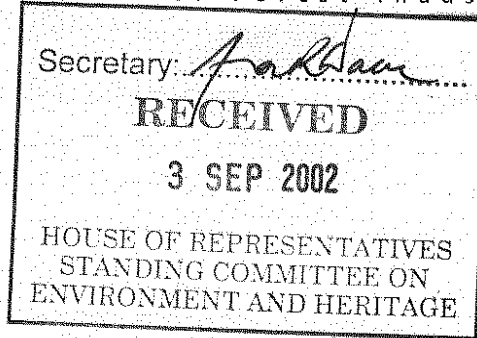


NAFI

SUBMISSION NO. 12

National Association of Forest Industries Ltd



Forest Industries House  
24 Napier Close  
Deakin ACT 2600  
PO Box E89  
Kingston ACT 2604  
Phone (02) 6285 3833  
Fax (02) 6285 3855  
Email enquiries@nafi.com.au  
Internet http://www.nafi.com.au  
ACN 008 621 510

Committee Secretary  
Standing Committee on Environment and Heritage  
House of Representatives  
Parliament House  
CANBERRA ACT 2600  
AUSTRALIA

*Emailed 30/8/2002*

Dear Sir/Madam,

In July of this year the Minister for Environment and Heritage, The Hon David Kemp, referred to the Standing Committee an **Inquiry into Employment in the Environment Sector**.

Submissions were sought from interested parties by 30 August 2002.

In response to the call for submissions I attached a Submission on behalf of the National Association of Forest Industries.

Yours sincerely,

*[Signature]*

Kate Carnell,  
Executive Director

*30* August 2002

# Employment in the Environment Sector

The submission by the National Association of Forest Industries to the **House of Representatives Standing Committee on Environment and Heritage Inquiry into Employment in the Environment Sector.**

## SYNOPSIS

*The environment sector has the opportunity to make a substantial contribution to employment across Australia over the coming decades, particularly in rural and regional Australia.*

*Australia's forest and timber industry and communities also play an important role in environmental outcomes, with around 9,000 people employed in forestry and forest management activities. Their aim is to protect the resources they manage while delivering resource products at competitive prices with the least impact on the environment.*

*It is important to ensure that the environment sector develops in association with, and not in conflict with, existing resource industries.*

*Policies and programs that assist the environment sector are likely to assist the forest and timber industry, while investment in plantation and forest management should lead to environmental benefits, and increased environment sector employment.*

*To achieve these ends, there is a need for additional program assistance. Such assistance would promote domestic and international markets for timber products and encourage a greater level of investment (and therefore employment) in those parts of the environment sector that have a strong link to forest establishment and management activities.*

## INTRODUCTION

The environment sector has the opportunity to make a substantial contribution to employment across Australia over the coming decades. While some of these opportunities may arise in urban areas, it is anticipated that a large proportion of the sector's activities will be located in rural and regional Australia. This new economic activity should bring with it a substantial amount of investment that will be reflected in measurable economic, infrastructure, training and regional development outcomes, as part of building a sustainable future.

Australia's forest and timber industry and communities believe that they will continue to play an important role in the environment sector. At present, approximately 9,000 people are directly employed in forestry and forest management activities. Their universal aim is to protect the resources they manage while delivering log products from plantations and native forests at competitive prices with the least impact on the environment.

## CURRENT CONTRIBUTION OF THE ENVIRONMENT SECTOR TO EMPLOYMENT

In association with the timber harvesting and forest management activities, most of the timber processing facilities are located in regional Australia. With a total workforce of over 72,000 and an industry turnover exceeding \$12.5 billion per annum, the forest and timber industry is responsible for employing 0.8% of the workforce while contributing 2.3% of GDP.

These measures of industry performance target only the direct employment and production for the industry. However, many people would not be aware Australia's plantations and native forests can be managed in a number of different ways to produce varying combinations of the more than 130 products that can be derived from commercial tree crops.

One of those products, which raised a considerable amount of interest during the late 1990s, is carbon credits. While it is not possible to accurately gauge the level of employment and investment in this part of the industry, it can be demonstrated that significant efforts were made to capture an emerging environmental services market. The investment in infrastructure and human capital for carbon accounting systems, carbon sequestration assessment and monitoring, and potential trading mechanisms with only a very small number of trades ever being realised, attests to the capacity for generating employment in the environment sector.

