



# Regional Business Development

The submission by the National Association of Forest Industries to the **Regional Business Development Analysis Panel**.

## SYNOPSIS

*The National Association of Forest Industries is currently involved in a number of processes aimed at promoting sustainable investment and employment opportunities in Australia's regional communities.*

*Against the background of negative underlying trends affecting communities, employment opportunities and income levels in rural and regional areas, the forest and timber industry offers a number of new opportunities.*

*The future growth of the forest and timber industry will be driven by its capacity to use trees as a partial solution for addressing salinity and environmental degradation, encourage new investment in timber processing and reduce Australia's trade deficit in forest products.*

*However, the opportunities that new industry activities provide bring their own level of uncertainty unless there are reliable policy frameworks for environmental regulation, taxation and other key issues.*

*Balancing new and existing opportunities is essential if regional communities are to grow and prosper.*

*The growth of regional businesses and the attraction of new investment to regional Australia should be facilitated by strong supportive policy frameworks.*

## **INTRODUCTION**

It is quite timely that the Regional Business Development Analysis Panel is seeking input on an action plan for improving the regional business environment and reduce impediments to growth. The National Association of Forest Industries is currently involved in a number of similar processes aimed at promoting sustainable investment and employment opportunities in Australia's regional communities. These processes include:

- The House of Representatives Environment and Heritage Committee inquiry into employment in the environment sector
- Invest Australia's National Investment Framework
- The Senate's Rural and Regional Affairs and Transport References Committee inquiry into plantation forests, and
- Our request for the Minister for Forestry and Conservation to convene a Roundtable that addresses the impediments to investment in the timber processing sector.

Against the background of negative underlying trends affecting communities, employment opportunities and income levels in rural and regional areas, the forest and timber industry offers a number of new opportunities for supporting growth. However, the changes those new industry activities provide bring their own level of uncertainty for local businesses in addition to a range of positive outcomes. Balancing the new and existing opportunities is therefore essential if regional communities are to grow and prosper.

## **ENCOURAGING NEW INVESTMENT**

Australia's forest and timber industry is a good indicator of some of the key issues that need to be addressed in order to encourage a greater level of investment in regional Australia. At the present time, the industry has the capacity to support investment in up to eighteen brown and green field processing facilities, in addition to the establishment of a substantial area of new plantations managed to produce timber and simultaneously repair the environment.

Unfortunately, there are a number of impediments affecting the realisation of that potential and the subsequent regional development benefits, in terms of income and employment, those activities can provide. These impediments include the need for some national direction, the drawing together of the right mix of people at the regional level, the need for suitable training and education in regional areas, the capacity for assessing and accessing markets, the requirement for consistent policy support and the governmental project approvals process.

## **NATIONAL VISION**

In the diverse communities of regional Australia, leaders of our traditional industries generally have the capacity to see the future opportunities then respond through an effective investment approach. However, for the emerging industries such as viticulture, strategic investment decisions

are effectively determined by individual's responses to an industry vision. The wine producers have identified the volume of wine to be produced and the markets that will be targeted, allowing the various groups within the industry to develop their own investment plans in growing, processing and/or marketing of the end products.

For relatively new industries operating in rural Australia, such as plantation forestry, there may be a national vision in place. *Plantations for Australia: the 2020 Vision* indicates that the plantation resource could be expanded to 3.3 million hectares by the year 2020. While the recent investment in plantations has taken place across a number of regional communities and lead to the plantation estate now covering 1.6 million hectares, it has been against the backdrop of the long-term underlying trends in those areas. That is, ageing populations, diminishing interest in family members remaining on farms, and a significant increase in the average size of farms.

Against these substantial changes, small business owners, landholders and managers of the so-called soft infrastructure have to make new decisions about their operations.

The expansion of resources under the 2020 Vision could be accommodated by supplying Australia's domestic markets and exporting a modest volume of processed goods or raw materials. However, there is a growing interest in using trees to address some of Australia's environmental problems and two possible means for achieving the level of investment required to repair the environment. Either the State and Federal governments could subsidise the establishment of trees to provide 'environmental services' or the private sector could fund the strategic planting of trees in the landscape to generate commercial timber returns and environmental benefits.

The second approach is likely to provide a significant increase in the amount of timber available for the processing sector which needs to be balanced against the capacity of Governments to fund a large proportion of the environmental repair activities. If it is determined that the most cost-effective approach would be to encourage the private sector investment in plantations, a national strategy would be essential.

