Investing in Forestry’s Future
Richard Stanton

AUSTRALIAN PLANTATION PRODUCTS & PAPER INDUSTRY COUNCIL
The Industry

A3P Mission

• To facilitate the operation and development of a paper and plantation timber industry that is internationally competitive, socially responsible and economically and ecologically sustainable.

• To represent the collective national interests of A3P’s members to Government and other stakeholders as required and to increase the market for Australian made paper and wood products.
Key Policy Issues for A3P
Commercial and Political Imperatives

- Plantation Investment
- Climate Change
  - Carbon Pollution Reduction Scheme
- Renewable Energy
- Pulp and paper industry strategic review
- Timber market development
- Product stewardship
- Trade (illegal logging, dumping)

Plantation Investment

- Demand for wood and paper products continues to grow, supply flat.
- Greater proportion of investment going to replanting subsequent rotations.
- Difficult to attract investment because of long timeframes, substantial scale, specialist skills, risks, international prices.
- MIS model has provided a vehicle.
Great Southern & Timbormsgcorp

- Fallout not over. Difficult to draw conclusions about individual companies' circumstances.
- Debt levels – increased vulnerability especially for listed companies.
- Both exposed to non-forestry (agriculture, horticulture) – uncertainty re deductibility.
- Not integrated along supply chain – wood processing.
- Trees are still growing, need to be managed – challenge for administrators & regulators.
- Replanting?

Retail forestry funds raised
Source: AAG

![Funds Raised by Forestry Industry](chart.png)
Future of MIS

• Joint Parliamentary & Senate Committee Inquiries.
• New forestry provision in tax law (Division 394, inserted in 2007) should be fully tested before conclusions drawn.
• Changes to legislation for wider investment industry – investor protection, commissions.
• MIS forestry to continue but faces marketing challenge.

• Can we create additional models that are attractive to other types of investors?

Carbon Pollution Reduction Scheme

• Back in Parliament this week. Passed by 25th November or not until next year…
• Increased costs for fuel/energy – major impact on emissions intensive trade exposed industry including pulp and paper and panelboards.
• Competitiveness of wood as a building material.
• Credits for reforestation.
Carbon credits from reforestation – White Paper position

• “Reforestation” - converting land cleared before 1990 to forest (“Kyoto compliant forests”)
• Voluntary “opt-in” participation but only counting carbon stored from 1 July 2010
• Accounting rules to be determined in Legislation and Regulations.
• Environmental plantings – once only payment, land out of production.

Carbon credits – what’s in it?

• Timber plantation – continual income but...
• “Carbon credit” will be a liability if the plantation is harvested and not replanted + substantial compliance costs
  • so what is in it for the grower?
• Earn some income upfront rather than all at harvest.
• Speculating on the future price of carbon.
• Credit for carbon permanently stored in harvested wood products is the key – but not yet available subject to international negotiation.
• Therefore options limited at this stage.
Renewable Energy Election Commitment – now legislated

- 20% electricity from renewable energy sources by 2020.
- MRET + State & Territory initiatives = one national scheme.
- Commences 1 July 2009; expanded targets from 1 January 2010.
- RET guarantees a market for additional renewable energy by legislating trade in Renewable Energy Certificates (RECs).
- RET to be phased out during 2020 to 2030.

RET Target

Source: Department of Climate Change

ForestTECH 2009
Eligible Sources

- Must be “additional” - wood industry already major user of biomass for renewable energy.
- Same eligibility criteria as under MRET...
- Plantation biomass = energy crops (subject to code/certification – Qld?).
- Native forest biomass;
  - eligible subject to MRET higher-value restrictions, complex and unnecessary but better than NSW.
  - Positive indication in Victorian TIS.
- Pre-approval process would assist.

Biomass in MRET

- Wood waste makes up less than 4% of the RECs that have been validated as part of MRET so far.
- Black-liquor makes up a further 4% that have been validated as part of MRET so far.
RECs by Source

Expanded RET – is it good policy?

- Objective - greenhouse mitigation, energy security/diversity, industry and/or technology development and deployment, regional employment?
- Why a market mechanism? CPRS?
- Electricity only.
- What is the target?
- Reduction in fossil fuel based generation?
Projected Renewable Energy Mix

Figure 1: IES modelling of exposure draft legislation

Source: Clean Energy Council Submission

An alternative mix...

Figure 2: RET Trajectory as proposed by Clean Energy Council

Source: IES 2009
How does RET compare?

- Policy framework in EU, USA, Canada supports market development of biomass for heat, electricity and liquid fuels.
- Often reward business-as-usual use of biomass.
- Distorting wood fibre market?
  - Export of wood pellets
  - Subsidies for pulp mills (US) and sawmills, panelboard plants (Europe)

Conclusions

- Positive political sentiment and policy drivers for plantation investment.
- Taxation, carbon credits and renewable energy opportunities.
- The devil is in the detail.
- Subject to arbitrary political decisions.
- Commercial reality – timber and paper markets and competitiveness are still the fundamental drivers.