground and once they are in, how do you provide support to the landowner to ensure that if their primary objective is generating a commercial return then helping to facilitate that goal being realised.

Therefore the report essentially has two components as follows:

- 1. Encouraging and funding investment in new plantations: the UK and Ireland model
- 2. Providing support to growers throughout the rotation: the Finland experience plus insights from Ireland

The final section then deals with my thoughts on what concepts from this study tour could be adapted to the Australian context.

An overview of the project scope can be found at Attachment Two.

#### 3 PART ONE: ENCOURAGING AND FUNDING INVESTMENT IN NEW PLANTATIONS – THE UK AND IRELAND MODEL

#### 3.1 Background

Both Ireland and England entered the 20<sup>th</sup> century with very little forest cover; <1% and 5% respectively, essentially caused by deforestation to facilitate agricultural expansion. The lack of timber resources meant that England nearly ran out of domestic timber supplies during World War 1, resulting in programs to re-establish plantations on Government land. Today the UK Forestry Commission has more than 250,000ha of commercial plantation in consolidated blocks, 75% of which is conifer species: Sitka spruce (*Picea sitchensis*) in the uplands and Scots pine (*Pinus sylvestris*) in the lowlands.

There have been various grant schemes to encourage planting on private land over the last 90 years, particularly in the UK where more than 1.3m ha of woodland have been established in parcels averaging 13ha, of which 75% are broad-leaved species.

Central to the provision of these grants has been funding from the European Union (EU) of up to 70% of the cost of the various schemes, linked to two complementary policy objectives:

- 1. To reduce the over production of food in the EU by diverting up to 15% of marginal farmland into alternative land use, primarily to grow trees; and
- 2. Increasing forest cover in countries that had experienced significant deforestation such as Ireland and the UK.

With the EU funding has come certain requirements, particularly in terms of environmental constraints. The key requirement is a cap on the area planted under exotic species in a given compartment, which is currently set at 65%.

The structure of grants and the rules governing selection of sites and management of the stands have taken various forms with various degrees of success in terms of take up by farmers. For the sake of brevity this report will expand on the format of the current model however it is important to note that the key determinant to take up by farmers has been the **move to annual payments to the landowners**.

The government has been clever in how the payments have been structured (as distinct from a simple tax deduction of 48.5c in the dollar to wealthy investors in MIS schemes in Australia). The measures to protect the government investment and to ensure ongoing investment in plantation forestry are:

- Approximately 40% of the grant is allocated to pay consultants to submit the grant application and to forest management contractors to do the work. This is to avoid landowners seeking to take short-cuts, but also a key element of the business case for government funding is to develop employment opportunities in depressed regional communities.
- Not all the premium is paid up front. A proportion is held in reserve until age 4 until the performance of the stand is assessed by a Registered Forestry Consultant or the Forestry Service to ensure the stand has met a minimum performance standard.
- The site must pass a strict assessment of the productivity and growth potential to ensure the benefit of the investment is maximised in terms of saleable product.

• Perhaps most importantly the land is permanently classified as being for timber production and a condition of the felling licence is that the landowner has to re-establish the next stand at their own expense. The obvious challenge is in enforcing this requirement which will be covered later in the report.

The structure of the Irish scheme (which is similar to the UK scheme), is outlined below.

#### 3.2 Grants

The level of grant is structured to reflect the cost of establishment of the particular species, as shown in the table below.

 Table 1: The grants paid in Ireland for the establishment of plantations of various species

Grant/Premium Category (GPC)	1st Grant	2nd Grant	Total Grant	Additional Fencing Allocation (IS436)	Alternative Fencing Allocation (Non IS436)	Total Available Funding
GPC 1-Unenclosed	€ 1,500	€ 500	€ 2,000	€ 400	€ 350	€ 2,400
GPC 2-Sitka spruce / lodgepole pine	€ 2,200	€ 700	€ 2,900	€ 400	€ 350	€ 3,300
GPC 3-10% Diverse	€ 2,250	€ 750	€ 3,000	€ 400	€ 350	€ 3,400
GPC 4-Diverse	€ 2,500	€ 800	€ 3,300	€ 400	€ 350	€ 3,700
GPC 5-Broadleaves	€ 3,600	€ 1,100	€ 4,700	€ 500	€ 450	€ 5,200
GPC 6-Oak*	€ 3,800	€ 1,200	€ 5,000	€ 500	€ 450	€ 5,500
GPC 7-Beech*	€ 3,800	€ 1,200	€ 5,000	€ 500	€ 450	€ 5,500
GPC 8-Alder*	€ 2,400	€ 800	€ 3,200	€ 500	€ 450	€ 3,700

Grant Rates effective 1 January 2011 (€/ha)

\*includes specification changes

Other grants available to growers are listed below.

#### 3.2.1 Forest Road Scheme

Grants are available to develop forest roads to facilitate the removal of timber by trucks with a gross vehicle mass of 42 tonnes. The forest must be within 2 years of harvesting (including first thinning) and the grant is for a maximum of €35/ linear metre constructed with a maximum density of 25 metres of road per ha. The grant is paid in 2 instalments with 80% paid on construction and the final instalment of 20% paid when 50% of the forest is thinned/harvested.



**Photo 1:** The author is with Michael Power (Coillte) inspecting a road being constructed in a 10 year old stand of Sitka Spruce established on private property

#### 3.2.2 Thinning and Tending Scheme

Grants are available for the tending and thinning of young plantations. Trees must have reached the required height suitable for tending and thinning e.g. 7 – 15 metres height, with approval required in advance. The grant is fixed at €750/ha.



**Photo 2:** The author is with Kevin Hutchinson (Coillte) inspecting a recently thinned 10 year old stand of Sitka Spruce established on private property and funded by the Government

#### 3.3 Premiums

The introduction of the annual premiums was the game changer in terms of farmer participation. Having discussed tree growing with landowners over many years, particularly in promoting joint schemes where the landowner only received cash when timber products were harvested, this concept resonated with me. Psychologically it is difficult for farmers to accept putting land aside based on the promise of returns many years out, compared with the immediate returns from cropping and grazing. NPV and IRR may be the language of forestry investment managers but by necessity farmers are very much focused on cash in hand.

