
2 Forestry background and institutional framework

Community views about the management of Australia's forests have changed considerably in the 200 years since European settlement. Initially, forests were cleared for agricultural use and urban settlement. As the area of high quality forest declined, some remaining forests were reserved in order to ensure adequate timber supplies for housing and the other infrastructure required for a growing population. More recently, there has been increasing recognition of the conservation and environmental values of forest areas.

Forestry management now involves trade-offs between a range of competing ecological, social, aesthetic and economic objectives. This diversity of objectives, and the fact that many non-wood values are hard to quantify, makes forest management a complex and sometimes controversial task. Increasingly stringent requirements imposed on State forest agencies in relation to accountability, efficiency and, more recently, competitive neutrality add to this complexity.

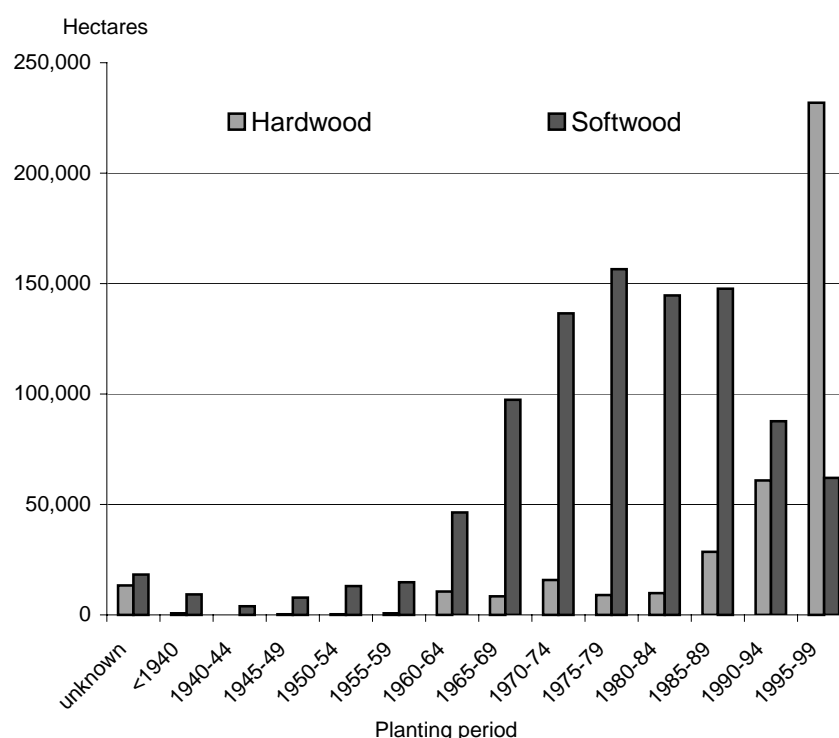
2.1 Nature of forestry and the forest products industries

Size and ownership of forest resources

Around 157 million hectares, or 20 per cent of Australia's land area, is classified as native forest (BRS 1998). Of this, just over 10 million hectares is potentially available for wood production, with some 7 million hectares managed by State forest agencies and 3 million hectares under private ownership (National Forest Inventory – unpublished data).

In addition, there are 1.33 million hectares of plantation forests. About 950 000 hectares of the plantation estate is softwood, with 62 per cent publicly owned. Of the 390 000 hectares of hardwood plantations, 20 per cent is publicly owned. (NFI 2000). Much of the hardwood plantation estate is immature (see figure 2.1), with a significant proportion intended for short-rotation pulplog production rather than for sawlogs.

Figure 2.1 Plantations in Australia, by period planted



Sources: NFI 1998; NFI 2000.

Table 2.1 shows the total area of native and plantation forests available for wood production under public ownership in the States and the ACT. The area of native forest includes areas managed for wood production and multiple uses, but excludes areas in which wood production is not permitted. Since 1998–99, the area of public native forest available for wood production has fallen as a result of Regional Forest Agreements (RFAs) between the Commonwealth and individual States on the use of public native forests.

Table 2.1 Area of publicly-owned native and plantation forests available for wood production, 1998–99 ('000 hectares)

	NSW	VIC	TAS	WA	QLD	SA	ACT
Plantations ^a	253	12	41	83	178	86	16
Native forests ^b	1146	3470	1600	1728	nr	nr	nr

nr not recorded.

^a As at September 1999, including 50 per cent of joint-owned tree crops. ^b Includes areas managed for wood production and other uses, but not areas in which logging is prohibited. The totals in the table are higher than in section 2.1 because they predate the RFAs.

Sources: NFI 2000; State Forest Agency Annual Reports.