## POTENTIAL OPPORTUNITIES FOR FUTURE GROWTH

The growing interest in using commercial forestry activities to deliver environmental services is viewed as one of a number of important options for addressing environmental degradation. Many of the regional environmental plans being developed under the National Action Plan for Salinity and Water Quality would be considering where and how trees could be used as a least cost solution for repairing the environment.

As stronger efforts are made to internalise the environmental costs associated with existing land-use practices, there should be an increasing range of opportunities to utilise plantations and native forests for multiple purposes. It is expected that employment, and more particularly training,

will be required to support the following activities as an extension of plantation forestry or the management of existing native forest resources:

- Land conservation, stewardship and philanthropy
- Water resource management, in terms of water quality and quantity
- Integration of tree management options into property management planning
- Development of environmental management systems or adoption/modification of national environmental management certification schemes
- Third-party accreditation of environmental performance against farm-based or national certifications schemes
- Financial sector capacity to audit and assess the long-term benefits of improved land management for the assets they hold under mortgage
- Public environmental auditing and reporting to generate the information base to support markets for environmental services
- Physical infrastructure to measure changes in the environment
- Brokers of environmental services
- Institutional investment in environmental services
- Financial sector development of socially-responsible investment criteria and assessment of rural industry performance against those criteria
- Regional coordination of additional wood supply from many small growers
- Investment in emerging industries to utilise the additional material, such as renewable energy (electricity and biofuel) production from biomass resources
- New timber processing sector investment to utilise additional timber resources
- Regionally-based education and extension services to support the environmental services sector.

## **FORESTRY AS A KEY ELEMENT IN THE GROWTH OF THE ENVIRONMENT SECTOR**

The Australian Conservation Foundation and Allen Consulting Report stated that up to \$25bn of the \$65bn that was required to address environmental problems over the next twenty years, should be spent on the replanting of trees or woody vegetation in the rural landscape. It would be reasonable to expect that this level of expenditure would result in the planting of at least ten million hectares of trees.

Whether this can be achieved will be determined by a number of factors, which will also impact on the long-term growth potential of the environment sector and the subsequent employment opportunities in that sector.

The key factors are centred around what will happen with the additional timber resources, how the environmental services are generated and who will pay for those services. If, as some analysts suggest, governments are the purchasers of environmental services, it is reasonable to expect that

tree crops will be established and managed in a manner that is not necessarily compatible with the needs of the timber industry.

For example, inappropriate species, from a timber processing perspective, may be planted on sites that are difficult to access or on too small a scale to supply the processing sector. In this case, the government subsidy of planting or future purchase of environmental credits may have to cover a large proportion of the tree establishment and management costs, especially if the costs of repair are far greater than the value of the environmental services. This approach may only last as long as there are significant government contributions to the programs.

However, if a large proportion of this tree planting effort is undertaken in such a way that multiple timber and non-timber outcomes are driving the activities, it is quite likely that the appropriate species will be planted or managed at strategic locations within the landscape to produce multiple outputs.

The key investment drivers would be a combination of the returns from timber and the delivery of, or payment for, environmental services. In this case, the value of the environmental services may cover a smaller proportion of the total costs of the environmental solutions, particularly where those services can be an extension of a tangible and existing industry with a long-term investment horizon.

It is important to note that if the private sector is to pay for the establishment of commercial tree crops that deliver environmental services on the scale suggested, there will need to be a clear strategic direction for the growth of the timber processing sector. Australia's timber industry would need to be in a position to utilise the additional timber resources then sell those products on the domestic and international markets. Unless these issues are addressed, the impediments to the growth of the timber industry will have a substantial negative impact on the potential growth of the environment sector.

The background to the inquiry recognises the importance of Indigenous people and the utilisation of Indigenous skills as important components for supporting the long-term growth of the environmental services sector. The National Association of Forest Industries is working with AFFA and ATSIC to promote the development of a National Indigenous Forestry Strategy. It is intended that the strategy will assist Indigenous people to identify the options for managing their forest, and possibly their plantation, resources to maximise the social, economic, environmental and cultural outcomes.

This strategy should also contain an outline of how Indigenous communities can build effective links with the environment sector while informing the wider community about their views on sustainable forest management practices.

## **BARRIERS TO THE GROWTH OF THE ENVIRONMENT SECTOR**

A number of barriers need to be addressed in order to promote the growth of an environment sector that is driven by private sector investment and underpinned by appropriate government regulations and programs.