The premium scheme is essentially meant to compensate the landowner for loss of agricultural income. There is a distinction made between farmers and absentee landowners, with the premium for farmers being paid for 20 years and only 15 years to non-farmers and at a lower rate. The distinction is necessary given the amount of land within travelling distance of London that could be described as "weekenders" for which the need for a premium planting trees is hard to justify. The expected rotation length is 30 years for spruce and up to 70 years for native species.

The level of premiums is shown in the table below.

Grant/Premium Category (GPC)	Farmer	Non Farmer
GPC 1-Unenclosed	€ 155	€ 126
GPC 2-Sitka spruce / lodgepole pine	€ 369	€ 181
GPC 3-10% Diverse	€ 427	€ 181
GPC 4-Diverse	€ 454	€ 181
GPC 5-Broadleaves	€ 481	€ 195
GPC 6-Oak*	€ 515	€ 195
GPC 7-Beech*	€ 515	€ 195
GPC 8-Alder*	€ 481	€ 195

#### Table 2: Annual premiums paid to landowners by species planted Premium Rates (new approvals) effective 1 January 2011 (€/ha)

#### 3.4 Tax status

The grants, premiums and profits from sale of produce are currently tax free in Ireland and the UK. The Irish government is considering putting a cap on the tax-free amount of €125k per annum which would be breached if a farmer were to clearfall more than 6ha in any one year.

In addition to the up-front payments, farmers can apply for additional payments for activities conducted over the lifetime of the plantation. These are covered in 3.2.1 and 3.2.2.

### How important are tax deductions for encouraging plantation investment?

Due to the high rate of income tax in the UK during the 1980's (highest marginal rate of 90%), high net worth individuals were purchasing cleared land in Scotland to establish coniferous plantations. In 1988 the government withdraw this tax concession (as well as removing the tax on income generated at harvest) and planting rates plummeted from 30,000ha per annum to less than 3,000ha.

This has led to investment managers (e.g. FIM Services Ltd <u>http://www.fimltd.co.uk/investment opportunity.asp</u>) that trade on established plantations, thereby promoting the tax-free benefits of the investment. How that will transpire for subsequent rotations is open to question.

#### 3.5 Success to date

When looking at the following chart of Ireland's afforestation rate, the shape of the curve bears a striking resemblance to what has occurred in Australia over the last 100 years i.e. a long period of State investment followed by a recent spike in private investment.

The clear difference is the source of funding (the Irish government has funded it all) and sustainability of the investment (the greater focus on site selection in Ireland and the requirement that the land should be permanently set aside for forestry) should ensure that saleable products are harvested across the entire estate on an ongoing basis.



Figure 1: Ireland's afforestation rate from 1920 – 2012

### 3.6 Establishing the business case for public investment in growing trees on private land

Having witnessed the considerable backlash to the MIS collapse in Australia (which has been characterised by claims that the government footed 40% of the bill through tax deductions to high net worth individuals), what is the likely reaction if the Federal government in Australia introduced a similar grants program in Australia?

When the EU-funded grants program was tapering off and the Irish government was losing its appetite to sustain the program, some of the key players such as the Irish Farmers Association (IFA), Irish Tree Growers Association and the Irish Forestry and Forest Products Association engaged respected economist Peter Bacon to develop the business case for the government to continue funding the establishment program. The assumption was that the afforestation rate would be ongoing to achieve the targets established in the 1996 industry strategic plan with the goal of developing an estate that would provide the critical mass to support world-scale processing facilities. Bacon subsequently published a report entitled "Forestry: A Growth Industry in Ireland June 2003"

I won't go in to the theory underpinning the business case but the following section is directly taken from this report and gives you a flavour of how the case for government investment was promoted.

"...the analysis illustrates that there is a benefit:cost ratio of 1.59 on public expenditure in forestry. The key benefits, which accrue from this expenditure are:

- Sustaining of employment in rural areas. Labour markets in those areas are not saturated and alternative employment is not readily available.
- Growing of a renewable resource. Timber and wood products are increasingly being specified ahead of other less environmentally friendly materials. Wood biomass is a renewable source of carbon neutral, green energy that can readily displace some of Ireland's 90% reliance on imported fossil fuel.
- Creation of a carbon sink. Forests are recognised both by the UNFCCC and the National Climate Change Strategy as having a significant role to play in sequestering carbon and contributing to the attainment of Ireland's GHG emissions offset targets.
- Creating added value opportunities. The forest sector supplies a range of wood processing facilities throughout the State and in Northern Ireland. The total value of the sawmilling and panelboard sectors exceeds €500 million p.a. Typically these processing plants are located in provincial towns, contributing to regional balance.
- Significant amenity and leisure benefits. This is increasingly enhanced by the Forest Service's code of best practice and guidelines. For instance over 50 km of the Wicklow Way utilises forest properties.

This report places a monetary value on these benefits and on the full costs that must be met by the State to realise these benefits. A sensitivity analysis shows that the net benefit remains positive even when low values are assumed for CO2.

The approach taken in this report is defined not in terms of maximising the returns from forestry but in terms of maximising the economic returns from all the resources in the economy. As all opportunity costs are included in the calculations, a positive return from the expenditure of public funds in forestry to overcome a market failure indicates that it is correct that these funds should be spent in this sector.

The sustained realisation of these significant net benefits requires commitment to an

appropriate level of funding. The main costs associated with achieving these benefits are afforestation grants and other essential support measures, which can be considered as seed capital for this productive sector, and premium payments, which are a mechanism for replacing income foregone by switching to forestry as a land use options. The structure of the programme means that each year a greater proportion of the State's allocation to forestry is precommitted to, what is effectively, current expenditure in the form of premium payments.

The challenge with any economic analysis of this kind is the confidence in the robustness of the metrics, particularly given that many are based on a future state that might not be reached. However, in this case I think the more pertinent facts are that Bacon was recognised for his independence and standing as an economist of note such that his report was authoritative. A quick scan of the document certainly cannot criticise the depth of the analysis and thought that has gone into the structure of the review.