Domestic production, consumption, exports and imports

In 1998–99, domestic log production totalled around 20 million cubic metres, in gross roundwood equivalent terms. Forty seven per cent of this was hardwood, sourced mainly from public native forests, while 53 per cent was softwood, predominantly from plantations.

Logs can be harvested as either:

- *sawlogs* — for conversion into sawntimber, plywood or veneer (for use mainly in the construction and furniture industries), or railway sleepers ; or
- *pulplogs* — for conversion into woodchips (for export) and fibreboard, particleboard or pulp (for subsequent conversion into paper and paperboard products). Some of these products are also made from thinnings, harvesting residues, sawmill waste and recycled paper and paperboard.

In practice, the distinction between sawlogs and pulplogs rests on an assessment of the amount of sawntimber that can be extracted from a log and its associated processing cost. Thus, logs with relatively little wood of a quality that can be processed into sawn timber and those which need considerable sawing in order to retrieve wood of suitable quality tend to be classified as pulplogs.

Sawlog and pulplog removals, from all sources, were roughly equivalent at nearly 10 million cubic metres each. A little over 9 million cubic metres of log production is exported, mainly as woodchips.

In contrast to the forest management sector, downstream forest products industries are almost exclusively private operations.

In 1998–99, domestic consumption of all wood fibre products represented the equivalent of around 19 million cubic metres. Of this, imports accounted for 8 million cubic metres, or a little over 40 per cent (by volume) of the market (ABARE 1999a). The majority of imports were of high value-added products, such as printing and writing paper.

- Imports of pulp account for about only 6 per cent of wood fibre imports, but imports of paper and paperboard products account for around 64 per cent (by value) of wood fibre imports and nearly 50 per cent of the Australian market for paper and paperboard products.
- Imports of basic sawnwood products account for about 13 per cent (by value) of total wood fibre imports, but around 18 per cent (by volume) of sawnwood consumption in Australia (see table 2.2). Imported sawn timber is mostly Radiata Pine from New Zealand and Douglas Fir from North America.

Table 2.2 Australian production and trade of sawlog and pulplog products, 1995–96 and 1999–00

		1995–96	1999–00 ^p
Sawlog usage		'000m ³	'000m ³
Hardwood sawntimber	– Production	1 391	1 351
	– Imports	94	124
	– Exports	28	49
Softwood sawntimber	– Production	2 053	2 562
	– Imports	648	847
	– Exports	26	44
Other sawlog products ^a	– Production	217	231
	– Imports	78	135
	– Exports	5	31
Pulplog (and residue) usage			
Particleboard	– Production	826	978
	– Imports	20	32
	– Exports	112	69
Medium density fibreboard	– Production	377	621
	– Imports	78	138
	– Exports	90	288
		<i>kilotonnes</i>	<i>kilotonnes</i>
Pulp, paper and paperboard	– Production	2 320	na
	– Imports	1 294	1 786
	– Exports	242	509
Woodchips	– Production	3 351	4 644
	– Imports	...	1
	– Exports	3 351	4 644

^a Includes plywood, veneers and railway sleepers.

^p Preliminary.

... Negligible.

Source: ABARE 1999a.

Sawmills, woodchip mills and pulp and paper mills are in most cases ‘dedicated’ to a particular input mix. As a result, there is often limited scope for a hardwood mill to process softwood logs (or vice versa). This in turn limits the ability of mills to compete with each other for different log types. In addition, the high cost of transporting logs often limits the scope for growers (including forest agencies) to sell logs to mills outside the immediate region or for mills in a given region to source logs from growers in another region.

Nevertheless, the markets for the mills’ outputs are highly competitive. For example, as well as competition from imported timber, locally produced sawntimber is widely traded within Australia. The fact that, first, hardwood and

softwood are highly substitutable in the construction sector — where 70 per cent of sawnwood is used — and, second, the scope for using steel and plastic substitutes, adds to the competitive nature of this market. Recent data about the log processing sector are limited. However, the latest available information about the size and structure of the sector is summarised in box 2.1.

While there are relatively few local producers of most paper and paper products, there is strong competition from imports in these markets. Increasingly, there is also competition from non-wood based products, such as plastics in packaging.

Chapter 4 looks at some of the possible consequences of these market features for price formation in the sawlog market, and thereby for investment in private plantations.