Without a national direction for what could happen with the extra timber, it would be extremely difficult for small and medium-sized company managers to determine what decisions they should be taking with regards to investment in plantation forestry, timber processing or ancillary industries.

The forest and timber industry recognises that what is required is an in-depth analysis of market opportunities for timber products, both in Australia and overseas. This analysis would help guide investment decisions over a very long planning horizon. We are not recommending that the Regional Business Development Advisory Panel supports the timber industry request for Governments to undertake this assessment. Instead, we are using it as an example for indicating how important a national vision is to regional investment decisions.

Industry itself is willing to work with all three levels of government to provide the visionary direction for supporting regional investment and growth. It is recognised that this visionary direction should be supported by a complementary and consistent policy framework.

## **THE RIGHT MIX OF PEOPLE TO DRIVE NEW REGIONAL INVESTMENT**

To encourage investment in new business opportunities for regional Australia, the appropriate mix of people and skills are needed to provide the momentum for on-ground investment and

responses.

In order to support the additional investment in commercial timber plantations that deliver environment benefits, the following people would be required to drive each project through to a successful conclusion:

- Landowners seeking investment to rehabilitate their land or minimise the impact of environmental degradation
- Plantation companies that can manage the growing, harvesting and possible processing of timber
- Environmental organisations to provide ancillary tree planting and management services
- Patient capital providers who have a limited understanding of the activity, but base their returns on the capacity of the plantation managers
- Companies to monitor, assess and market the environmental services
- Purchasers of environmental services, such as mining, waste or water supplying companies
- Brokers of environmental services, who may be located outside the region, and
- Mortgage holders over land, who require the capacity to understand the financial impacts of improving environmental outcomes on the assets they hold.

In order to effectively support such regional investment activities, the skills based needs to be suitably broadened, in addition to having the regional communities assess their additional ‘soft infrastructure’ requirements. The skills base required to support commercial plantation projects that deliver environmental services, would need to be provided at the regional level and cover a broad range of courses, so that professionals have the ability to service the following activities:

- 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.

These additional skill requirements only apply to the bounds of the environment sector. Where this new investment arises, there would need to be a further consideration of the social and physical infrastructure required to service the emerging industry. It is at this point that a program which builds on the Regional Solutions Program could be utilised. Given the long-time scale of investment and industry development, the regional communities need the capacity to undertake some scenario planning to consider the future outcomes, how they may be achieved and some of the challenges that need to be met to support and service the new investment.

## **CAPACITY TO ASSESS AND ACCESS MARKETS**

As noted in the previous section, new industries that are widely dispersed, yet developing on a substantial scale, need to be backed by a suitable assessment of future markets.

From a timber industry perspective, virtually all of the timber products manufactured from the new plantations providing timber and environmental services would have to be exported. If the private sector is to drive the investment in those tree crops, rather than having governments fund the establishment of trees for environmental purposes, a cost-effective approach for the Federal Government may be to assist with the assessment of future domestic and international markets.

Gaining access to international markets can be quite difficult for small companies operating in regional Australia. Not only do those companies generally have to deal with the size of the contracts offered in international markets, but their remote locations can pose difficulties overcoming technical barriers to the sale of their products overseas. Austrade can only offer limited assistance to new market entrants as their industry commissioners have specific areas of interest and the Export Market Development Grants provide limited assistance to smaller companies.

A cost-effective approach to supporting regional development may be improved trade market assistance programs that help a range of industries to access markets, particularly if those markets are to be supplied from similar companies in a number of regions.

## **A CONSISTENT POLICY AND LEGISLATIVE FRAMEWORK**

Many of the investment activities to be undertaken in regional Australia will have a long-term focus and therefore require a considerable amount of consistency in the Government's policy framework. Taxation changes over the last five years have been shown to have a significant impact on regional investment activities and the communities depending on those activities. As well as affecting the regional communities, investor confidence was undermined by the uncertainty applying to the taxation provisions.

The lack of consistency between the various pieces of government policy is another strong impediment to investment. From a forest and timber industry perspective, there is interest in

supporting the industry's growth at the same time as restrictions arise in other areas, such as the regulations applying to renewable energy generation or the greenhouse gas framework.

It is understood that Government policies need to keep changing and evolving, but to support economic growth in regional areas, there should be a stronger consideration of the impacts that one policy change has on other policy areas. And in those cases where policies can be complementary, such as investment in timber production and addressing environmental degradation, the policy approaches need to be drawn together.