### ***Information base to support environmental services markets***

In order for these markets to operate effectively, they will require the development of baseline data

sets so that the changes in environmental parameters can be appropriately monitored across time. The public nature and range of details required suggests that providing the baseline data may be a role for governments, generally as an extension of the National Land and Water Resources Audit.

### *Effective national rules for tradeable environmental services*

It is essential that the national rules applying to the generation of environmental services reflect the specific nature of Australia's environment and landscapes so that they support, rather than impede, the generation of tradeable credits. For example, the definitions applied to carbon sinks did not support all of the carbon sequestration activities that trees could be used for.

### *Consistency in the tax rules applying to environment sector activities*

If tree crops are to be used as part of the solutions to environmental degradation, it is essential that investment vehicles that utilise the provisions of the taxation laws are not undermined by consistent changes. The expansion of regional plantation resources to supply new timber processing industries in the future will have to occur over a minimum of 10 years and possibly up to 40 or 50 years in the lower rainfall areas. As the removal of the 13-month prepayment rule in 1999 and re-introduction of the 12-month rule in 2002 demonstrate, changes in tax policy undermine investor confidence and raise uncertainty about long-term investment activities such as forestry.

### *Inadvertent consequences of existing tax rules*

If the environment sector growth is to be driven through private investment, it will depend to a large extent on the exchange of rights for environmental services. For trees it is possible to separate the ownership of the land, the trees and products within those trees. However, it is likely that those credits will be exchanged as rights. At the present time, the taxation provisions applying to rights may be an impediment to investment, and therefore employment, in the environmental services sector. An appropriate and equitable set of taxation arrangements applying to the creation and disposal of the rights will be required to promote the development of markets for developing, buying and selling environmental credits.

### *Market-based instruments developed in isolation of mainstream industry*

The future growth of the environment sector will depend on the nature of the returns that can be generated from activities with an environmental 'income'. At the present time, many of the market-based instruments are being designed in isolation of the activities of mainstream industries. To ensure their longevity and to encourage investment from the private sector in environmental solutions, it will be important to have access to a number of possible income streams in order to reduce the degree of risk faced by potential investors. In the case of forestry projects, this would include the sale of timber in addition to the exchange of environmental service credits.

### *Government regulations*

There are cases where government regulations are indirectly impeding the growth of the environment sector. In the case of the forest and timber industry, the Renewable Energy Regulations limit the opportunities to use woody biomass for energy production. If trees are part of the environmental solutions in particular regions, it may be appropriate that they are grown for the direct benefits they provide to the environment and the income from biomass, particularly if the resource could be used to generate renewable energy certificates. Similarly, State regulations that do not take into account

the full life-cycle impacts of using various construction materials will reduce the demand for timber products and in turn impede investment in forestry and therefore, the environment sector.

## **POLICY MEASURES TO PROMOTE THE ENVIRONMENT SECTOR**

It will be essential in these early stages of the environment sector's growth, to link the investment opportunities and environmental services markets to tangible activities. From a forest industry perspective, this would allow the environment sector to develop in association with the Australia's forest and timber industry, where the Federal Government is a partner in *Plantations for Australia: the 2020 Vision* and supports the sustainable use of our native forests.

To ensure that the private sector can be a long-term contributor to Australia's environmental repair, appropriate policies will be needed to complement the activities being undertaken in the environment sector. If trees are a partial solution to the country's environmental problems, it will be important to have suitable policies and programs in place to support the establishment of the trees and future investment in timber processing.

In order to have all of these activities being demand driven, there will need to be a very strong effort placed behind the expansion of the domestic and international markets for Australia's timber products. At the present time, Australia is an internationally competitive supplier of timber products and with the additional resources coming on stream, needs to build a presence and reputation in the growing markets of the Asia-Pacific region.

## **CONCLUSION**

To control the amount of funding that will be required (particularly from the Federal Government) to address Australia's environmental problems, it will be important to ensure that the environment sector has the capacity to grow in association with existing rural industries. In particular, it is anticipated that the growth of the environment sector will be very closely aligned with changing nature of our forest and timber industry. Policies and programs that assist the environment sector are likely to help the forest and timber industry while investment in plantation and forest management should lead to the generation of environmental benefits, and environment sector employment, as an extension of the existing industry activities.

Kate Carnell, Executive Director  
Phil Townsend, Deputy Executive Director  
National Association of Forest Industries  
August 2002