Employment and regional significance

Total employment in the forestry and forest products industries (including forest management, logging, milling and all value added activities) is around 83 000 people (BRS 1998). In some areas, the industry is a very significant employer. For example, in the central part of Victoria's North East Forest Region, the timber industry accounts for some 38 per cent of employment (CVRFASC 1998, p 131). Other regions where the forest and forest products industry is significant include:

- the Gippsland and Central Highlands areas of Victoria;
- the Eden, Southern, Richmond–Tweed and Mid-North Coast Regions of New South Wales;
- the Wide Bay–Burnett and Darling Downs–South West Regions of Queensland;
- the Southern and Eastern Regions of South Australia; and
- the Northern and Mersey–Lyell Regions of Tasmania. (ABS Labour Force Survey 1998)

In total, there are around 35 relatively small regional towns in Australia which have more than 20 per cent of their workforce employed in the forest and forest products industries (NFI 1998b).

Box 2.1 The structure of the log milling sector; Australia and by selected RFA region

Australia

There are around 1126 hardwood sawmills, 265 softwood sawmills, 22 pulp and paper mills and 18 panel board mills in Australia.

- Hardwood mills are generally small scale and scattered, while softwood mills tend to be large and integrated with other processing.

New South Wales

Southern Region

In 1997-98, there were 20 mills in total, of which 13 mills processed State forest hardwood logs.

- 30 per cent of the latter's sawlogs were purchased from private forests in the region.
- 7 mills were small and took only 1 per cent of logs harvested (almost all from private growers).
- 6 mills were of medium size and took 12 per cent of logs harvested (two-thirds from private growers).
- 7 mills were large and accounted for 87 per cent of logs harvested (16 per cent from private growers).
- Sawmills employed 237 persons, of whom 171 were employed in large mills, 47 in medium-size mills and 19 in small mills.

Eden Region

In 1995-96, there were 13 hardwood sawmills and 1 woodchip mill.

- sawlog intake was 36 700 cubic metres, while the pulplog intake was 463 000 cubic metres.
- 8 sawmills were less than 5000 cubic metres capacity.
- 5 sawmills were greater than 5000 cubic metres capacity.
- 77 people were employed in pulpwood processing and 57 in hardwood sawmilling.

Upper and Lower North East Regions

- 55 per cent of the regions' forests are privately owned, supplying 35 per cent of the regions' sawlogs.
- In 1997-98, there were 128 mills in the Lower North East Region (south of Bellingen).
- 12 of these mills employ more than 50 per cent of the workforce; 50 mills employ 1 or 2 people each.

Victoria

East Gippsland Region

In 1994-95, there were 22 hardwood sawmills, of which 21 received logs from State forests.

- Approximately 97 per cent of their logs were sourced from State forests within the area, with the remaining 3 per cent from private forests or from forests outside East Gippsland.
- They produced 134 000 cubic metres of sawntimber and employed around 360 persons.

Central Highlands Region

In 1996-97, there were 41 hardwood sawmills within the region, which processed 290 000 cubic metres of sawlogs. The region's 618 000 cubic metres of pulplogs were processed by 4 pulp mills located outside the region.

- 96 per cent of the sawmills' log intake was from State forests in the region, 2.5 per cent from private forests and 1.5 per cent from forests outside the region.
- The sawmills employed about 680 persons.

North East Victoria Region

In 1996-97, there were 9 hardwood sawmills receiving sawlogs from native forests in the region, 4 sawmills receiving residual logs only and 3 pulpwood operators processing hardwood residual logs and sawmill residues.

- The sawmills' intake of sawlogs totalled 209 000 cubic metres, of which only 34 per cent (or 71 000 cubic metres) was sourced from within the region.
- The pulpmills' intake was 1 700 cubic metres of residual logs sourced from within the region, plus 28 600 cubic metres of residues from local sawmills.
- In total, the sawmills employed 455 persons.

There were also 8 softwood mills with an intake of 850 000 cubic metres sourced from within the region.

Continued

Box 2.1 continued

Queensland

In 1993–94, there were 396 licensed primary processing plants in Queensland, comprising 274 fixed sawmills, 8 reconstituted timber product operations and 114 mobile sawmills.

South East Queensland (SEQ)

In 1996–97, there were 120 primary processing plants, of which 90 processed native timber and 30 processed plantation timber.

- Sawlog processing capacity was 931 000 cubic metres; pulplog capacity was 1.2 million cubic metres.
- 339 000 cubic metres of hardwood (60 per cent sourced from private forests), and 1.5 million cubic metres of softwood, were processed.
- Nearly 50 per cent of the hardwood sawmills processed only 5 per cent of the logs harvested.
- Sawmills in SEQ employed 2235 persons, less than a quarter of whom were employed processing hardwood from public forests in SEQ.

Western Australia

In 1997–98, there were 107 sawmills in WA. The industry is dominated by a small number of large companies which operate a number of mills. There was one major hardwood chipping facility operating in the south west, along with some small portable chippers.