In short the analysis has stood the test of time and is still put forward as being critical to ongoing financial support by the Government. This is borne out by the fact that in 2007 and with the looming financial crisis, the Irish government, with the support of Green party, continued to fund the new plantings on private land in order to achieve the targets of the forestry blueprint to achieve a critical resource area.

Performance for the years 2009-2011 are shown in the table below.

**Table 3:** Outcomes from the Irish governments grant scheme for the years 2009 –2011

	2009	2010	2011
Afforestation (ha)	6648	8314	6653
Roads (km)	129	99	116
Premiums (€ m)	70.7	72.5	75.2

How would such a scheme would be received by the public if implemented in Australia? The broad support of key stakeholders (which the MIS schemes never had) is a key start. It is obvious that in Ireland the Irish Farmers Association (IFA) is a very powerful force in politics (my initial meeting with Pat Hennessy, Chair of the Forestry Council, Irish Farmers Association was cancelled as Pat was attending a IFA protest at the imbalance of power in the relationship between farmers and the major supermarket chains). Obviously the economic environment is different in Ireland/UK and the case for supporting regional employment greater than in Australia. However, as a blueprint for securing sustainable investment in long rotation plantations, I am unaware of any more successful than this scheme in recent times.

#### 3.7 Carbon benefits of UK grant schemes

I will not explore this in great detail but merely point to the fact that the UK Forestry Commission has put considerable effort into developing the framework for a voluntary carbon scheme for plantation investment that they hope in time will be recognised as legitimate carbon credits that can be traded on the open market. A brief overview of this scheme is provided below.



The Woodland Carbon Code (WCC) (<u>http://www.forestry.gov.uk/carboncode</u>) was established following increasing interest in using the new UK woodland creation schemes to capture carbon. It addresses a number of issues in terms of gaining carbon credits, namely;

- There were no uniform standards in UK carbon projects
- There was no accreditation or verification
- There was no consistency in the market

The WCC does account for:

- carbon sequestration and emissions within the woodland boundary
- woodland created by planting and natural regeneration (where some intervention is necessary to establish woodland)
- carbon sequestration and emissions under various management regimes from frequent clear-felling to minimum intervention woodland.
- emissions outside the woodland boundary as a result of the project going ahead

There are however specific exclusions from the WCC, namely;

- additional carbon sequestration due to changes to the management of existing woodland
- carbon stored in forest products
- the carbon saved when substituting wood products or fuels for other products or fuels with a larger carbon footprint.

The steps required to register a project are relatively straightforward, namely;

- 1. Register with the Forestry Commission (FC), stating the exact location and long-term objectives
- 2. Meet UK standards for sustainable forest management
- 3. Have a long-term management plan
- 4. Use approved methods for estimating the carbon that will be captured

5. Demonstrate additional carbon benefits than would otherwise have been the case

There are two companies currently accredited for conducting validation assessments which occur at planting, Year 5 and then at various intervals through the project. The program is aiming to use remote sensing technology to reduce the cost of monitoring.

The target market for this scheme is companies listed on the UK stock exchange (FTSE) as there are 1,600 companies that are now required to report their  $CO_2$  emissions which in turn develops an expectation that they will be taking proactive steps to reduce emission levels over time. By developing a formal code it is hoped that this gives some credibility to the scheme and therefore comfort to third party investors. The key issue remains that the EU does not recognise plantings under the Kyoto protocols due to the issue of permanence therefore this is a voluntary market at this point in time. The next opportunity to review this status is in 2020. The Forestry Commission is hoping that they will have nine years' worth of projects in the ground as evidence that the voluntary market is working. The plan is to also introduce an on-line trading in carbon credits.

The WCC is steadily gaining momentum, with 74 projects now registered for certification under the Code since its launch in July 2011, with 19 projects validated over  $480,000 \text{ tCO}_2\text{e}$ .

#### 3.8 Flow on effects in developing the contracting sector

There is no doubt that the grants program in both the UK and Ireland has underwritten the development of a reasonably robust service sector in the industry covering;

- Consultants
- Contractors
- Nursery Sector

#### Case study: UPM Tilhill

The forest management company Tilhill was established 60 years ago during a taxdriven expansion in plantings that were ultimately sold to pension funds at age 10 to manage through to maturity. The company was purchased by the Finnish paper company UPM in the 1990's to assist in securing pulpwood for a company newsprint mill in northern England. UPM Tilhill is very similar to Australasian companies like PF Olsen who are engaged by absentee landowners to manage estates, generally on a 5 year contract. The company also derives income from commissions earned from acting as an intermediary on the sale and purchase of woodlands.

UPM Tilhill manages between 10-15% of the private woodlands in the south-west of England as well as managing 3,000ha of company-owned woodlands in the south-east of England. The client base is consists of 3 distinct groups;

- Individuals who want to own a woodland as it is seen as a safe haven investment given the value of land in England is so high (£10,000/ha) and inheritance tax is only levied on the land value;
- Woodland Trust which is a charity that raises money from private individuals who want to plant trees to protect the environment; and
- Investment companies (such as FIM Services Ltd) who issue bonds to fund the purchase of woodlands that then require subsequent management.

Discussions with Julian Olsen (Manager) highlighted a challenge that had been flagged by the Forestry Commission that the land base in southern England is fragmented with up to 70% of woodland not being managed for timber production. This has obvious issues around the lack of ongoing work for companies like UPM which has also been the focus of considerable research into how this can be addressed which is covered in later in the report.

#### 3.9 Other mechanisms to promote investment in plantations

The UK Forestry Commission has funded research into the potential use of bonds for funding woodland, the final report being found at www.forestry.gov.uk/pdf/ENVBOND.pdf/\$file/ENVBOND.pdf.

The potential issue with bonds is the likely scale of the investment relative to the cost of running a bond scheme (both in terms of the issuing bank and ratings agencies who independently assess the bond) and the fact that the cashflows associated with a forestry investment does not align with the general requirements for annual interest payments based on the face value of the bond.

