

Australian Forest Grower submission to Economic Regulatory Authority

1.1 EXECUTIVE SUMMARY

Australian Forest Growers, an association representing private and commercial tree growers in Western Australia requests that Government undertake a specific micro-economic review of the Western Australian forestry industry.

Australian Forest Growers makes this submission to the micro-economic review being conducted by the Economic Regulatory Authority to point out that the brief for the review will not adequately address all the economic conditions impacting on the forest industry in Western Australia.

Forestry has made a significant contribution to the development of Western Australia since establishment of the Swan River colony in 1829. The current contribution to the State economy is less than it might be.

There is potential to enhance forestry's future contribution to the Western Australia economy by removing conflicts within the industry that prevent entry to the industry and reduce its efficiency and output.

Australian Forest Growers would welcome such a review, and is prepared to contribute to and participate in the review.

1.2 INTRODUCTION

1.2.1 Australian Forest Growers

"Australian Forest Growers (AFG) is the national association representing private forestry and commercial tree growing interests in Australia."

Please research AFG [here](#).

This submission to the Economic Regulatory Authority (ERA) is prepared by the Western Australia Branch of AFG, which can be researched [here](#).

For the rest of this document, "AFG" should be taken to mean the Western Australia Branch of AFG.

1.2.2 AFG's Major Concern

AFG believes that Western Australia's forestry sector is beset by a greater number of issues and problems than are to be addressed by the ERA micro economic review.

Those issues of most concern to AFG are:

- Government exerts dominant influence on the sales price of forest products
- Current structure of the forest industry stifles market competition, particularly for smaller growers
- Existing forest industry offers no defined role or opportunity to private owners
- Western Australia lacks a clear plan and strategy for the forest industry
- Government's role in forestry, particularly in regards to its costs and to its price setting, is not transparent

There are positive and negative aspects of each of these issues.

A proper balancing of these sometimes conflicting elements would produce significant economic and environmental gain for Western Australia. This balancing of competing factors is not being achieved at the moment.

AFG urges the Government to commit to a major review of the whole forestry sector of the economy, for the purpose of developing a strategy that clearly enunciates a desirable future for forestry in this state. A comprehensive forestry strategy that addresses the major concerns listed above is sorely needed to assist participants in the industry.

1.3 BACKGROUND

Forestry's contribution to Western Australia often goes un-noticed.

In the early days of the fledgling Western Australia colony, critical and viable local and export forestry industries evolved. Forestry played a key role in the early development of Western Australia.

Indeed, the extensive hardwood forests in the South West may have been a major reason for the Swan River settlement in 1829; as suggested by this article.¹

D'Entrecasteaux 1791–1792; Baudin 1801–1804; Freycinet 1817–1820; D'Urville 1822). The sentiments that prompted the British to establish a settlement at the Swan River were also strongly influenced by the existence of the hardwood forests of the area, expressed in this 1927 account:

... the foundation, in 1829 by the British colonial authorities, of a settlement at the entrance to the Swan River was largely due to the reports received in England as to the existence of immense forests of valuable hardwoods in the South-Western portion of what was then generally known as New Holland (Kessell 1927:3).

The early colonists cleared and burnt much of these forests to make way for farmland. But others saw the value of these timbers and moved to establish demand for forest products in local and overseas markets.

There are records of a shipment of hardwood to the British Admiralty in 1846.

The uncontrolled exploitation of the hardwood forests was in full swing by the 1870s when vibrant timber towns and mills were dotted throughout the South West. The Government was eventually persuaded that this exploitation must be managed and introduced the Forests Act in 1918. A Forests Department

was set up to administer the Act and bring some order into the industry, which had been lacking in the 90 years since settlement.

The first export of sandalwood, taken from the interior of the state, occurred in 1845. By 1848, the annual value of this trade had grown to be averaging more than 45% of the State's total export trade. By 1930 the availability of sandalwood was declining alarmingly and the value of the export trade had diminished. Again, the State Government found it necessary to introduce the Sandalwood Act of 1930 to protect the remaining forestry resource and avoid it being wiped out. This Act still controls the trade today.

AFG is pleased to note that the trade of sandalwood and products derived from it here in Western Australia is making a strong recovery.

1.4 FOREST MANAGEMENT

This history is briefly stated to demonstrate that forestry has played a key role in the economic development of Western Australia, particularly in the early years.

It also makes clear that Governments have been and are still compelled to establish and maintain controls over Western Australia's forests in order to ensure they are sustainably managed for now, and for the future.

Unfortunately, after contributing so much to Western Australia's economy, forestry finds itself on its knees in the 21st Century.