- 90 per cent of the hardwood logs (sawlogs and chiplogs) came from public land.
- Sawlog capacity in the south west was 395 000 cubic metres; pulplog capacity was 1.3 million cubic metres.
- Total native sawlog production in WA's RFA region was 603 000 cubic metres.

Tasmania

In 1995–96, there were 162 sawmills and veneer mills (153 hardwood and 9 softwood), 3 pulp and paper mills and 4 woodchip mills in Tasmania.

- In 1994–95, the 5 largest hardwood sawmills processed 75 per cent of the State's sawlog supply.
- Approximately 80 per cent of sawlog removals were from State forests, with the remainder being sourced from private forests.
- The mills' sawlog capacity was 545 000 cubic metres; pulplog capacity was 3.3 million cubic metres.

Sources: ABARE 1996, 1999c; Bull et al 1998; Commonwealth of Australia 1998; CWARFACS 1998; Dann et al 1997; Gooday et al 1998.

Non-wood values

Forests — particularly native forests — have significant non-wood values. These include recreation, water quality, carbon sequestration, grazing and bee keeping. In addition, some forest areas protect: aboriginal and heritage values; aesthetic values; wildlife habitat and biodiversity; and medicinal and educational values.

Some of these alternative values are, or can be, commercialised — such as bee keeping, recreational use and grazing. Initiatives to commercialise other uses such as the protection of water catchments and carbon sequestration are in the development phase.

2.2 Current institutional framework in forestry

Recent institutional reforms

State forest agencies have been subject to many institutional changes over the last decade to improve efficiency and protect non-wood values. Table 2.3 provides a summary of these changes, which have focussed on structural and regulatory reforms.

Structural reform has mainly involved the separation of commercial and regulatory functions. In some cases, this has been a precursor to the foreshadowed corporatisation of State forestry operations — as of early this year, Tasmania had the only fully corporatised State forest agency.

Other significant changes associated with the reforms include:

- *Management practices* — this has encompassed a focus on better management of assets, including a requirement to earn commercial rates of return. Forest agencies now include a value for land and timber in their asset base. In some cases, this accounts for up to 80 per cent of the total assets of the forest agency; and
- *Pricing policies* — most jurisdictions are moving towards market-based pricing for at least some of their wood outputs. In Tasmania for instance:

Pricing and log allocation methods applying to public forests have undergone significant reforms in recent years, following the implementation of ... ‘the Strategy’. ...The Strategy provides a clear direction for the development of market-based pricing and allocation methods for logs from public forests and from private forests. (Tasmanian Public Land Use Commission 1996, p. 80)

Other developments

These institutional changes have been, and will continue to be, influenced by a number of other developments, including:

- the National Forest Policy Statement and associated RFAs;
- the ‘2020 Vision’ for plantation forestry in Australia;
- the NCP’s legislation review and CN requirements; and
- the Australian Accounting Standard for Self-Generating and Regenerating Assets, AAS 35.

Table 2.3 Institutional reforms undertaken by State and Territory forest agencies^a

<i>State/year</i>	<i>Institutional reforms</i>
New South Wales	
1988	<ul style="list-style-type: none"> • Finances restructured to separate commercial from public good components.
1991	<ul style="list-style-type: none"> • Forestry Commission adopts a decentralised structure.
1993–94	<ul style="list-style-type: none"> • Separation of policy and regulatory responsibilities from operational responsibilities. Commercial arm of Forestry Commission named 'State Forests NSW' (SFNSW) and established as a Government Trading Enterprise, involving agreement to an annual Statement of Financial Performance mandating the achievement of nominated returns on investment and performance monitoring. • Contracting out of many of SFNSW's support activities including office cleaning, maintenance, computer support, training, road and building construction, expert advice etc. SFNSW's commercial services units - including Nurseries, Aircraft Services, Workshop Services, Fleet Management and Civil Engineers - established as separate businesses, competing with external suppliers for internal work. Also given option to sell their services to external organisations.
1994	<ul style="list-style-type: none"> • Streamlining of State forestry regulation under <i>Forestry Regulation Act 1994</i>.
1995	<ul style="list-style-type: none"> • <i>Timber Plantations (Harvest Guarantee) Act</i> passed involving removal of some controls on the harvesting of native forests.
1998	<ul style="list-style-type: none"> • <i>Forestry and National Parks Estate Act 1998</i> prescribes the establishment of an Integrated Forestry Operations Approval for operations managed by SFNSW in defined native forest areas.
1999	<ul style="list-style-type: none"> • <i>Reafforestation and Plantations Act 1999</i> establishes a single regulating statute for the establishment, management and harvesting of timber on public and private land in NSW.
Victoria	
1993	<ul style="list-style-type: none"> • Government-owned plantations placed under the Victorian Plantations Corporation.
1994	<ul style="list-style-type: none"> • Full cost recovery for forest roads introduced.
1995	<ul style="list-style-type: none"> • Contracted-out Aerial Photographic Inventory; nurseries formerly managed by the Department of Conservation and Natural Resources privatised.
1996–97	<ul style="list-style-type: none"> • Aerial photo interpretation contracted-out. Forestry research and development reorganised on a purchaser/provider basis.
1997–98	<ul style="list-style-type: none"> • Contractor supervision of timber harvesting trialed on coupes in East Gippsland, bringing accountability for environmental outcomes closer to operators.
1998	<ul style="list-style-type: none"> • Victorian Plantations Corporation privatised.
1999	<ul style="list-style-type: none"> • Forestry Victoria (FV) established as a service unit within the Department of Natural Resources and Environment to handle its commercial forestry functions. FV's financial accounts separated from the Department's accounts.
Queensland	
1995	<ul style="list-style-type: none"> • Commercialisation of DPI Forestry (DPIF), including removal of regulatory functions and imposition of rate of return, dividend and tax equivalent requirements. • Department of Natural Resources given legislative role for monitoring all non-commercial forestry activities.
1997	<ul style="list-style-type: none"> • DPIF declared a 'significant business activity' under s.39 of the <i>QCA Act 1997</i>, making it subject to a comprehensive CN process, including investigation of CN complaints by the Queensland Competition Authority (QCA).