The report details a more recent phenomenon which has been the emergence of green bonds which is a type of bond issued to finance sustainable development activities and which provides investors with independent assurance of environmental and social benefits. The emergence of green bonds reflects a wider trend towards 'impact' investing, in which investors seek clear environmental and social benefits alongside financial returns. US investment bank JP Morgan estimates the potential opportunity for impact investing globally could exceed \$400bn by 2020. Research suggests that, whilst the majority of impact investors are seeking social and environmental benefits in addition to attractive financial returns, a proportion are willing to 'trade-off' lower financial returns in return for specific social and/or environmental benefits.

A key issue with bonds for planting trees on private land is that the link to an external funding source introduces enforceable restrictions e.g. legal commitments to bond holders with regard to a management strategy that landowners might baulk at. Similarly bond investors need to be confident that any future regulatory changes won't negatively impact on the ability of the issuer to repay.

Examples of bonds being issued to fund new plantations is limited e.g. Bamboo Bonds have been issued to finance bamboo plantation in Nicaragua, and on the face of it the characteristics of bonds for investment and forestry are not aligned.

#### 3.10 Potential challenges with grant schemes

No scheme, no matter how well it is constructed, is not without issues. The obvious issues with the grant programs in the UK and Ireland that were apparent during my visit were:

• The replanting obligation for landowners is entrenched in the regulations but no funding will be provided by Government (nor should it in my view). One farmer that I spoke to was considering how he might operate a seed tree system by leaving a minimal scattering of trees at final fell. This is despite the fact that the proceeds from the final harvest will deliver €24,000 in payments (the tax status of which is still being debated). Transitioning from a fully funded model to one where one must fund the entire costs themselves will be difficult for some landowners to manage.

- The resources required to manage the scheme are not insignificant. The Forestry Commission in England employs 44 Woodland Officers to oversee the schemes, roughly 1 per County, with their workload split as follows;
  - o 30 Full Time Equivalent (FTE) on grant related administration
  - o 6 FTE on licences and management plan approval
  - 4 FTE focusing on tree health
- In the case of the UK there is no guarantee that the trees once planted will ever be harvested, particularly on those properties that become weekend retreats for people who live in London.
- The requirement to cap the level of planting introduced species is something that industry is not entirely happy about and is covered further in the side story below.

#### Side story: Turning an environmental requirement into a positive

Part of the EU requirements in funding plantations in Ireland is that 35% of the planting must be native species. This is challenging for an industry in Ireland that has a preference for a single species based on Sitka Spruce given it is a proven performer in the market.

However, the national game of hurley has provided a solution. Given the native forests had been essentially cut out early last century, the country had relied on imported ash timber from Europe to meet the demand for 500,000 hurley sticks each year. Hurley manufacturing is a cottage industry that plays an important role in the rural economy with more than 100 manufacturers around the country.

The grant scheme has enabled local plantings of European ash (*Fraxinus excelsior*) to be undertaken which will enable Ireland once again become self-sufficient in hurley sticks. The added benefit of this is that it gets a big tick from certifying bodies, in particular FSC, in terms of using products from forests to support cultural activities.

The tree is harvested when only 25-30 years old as fast grown ash produce better hurleys. The hurley is produced from the butt log and one good butt log can produce at least 12 hurleys and the royalty currently commanded is \$500/m<sup>3</sup>.



**Photo 3:** Michael Power from Coillte showing how the fluting on a butt log of European ash (*Fraxinus excelsior*) is perfect for producing hurley sticks



Photo 4: Hurley-maker Eric Roche at work



Photo 5: The finished product

The downside to this story is that average growth rate of ash is half that of Sitka Spruce and the costs of establishment are considerably higher.

#### 4 PART TWO: PROVIDING SUPPORT TO GROWERS

Finland was chosen to explore this theme because of both the longevity of the model for providing support to growers (it dates back 100 years) and the sheer size of the private forest industry in this country; 66% of the country has forest cover and of this 62% is held by private families. The Finnish private forest sector dwarfs Australia's with an annual harvest in excess of 50 million m<sup>3</sup> generating revenue to growers in excess of  $\leq 1.5$  billion per annum.

The forest products industry is a significant part of the Finnish economy, employing more than 77,000 people directly (3.4% of direct employment) and producing 5.9% of the country's GDP which is second only to the electronics industry.

With this scale comes significant political clout to ensure government support for the sector, more than the Australian industry is likely to garner. However, one needs to look to the best model for ideas and then focus on the challenge of how you might apply them in the Australian context.

There are five pillars to the Finnish model, being;

- The National Forest Programme (NFP), which is a five yearly strategic plan for the industry
- Oversight of the NFP by the Forest Council, with membership from across the spectrum of interested stakeholders
- Local advice for the management of stands through Forest Management Associations
- Market and political support from MTK, the Central Union of Agricultural Producers and Forest Owners, with nearly 155,000 members across the country
- State of the art data and systems support from the federal government agency, Tapio.

These elements will be expanded on in more detail below.

#### 4.1 The role of government in the sector (www.mmm.fi)

The various government departments and support agencies in the Finnish forest industry and their roles are shown in the chart below.



Figure 2: Roles of Forest Organisations in Finland

The roles of the Forest Development Centre Tapio and Forest Associations will be expanded on further in this report.

The Finnish government provides stable funding to the sector each year. For 2012 the nature of the funding program is outlined in Table 4.

Table 4: Funding provided by the Finnish government for the sector

ACTIVITY	FUNDING
Funding for stand management	€61m
Biodiversity management	€6.5m
Subsidies to encourage thinning for energy	€18m
production	
Research	€44m
Finnish Forestry Centre (Government	€45m
department)	
TOTAL	€176m

It was positive to see the government setting the strategic direction for the industry through a five year program (Finland's National Forest Programme 2015) which is a 52 page document that can be located at the following link: (http://www.mmm.fi/en/index/frontpage/forests/forest\_policy/strategies\_programmes. html)

The following chart is extracted from the program document and outlines the vision, objectives and targets for the industry.