It is time for Government to again review the State's management of its forest resource, as it did in the early 20th century. A proper review will inspire community confidence by identifying how Western Australia might gain maximum benefit from its forest resources, both private and publicly owned.

1.5 AFG'S VIEW.

1.5.1 Economic Benefit

Forestry can produce greater economic benefit for the state.

AFG promotes forestry for a wide range of reasons, and believes that forestry has a critical role to play in the future of Western Australia.

Significant benefit would be delivered to Western Australia by enhancing forestry in the public and private sectors; above its present level.

If that vision is to be fulfilled, forestry needs a review and some reforms.

1.5.2 Concerns with the review

AFG has surveyed its members who grow and market a wide range of timber products. They report a range of concerns that impact on their forestry ventures.

Some of these concerns are to be addressed in the ERA review, but many fall outside the review brief. This means the outcomes of the review will have minor benefit for the forestry sector.

1.5.3 Major issues

The main concerns reported to AFG that fall outside the ERA review are outlined below.

Government's role in price setting

Government, through the Forest Products Commission (FPC), controls significant forest resources. Much of the timber that comes to market is harvested in forests controlled by the FPC. This means that FPC has a major impact on how the market operates.

The prices and fees accepted by FPC sets buyer expectations of what they will pay for privately grown forest products.

Market competition

Over time the buyers of log products have adjusted to FPC being the dominant source of supply. They have adjusted the operation of their businesses to the prices charged by FPC and are reasonably confident they have certainty of supply from FPC forests. These prices in turn tend to dictate the prices paid to private (and usually smaller) producers; on a 'take it or leave it' basis.

There are now few alternative outlets for growers to sell their timber.

Role for Private forestry

There is little economic incentive for landowners to invest in forestry.

Forestry is a long term investment which makes it difficult for landowners, who usually require more regular income, to commit land and provide resources to growing trees for timber production.

There are indications that alternative market and product opportunities will open up for private forestry in the future, but these are not sufficiently advanced to allow private growers to be confident of making an adequate financial return from investing in the new opportunities.

At the moment, it is very difficult for potential and existing private growers to identify viable opportunities within the forestry industry, and to take their place in the industry.

Need for a Strategic Plan

There is no clear statement of what the Government or the community wants or expects from forestry in Western Australia.

Existing and intending participants in the industry have little to relate to when considering economic investment in the industry.

The recently released "WA Sandalwood industry development plan 2008 – 2020" which covers just the sandalwood market, is a good example of the sort of statement that is needed for the whole forestry industry.

Such a strategy needs to address the range of issues outlined in this submission, but there are many more issues and problems that need to be addressed. AFG could help identify those issues, with input from its membership.

A future forest strategy needs to recommend actions that, when implemented would make all forestry in Western Australia more viable and dynamic.

The need for a forest strategy is not specifically identified in the ERA brief for its micro-economic review, which brings AFG to the conclusion that a specific review of the forest industry is the best and most effective way of developing a strategy.

Transparency

AFG and its members understand that Government does not fully account for the value of FPC land when it determines prices for its leases and contracts.

This most likely means that prices are set to cover the marginal costs of gaining access to forests, felling trees and transporting logs to buyer operations, and not much else. This tends to produce low buying costs.

AFG members usually aim to produce a reasonable return on all of their assets, including the land on which their forest grow, as well as the marginal costs of producing products for saw mills and other end users. This results in a much greater break-even cost than for operators selling product from FPC forests.

This claim is conjecture on the part of AFG, but we are forced to this conclusion as we have no access to information about what FPC takes into account when setting its costings. This illustrates why the FPC and Government need to be more transparent in its management and development of the forest industry.

1.5.4 Conclusion

These comments highlight the major issues affecting the forestry industry that are of concern to AFG and its members. There are other issues at play within the industry which are not outlined here.

This submission seeks to illustrate that only a few of these issues might be considered by the micro economic review being undertaken by ERA. AFG does not argue with the brief, but does claim that the current review cannot adequately address the major concerns within the forestry industry.

AFG notes that other sectors of the economy have been specifically excluded from the scope of this review. Presumably those sectors will be addressed by other reviews at another time.

AFG therefore respectfully asks that a separate and similar review be undertaken of the entire forestry industry in Western Australia.

AFG would willingly contribute to the drafting of the brief for such a review.'

FOOTNOTES

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Proceedings 6th National Conference of the Australian Forest History Society Inc, Michael Calver et al. (eds)
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1919 to 1935: A pivotal period for the forests of the south west of Western Australia

J. Williamson & S. Moore

School of Environmental Science, Murdoch University, Perth, Western Australia

C. Warren

School of Asian Studies, Murdoch University, Perth, Western Australia