While it is not an area that can be addressed by the Commonwealth, the resource-using industries operating in regional Australia face difficulties with State legislation. In particular, the on-going changes in State resource use and access legislation is an impediment to investment in regionally-based activities.

The panel has raised the issue of industry contribution to infrastructure provision. Cost effective infrastructure provision is an important consideration for governments and industry. At the present time, the forest and timber industry spends a considerable amount of money each year on maintaining and building public roads. However, as the roads are built in sections when and where they are required, it may not be the most cost-effective approach to providing the necessary infrastructure and there is no public recognition of the contribution the private sector makes in this area.

While industry believes that public infrastructure should be funded out of the taxes and fuel excises paid, there may be an opportunity to leverage investment from the private sector for these purposes. If the efficiency savings derived from the improved infrastructure outweigh the additional costs imposed on all industries from having that infrastructure built, there may be a suitable case to support the investment through a leveraging arrangement.

The forest and timber industry is therefore looking forward to the release of the AusLink proposal to assess the Federal Government's position on integrated infrastructure funding approaches and the options for leveraging investment between the private and public sectors.

## **THE PROJECTS APPROVALS PROCESS**

The uncertainty foreign investors face in regards to Australia's project approvals process, is one of the difficulties that regional communities face, in terms of obtaining investment in major projects.

For example, there is a significant level of interest in building at least one new pulp and paper mill in Australia. Australia either has, or will have, the scale of resources in at least three locations in the near future to supply a world-scale mill of this size. Such a mill would cost approximately \$3bn to build, employ 600 people when operational and virtually remove Australia's trade deficit in paper products of approximately \$2bn per annum.

Unfortunately, the international investment community is still quite concerned about Australia's major project assessment and approvals process. To overcome this impediment to investment and gain international interest in Australia's regional processing investment opportunities, the Minister for Forestry and Conservation has been asked to convene a roundtable to address the impediments to investment.

In addition to addressing the impediments to investment through the roundtable, the forest and

timber industry believes that Invest Australia should place a greater emphasis on their investment attraction activities while using the industry portfolio's expertise to provide the links between Commonwealth policy and programs. The National Association of Forest Industries will be providing a submission on the National Investment Framework, expressing the importance of having a body such as Invest Australia dedicated to attracting new investors or re-investment by overseas companies, particularly in regional areas.

## CONCLUSION

While a range of sectors have the capacity for contributing to long-term regional growth, it is important to recognise the opportunities that are available through the forest and timber industry. Given the nature of this industry, it must operate in rural and regional Australia, where the resources are currently available to support the industry's expansion. All eighteen investment opportunities currently available in regional areas offer considerable direct investment, employment and social benefits, as the pulp and paper mill examples indicate.

The future growth of the forest and timber industry will be driven by its capacity to simultaneously use trees as a partial solution for addressing salinity and environmental degradation, encouraging new investment in timber processing and reducing Australia's trade deficit in forest products.

If the Federal and State government want the private sector to fund environmental repair and at the same time promote regional business growth and development, the appropriate policy framework should be provided to complement that investment. The outcomes for Australia's regional communities will be reflected through the growth of employment and training opportunities and it is anticipated that this same policy framework would support the growth of other sectors in the regional economies.

The growth of regional businesses and the attraction of new investment to regional Australia could be facilitated by including the following elements in the Regional Business Development Analysis Panel plan of action:

- Governments and industry working together to develop a visionary outline for the future development of regionally-based industries.
- Extending the Regional Solutions Program so that regions have the capacity to consider a range of scenarios and determine their future requirements in response to economic growth.
- Support a regional development structure that draws together the appropriate mix of people to drive regional industry growth and investment.
- Be aware of the skills needed to support new and existing industry growth in regional areas.
- Where private sector investment is preferred to Government funding of activities, have flexibility in the design of policies and programs – for example, to support the plantation activities, it may be more cost-effective for the Federal Government to spend a relatively small amount of money on export market development than subsidising tree planting activities.
- Provide export market assistance that sits between the Export Market Development Grant approach and the Austrade trade specialists or commissioner, to support the long-term of

growth of small and medium enterprises.

- Ensure that there is greater complementarity between the policies impacting on regional Australia.
- Ensure that the infrastructure and infrastructure funding needs for regional Australia are adequately addressed in the Federal Government's AusLink proposal, with a proper consideration of the options for leveraging investment.
- Address impediments to investment in regional Australia brought about by the project evaluation and approvals process.
- Provide support for Invest Australia to be dedicated to investment attraction and facilitating investment, with the industry portfolio providing the relevant assistance to that agency.

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