Figure 3: The Finnish government vision for the forestry industry

The process for developing this document is built around a comprehensive stakeholder engagement process. The Ministry of Agriculture and Forestry prepares a report on forest policy to be given to the National Parliament at the mid-point of a 5 year programme. The report will contain an analysis of the long-term (to the year 2050) vision and strategic objectives for the use of forests and outlines for the main measures that will achieve these objectives. Alternative future images and scenarios will be included to provide a foundation for comprehensive and diverse discussions.

Groundwork for the report is based on multiple workshops, where 15 very different groups are asked to provide their views on the use of Finnish forests in the future. The vision, strategic objectives and outlines for measures then are prepared in a participatory process at the Forest Council, based on the groundwork completed by the Secretariat and working groups.

Whilst the content is not necessarily relevant to Australia, the fact that every five years the government revisit the operating environment for the industry and establishes clear objectives and targets, and more importantly actions, is one factor as to why the industry continues to grow and develop, albeit in an increasingly difficult operating environment for specific sectors like the pulp and paper industry.

Given the problems in Australia in terms of getting some consensus across the spectrum of interested parties in what the direction of the forest industry should be, the Forest Council is a concept worth exploring further. The council is made up of 33 members from a broad cross section including government, industry, ENGO's, professional bodies and forest users e.g. scouts, recreational users. The Council is chaired by the Minister for Agriculture and Forests. The Forest Council monitors the

implementation of Finland's National Forest Programme (NFP) and prepares the reviews of the programme.

Working groups are established to implement the various initiatives and actions, assisted by the Secretariat and Forest Council. The composition of the working groups is broad-based. Their main task is to promote the implementation of the programme in their own specific fields, give proposals on changes that may be needed in the programme and its implementation, create new projects, as well as report on the progress of the projects to the Secretariat and Forest Council. The permanent working groups are:

- 1. Forestry and energy
- 2. Environmental benefits
- 3. Education
- 4. Research and development
- 5. International forest policy

Besides the permanent working groups there are ad hoc working groups under the NFP that are appointed for a fixed term. The task of the ad hoc working groups is to coordinate the implementation of certain project entities in their respective fields, coordinate surveys and give proposals for new projects based on these, and report to the Secretariat and Forest Council on the progress of the projects.

<u>So why is this relevant to my project?</u> If you are going to encourage greater participation by private growers, they need to have some comfort in the future of the industry given the time horizons involved. This is definitely achieved, by both the vision and the level of participation by the government.

#### 4.2 **Providing advice to growers**

Finland has established a sound structure for the provision of advice to private growers through Forest Management Associations (FMA) (<u>www.mhy.fi</u>). The first FMA was established in 1906 due to the fear of diminishing forest resources and the lack of negotiating power for private growers dealing with processors. In the 1920's following Finland's independence, tenant farmers were given the right to buy the land they occupied under tenancy agreements. This was the genesis for the establishment of the *Forest Management Association Act*. Under this Act if your forest area is greater than a certain size (dependent on location and therefore productivity), you pay a levy based on 2 components;

- A basic fee set at 70% of the average stumpage price per m<sup>3</sup> and
- A per ha fee which is set by the individual FMA and again is a % of the stumpage price (between 1.5-11%).

By way of example, a 30ha holding in southern Finland will pay approximately €100 per year. In total 310,000 owners contribute €\$28m per annum across the country. The tax authority collects the fee and passes it on to the FMA.

The FMA's work in close cooperation with the forest owner in 3 key areas:

- 1. Forest management services (harvesting, roading and regeneration)
- 2. Training and planning services, including organising group certification
- 3. Assistance with timber sales

Approximately 80% of the forest management activities in private forests are carried out by FMA's and 70% of preliminary planning for timber sales. There has been significant consolidation of FMA's with the number reducing from more than 500 down to 102, employing 1,000 staff and more than 600 contractors.

FMA's maintain a database of prices received by growers, with current stumpage returns of  $\leq 55/m^3$  for sawlog and  $\leq 15-20/m^3$  for pulplog dependent on species. Having transparency of market prices is clearly beneficial to growers.

One issue that FMA's have grappled with is ensuring they do not breach competition laws which prevent the FMA from making recommendations on price, quantity or whether to proceed or not with a sale. Relative to the number of growers, the processing sector is highly concentrated with only 4 buyers for pulpwood and about 100 sawmills. Despite the competition laws it is understandable that a small grower would seek advice from an FMA to assist with commercial negotiations with buyers. This dilemma will be resolved to some extent with the introduction of an web-based auction system whereby processors will be able to lodge bids on-line for woodlots that growers put up for sale.

At the time of writing the Finnish government is undertaking a review of the underlying legislation supporting the FMA model with the clear intent of opening the sector up to competition whereby you will be free to join any FMA (if at all) rather than being bound by geographical boundaries as is currently the case. Whilst no one would confirm this, one senses this is probably being driven by two of the largest purchasers of private timber (UPM and the Mesta Group) who also provide similar services to growers.

The timing of the review is probably appropriate as the FMA's do not hold a monopoly on data, either inventory or sales prices, therefore greater competition will focus FMA attention on customer service. Surveys undertaken by the grower cooperatives indicate that 80% of growers intend to continue as a member of their FMA. This was backed up by the landowner that I visited who appreciates the advice that he receives and the expertise to analyse data and provide management plans.



**Photo 6:** A forest owner (left) and staff from the local FMA at a thinning operation in a 30 year old birch stand

### 4.3 Using your numbers to gain political clout - the Central Union of Agricultural Producers and Forest Owners (MTK)

MTK promotes sustainable family forestry in accordance with the following principles:

- Landowners' constitutional rights are respected
- Forest owners have the right and opportunity to manage and use their forests in compliance with their objectives
- Forestry is economically profitable
- Forests are managed in compliance with the principles of sustainable forestry

The objectives of MTK are to:

- Look after the private forest owners' interests in timber trade
- Influence forest policy legislation
- Protect the interests of the FMA's and develop cooperation between forest owners

The structure of MTK's forest chamber is defined below;



The Forestry Council meets twice a year for strategic sessions and elects the members of the Forestry Board that meet monthly.

This structure folds in under the MTK Council and Board which focuses more on general political issues. Forestry is not covered specifically at this level except for approval of the budget.

MTK focuses on providing advice to members on a variety of topics (taxation, financing and legal matters, environmental and land policy, and social policy) as well as representing the interests of members in agricultural and forest issues at a national level.

MTK made it clear that it receives no funding from government but relies on the fees that it levies on members.



IFFA seeks to raise awareness about family forestry, promote the development of family forestry on a sustainable basis and advocate supportive policies with government.

#### 4.4 State of the art data and systems support –Tapio (<u>www.tapio.fi</u>).

Tapio was founded in 1907 as a NGO promoting silviculture and good forest management. The founding members were concerned about the state of the Finnish forests after decades of extensive use and a long history of slash-and-burn agriculture and the manufacturing of pit tar, which had depleted the forest resources.

The founders wanted to leave a better forest heritage, and therefore started to work towards placing the industry on a sustainable footing. In 1939 Tapio was invited by the Finnish government to implement the National Forest Act on Private Forests. Tapio progressed to be the central organisation for forest improvement activities, forestry planning and for providing extension services to forest professionals. In the 1990's Finnish forest policy was comprehensively reformed. The concept of sustainable forestry was redefined to ensure that biological and social sustainability were given equal emphasis to timber production. Forest policy and research have been put into practice through the forest management recommendations and management planning systems developed by Tapio.

There are 3 main components of Tapio's services;

- 1. Inventory and management of forest resource data
- 2. Forest management and environmental services
- 3. Policies and management

Tapio provides services to a broad customer base including forest companies and FMA's. Tapio employs 60 staff and has a turnover of  $\in$ 8.5m per annum, based on fee for services ( $\in$ 3m), contract projects with the Ministry of Agriculture and Forestry ( $\in$ 1.5m) and seed sales ( $\in$ 3m).

Looking at three key services Tapio provides:

1. Forest inventory

Tapio and its partners have devised a cost-effective method of forest inventory. The inventory is conducted on extensive areas combining aerial photography, laser scanning and sample plot information. Stand characteristics, including main tree species, standing volume and simulated treatment proposals in mature forests can be established using remote sensing data, sample plot measurements and interpretation models. Young stands and sites of biological value are delineated on the map in the field. The forest owner can keep the data up-to-date by using the information provided by harvesting companies and silvicultural contractors.

2. Management planning

Tapio provides forest management plans both for plantation forestry and natural forests. Tapio's forest management concept consists of:

- Volume by product class
- Mapping and collecting of forest data
- Elaboration of the management plan, including habitat values and protection requirements
- Monitoring and follow-up.

Tapio has developed internet-based system so that landowners can access data about their property. These systems are also used by regulators to monitor harvesting and regeneration activities.

3. Training

Tapio offers open training and training targeted to individual customers, from one-day courses to training modules lasting several months.

Training covers the following areas:

- Forest inventory and management planning systems
- Sustainable use and management of forests
- Ecosystem services
- Wood based bioenergy
- Forest road building and infrastructure
- Forest policy and legislation

Tapio also produces seeds for forest sowing and nurseries in Finland, currently providing 50% of the seed used nation-wide. In addition to a wide and high-quality selection of seeds, a dedicated Seed Centre provides up-to-date expert assistance to growers.

#### Aid through expertise

Finland has leveraged the skills developed within Tapio to facilitate forestry development projects world-wide. International development projects have mainly been focused towards Russia and the EU countries but lately also to South-East Asia and Africa. This is extremely clever; rather than provide aid funding via direct cash payments, the government contracts Tapio to manage projects on the ground, effectively increasing the "market" for Tapio's services to underwrite the business model in Finland.

#### 4.5 Other observations from Finland

- (a) There is a gradual "urbanisation" of forest owners, particularly as the agriculture sector contracts due to the high cost base and small land area making it difficult for farmers to compete (despite EU subsidies). Since 1971 the split of ownership of private forests between farmers and non-farmers has gone from being 80% farmers/20% non-farmers to the exact opposite (20% farmers/80% non-farmers). The forest holdings are also becoming increasingly fragmented as they are being sub-divided and split between siblings when they are handed down to the next generation. To ensure that those forests with the principal aim of generating commercial returns can still be managed efficiently, UPM, a massive pulp and paper company, has developed a model to consolidate private holdings into a "Jointly Owned Forest" which incurs a concessional tax rate (28% compared with the normal rate of 30%) and the ability to smooth income by giving all members a return each year, rather than lumpy returns when harvesting occurs.
- (b) Forest research is still active, but is losing the individual identity as the agriculture, forestry and fishing sectors are being merged to form the Institute

of Natural Resources. Despite this, forestry still receives significant annual funding (€44m) with 800 projects currently underway across the following themes (proportion of projects in parentheses):

- i. Sustainable productivity chains (33%)
- ii. Entrepreneurship in forestry (33%)
- iii. Social importance of forestry (10-15%)
- iv. National forest inventory (15%), comprising 70,000 sample points of which 75% are permanent)
- v. Tree breeding and pesticides (10%)

The current Finnish estate has a MAI approaching 100 million m<sup>3</sup>. The research institute believes this can be increased to 150 million m<sup>3</sup> through tree breeding and improved stand management.

- (c) There is a national program for protecting biodiversity by setting aside private forests and providing compensation to the landowner for lost production. Payments are in the order of €170/ha/yr for 10 years.
- (d) Similar to Ireland, Finland has benefited from government loans for afforestation. 5 million ha of peat land was drained and planted in the 1960's using funds provided from World Bank loans. Given a forest cover of 30 million ha, this is a significant program that has delivered a massive permanent resource base for the country.
- (e) Scale provides critical mass for industry support services. The Federation of Finnish Forest Industries employs more than 50 staff to focus on the broad range of issues facing the industry.

#### 4.6 Is the investment in support services justified?

Is there any evidence to support the need for the support mechanisms outlined above? In comparing Finland's level of forest harvest with England, Caroline Harrison from the UK Confederation of Forest Industries (Confor) highlights research which supports the return on investment in support structure by government. This is expanded on further in the text box below.

### Independent verification of the importance of support services for forest growers

A key study "Prospects for the market supply of wood and other forest products from areas with fragmented forest-ownership structures" was financed by the European Commission and undertaken by the BOKU University (Austria). The report can be found at: http://ec.europa.eu/agriculture/analysis/external/supply-wood/index\_en.htm

The genesis of this study was the fact that across the EU there is a low level of mobilisation of woodflow from private property. Whilst the study acknowledged that the issues were many and varied; including lack of knowledge of the markets, lack of infrastructure, lack of traditional connection with timber production, alternative use for the land and legal framework, the report found that Sweden (the only participating Scandinavian country but with many similarities to Finland) had strong support services which created advantageous conditions of wood mobilisation compared to England which was defined as a weak market with disadvantageous conditions of wood mobilisation.

#### 4.7 Grower Associations in Ireland

In addition to the cooperatives in Finland, I was able to assess the grower associations that are active in Ireland. Of the 19,500 private forest owners in Ireland, 84% are farmers. There are currently two organisations that represent grower interest which are outlined below.

#### 4.7.1 Irish Farmers Association

To be a member of the IFA you pay a base subscription of €90/yr and then a fee based on farm output. The IFA is very active in government policy setting and have developed a roadmap for the sector to 2018 (<u>http://www.ifa.ie/Sectors/Forestry.aspx</u>)

The IFA was part of the push behind the development of the Bacon Report that supported the provision of public funds for plantation establishment. The IFA estimates there is 500,000ha of wet rushy land that is marginal for beef production but has demonstrated that it grows very good Sitka Spruce.

With the private resource reaching maturity, there are now local owner cooperatives being established (<u>http://www.donegalwoodlandowners.com/</u>) to better coordinate sales activities. This is akin to what the FMA's do in Finland but with the added ability to negotiate sales contracts.

#### 4.7.2 Irish Timber Growers Association

The ITGA was established in 1977 and operates with a voluntary executive committee and professional secretariat and technical committee. It represents mostly larger growers and fees are based on the size of the holding up to a maximum of  $\in$ 299/yr. Associate members are charged  $\in$ 99/yr which caters for non-growers in the services sector such as contractors who have a vested interest in the ongoing vitality of the industry.

I was fortunate to attend an IFGA field day and there was a real upbeat mood for the grower associations in Ireland and why wouldn't there be? They are part of an industry that is growing rapidly so their membership base is burgeoning, not declining. This is also reflecting the growing contractor base that also makes up the ITGA membership.

It makes you appreciate the benefits of **critical mass** which is a clear objective of the Irish government's strategic vision for forestry. From my brief time in Ireland it the vision is being realised.



**Photo 7 & 8:** Donal Whelan, Technical Director and Secretariat Irish Forest Grower Association Field Day on private woodlands in County Laois

Below are attendees at this field day with young stands of well performing Sitka Spruce in the background.



### 5 CONCLUSIONS - WHAT CAN WE POTENTIALLY APPLY IN AUSTRALIA?

#### 5.1 Direct government investment in growing trees

Funded by Forests and Wood Products Australia, The Centre for International Economics (CIE) has undertaken a comprehensive analysis to look at policy options and strategies for renewed plantation investment, more specifically looking at;

- (a) identifying non-wood values that when recognised in Australia may improve the viability of plantations;
- (b) identifying impediments to the realisation of these values; and
- (c) identifying policies that would allow these impediments to be removed.

The report states that "that there is limited basis to assume a willingness of taxpayers at present to pay for social values provided by forestry and no systematic regional development opportunities".

It is interesting comparing this view with the approach taken in Ireland whereby the government has looked at direct funding to expand the estate on a holistic approach in terms of the economy-wide benefits (a macro approach) whereas the CIR report looks more at the micro level of the economics of investment on a per hectare basis.

What impressed me with the Irish model is that they only plant suitable areas (based on rigorous assessment) and the landowner has to grow trees on this land in perpetuity. Compare this with the MIS era in Australia where there is 50,000ha of blue gum around Esperance in Western Australia where it is publicly acknowledged that finding a market is unlikely given the poor yield from this estate.

Under the MIS tax system the taxpayer has effectively funded 40% of the cost of the cost of establishment, which for MIS schemes charging \$10,000/ha was similar to the quantum of the grants being provided by the Irish government.

#### Suggested action

The industry should look at the business case approach outlined in the Bacon report but at targeted catchments to ensure that there is sufficient volume in the future to build processing facilities that can compete on the world scale.

The obvious candidates are:

- the Gippsland region around the Australian Paper mill
- the Hume region in southern NSW/Northern Victoria where significant processing capacity is in place; and
- the Green Triangle

The boundaries of each catchment would be defined by the current view on what is a viable haulage distance to the current processing facilities.

#### 5.2 Grower support services

When you compare the landscape in Finland with Australia you see some commonality in the various elements. However, Finland clearly has an entrenched and logical structure to their support services.

It is difficult to see how the FMA model could be applied in Australia given the small scale and geographic spread of the private forest estate. Organisations in some states replicate what FMA's do e.g. Private Forests Tasmania, but do not have the mandate to provide customer-focused services to private landholders and are under current funding pressure as cash-strapped states look to reduce their service offering.

#### Suggested action

The MTK model in Finland provides some positive guidance. The current national body representing private growers, Australian Forest Growers (AFG), would better sit under the National Farmers Federation to try and build a bridge between forest and agricultural production that suffered a significant setback given the angst created by the MIS schemes.

The key issue is how to fund this and any associated support services. Ultimately it would need to be a user-pays systems but it is uncertain whether this will be achievable in Australia. From my perspective the reality is that unless you get more critical mass in terms of more private growers, developing support services such as they have in Finland is challenging.

The one positive is that at least now in Australia there is a growing number of forest management companies such as PF Olsen who can provide on-ground services to private growers. Discussions with the Federal government could explore whether there is any potential for the government to assist in provision of base data for these companies to assist private growers in managing their plantations.

#### 5.3 Overhaul of Australia's vision for the forest industry

Reading the strategic plans developed by the Irish and Finnish governments provided an opportunity to dig out my copy of the 2020 vision for Australia. Whilst a detailed and polished document, it lacks one key element that the other strategies have: funding to implement the actions. They also benefit from constant review, particularly in Finland where a future vision out to 2050 is broken down into five year plans.

What was particularly striking for me was the broad consultation in Finland to capture input from all stakeholders, a process that might help Australia deal with the disharmony that has been managed in the main by closing the forest industry down as the most effective way to deal with political problems. By getting on the front foot, Finland has at least ensured that parties can't claim that they haven't been given an opportunity to have their say at a policy level.

#### Attachment One: People interviewed

#### Ireland

- Kevin Hutchinson; Head of Product Development & Innovation Coillte
- John O'Sullivan; Chief Operating Officer, Coillte
- Seamus Dunne; Irish Department of Agriculture, Food and the Marine
- Donal Whelan; Technical Director and Secretariat Irish Tree Growers Association
- Mick Power, Regional Forester, Coillte
- Pat Hennessy, Chair of the Forestry Council, Irish Farmers Association.

#### England

- Andrew Smith, Head of Sustainable Forest Management, Forestry Commission England
- Chris Waterfield, Woodland Carbon Code Officer, Forestry Commission
- Julian Ohlsen; General Manager, UPM Tilhill
- Caroline Harrison; Confederation of Forest Industries

#### Finland

- Lasse Lahtinen, Specialist of Development, Forestry, Central Union of Agricultural Producers and Forest Owners (MTK)
- Jouni Väkevä, Manager, Forestry Issues, Finnish Forest Industries Federation
- Karolina Niemi, Senior Adviser Forestry, Finnish Forest Industries Federation
- Jari Varjo, Regional Director, Finnish Forest Research Unit
- Heikki Granholm, Director, Minister of Agriculture and Forestry
- Klaus Yrjonen, Director International Affairs, Tapio

#### Attachment Two: Project scope

#### PROJECT TITLE:

Study tour to examine how grower associations in Europe have fostered greater participation of private landholders in the forest industry.

#### BACKGROUND:

In Australia plantation ownership by private growers as a proportion of the entire plantation estate is 9%<sup>1</sup>. The area of private grower plantations has reduced by 46,000ha in absolute terms over the last 5 years. While there is a significant area of native forest in private ownership, very little is actively managed for timber production.

To encourage greater investment in plantations by private growers, Governments have typically used direct incentives such as free seedlings, grants, low interest loans and extension advice to create a critical mass of plantations.<sup>2</sup> Despite these incentives, participation in the forest sector by private landholders has not changed dramatically over the last 10 years.

The expansion of the plantation estate through the Managed Investment Scheme (MIS) model has disenfranchised elements of rural Australia due to the competition between MIS companies bidding up the value of cleared land, effectively making it unaffordable for other agricultural pursuits.

The MIS chapter has continued an "industrial model" of plantation establishment in Australia where companies or State governments have purchased, leased or cleared large tracts of land. Small scale private forestry through joint ventures or similar schemes has played a relatively minor role

A recent Forests and Wood Products Australia (FWPA) review into models to support increased investment in plantations noted that "...*it is important to recognise that future plantation expansion or rationalisation of the existing estate will involve private farm land. This will require improved relationships and approaches between the agricultural and forestry industries to achieve an appropriate mix of industrial scale and small farm plantings for multiple-goals.*'

#### INDUSTRY NEED

Resource security has been identified by the entire industry as the greatest single issue facing the sector. The need is defined succinctly in the following excerpt from the Australian Forest Products Association (AFPA) newsletter "Canopy" of July 25, 2011:

The Australian forest and wood products industry continues to grapple with the challenge of creating additional plantation investment mechanisms or structures to enable substantial and sustainable investment in timber plantations, especially long-rotation plantations.

AFPA members have highlighted that the lack of continuing investment in replanting and expanding Australia's plantation estate is a key issue for the future growth and prosperity of the entire forest, wood and paper products industry.

<sup>&</sup>lt;sup>1</sup> ABARE. Australian plantation statistics 2011.

<sup>&</sup>lt;sup>2</sup> FWPA. Review of Policies and Investment Models to support continued Plantation Investment in Australia

#### PROJECT ACTIVITIES

The aim of this project is to undertake a study tour to understand how European countries have cultivated greater participation in the forest sector by individual landowners. More than half of Europe's forests, not including Russia and other CIS countries, are privately owned<sup>3</sup>. In countries like Finland, 56% of forests are owned by individual landowners, contributing a significant proportion of the 60 million m<sup>3</sup> annual harvest in that country.

There are a range of factors contributing to this dynamic, including policy settings at both at a European Community and individual country level, a culture of commercial forestry being part of the agricultural landscape, market size and the returns from timber production relative to other agricultural activities (particularly in the colder climates of the Nordic states).

Three grower associations have been selected as specifically offering different insights into how to successfully engage with private growers. The associations, and the reasons that they would be worth visiting, are outlined below.

**Central Union of Agricultural Producers and Forest Owners (MTK) Finland;** Private landowners supply a significant proportion of the annual harvest volume in Finland. MTK is a key player in the industry and this association has more than 155,000 members. A desktop analysis would indicate that this association is the benchmark for marshalling and managing private growers.

**The Irish Timber Growers Association (ITGA) and the Irish Farmers Association** are the main forest owner associations in Ireland. An estimated 15,000 farmers have switched their land use from agriculture to forestry since 1990. This has been the main contributing factor in a 220,000ha increase in the forest area since 1990.

The aim of the study tour would be to spend 3-4 days with each grower cooperative to understand the following;

- What is their policy framework under which the industry operates?
- What is their funding base, in particular government assistance and incentives?
- What proportion of private landowners do these associations represent?
- How do they engage with and attract private landowners into the sector?
- And most importantly what is the secret to the recent expansion of their plantation estate?

Taking the lessons learnt from this analysis, recommendations will be made as to how elements of the European model could be adapted and implemented in Australia.

<sup>&</sup>lt;sup>3</sup> United Nations Economic Commission for Europe/Food and Agriculture Organization of the United Nations. Private Forest Ownership in Europe. 2010