Continued

Table 2.3 continued

<i>State/year</i>	<i>Institutional reforms</i>
Western Australia	
1994–95	<ul style="list-style-type: none"> • Introduction of 10 year contracts for all mills to provide certainty and security for investment in value adding processes.
2000–01	<ul style="list-style-type: none"> • <i>Forest Products Act 2000</i> (proclaimed in November 2000) established the Forest Products Commission (FPC), which replaced CALM as the forestry agency responsible for commercial forest activities. The FPC has no regulatory functions.
South Australia	
1993	<ul style="list-style-type: none"> • Sawmills, other timber processing, marketing and related functions of SA Timber Corporation and Forestry SA merged into the state-owned Forwood Products Pty Ltd.
1995–96	<ul style="list-style-type: none"> • Forwood Products privatised. • Application of tax equivalence to the forestry activities of Forestry SA and contracting out of services such as site preparation, planting, pruning and weed control.
1996–97	<ul style="list-style-type: none"> • Competitive tendering introduced for sale of new logs by Forestry SA.
1998	<ul style="list-style-type: none"> • Forestry SA becomes a Business Unit within the Department of Administrative and Information Services.
1999	<ul style="list-style-type: none"> • Minister for Government Enterprises announces Forestry SA to become a public corporation on 1 July 2000.
2000	<ul style="list-style-type: none"> • Corporatisation of Forestry SA delayed until 2001.
Tasmania	
1991	<ul style="list-style-type: none"> • Public Land Use Commission established.
1993–94	<ul style="list-style-type: none"> • Forest Practices Board established to perform regulatory functions.
1995	<ul style="list-style-type: none"> • Forestry Tasmania, a corporatised GBE, replaced the Forestry Commission.
1996–97	<ul style="list-style-type: none"> • Forestry Tasmania finalises a new wood supply agreement with Australian Newsprint Mills. The agreement removes exclusive geographic rights to pulpwood from Crown forests and provides for general supply of both hardwood and softwood.
ACT	
1997–98	<ul style="list-style-type: none"> • Purchaser/provider arrangement developed for the provision of forestry management services by the Department of Urban Services. • ACT Forests established as a separate government business enterprise within the Department of Urban Services to manage commercial forestry operations. • Full identification and budget funding of CSOs delivered by ACT Forests and full cost attribution implemented.
1999	<ul style="list-style-type: none"> • Full tax equivalent regime applied to ACT Forests from 1 July 1999.

^a There is no government-owned commercial forestry operation in the Northern Territory.

Sources: IC 1995, 1996, 1997; PC 1998; and information supplied by State and Territory Governments.

Recognition of the need for a sustainable balance between wood production and non-wood uses has driven some of these initiatives. Reflecting this objective, changes in land use status (from areas available for wood production to conservation areas) have reduced the area of public native forest available for wood production by some 30 per cent over the last three or four years.

Another important driver of reform has been the industry's desire for resource security to underpin investment in new plant and equipment and to remain commercially viable in the longer term.

National Forest Policy Statement

The 1992 National Forest Policy Statement (NFPS), signed by the Commonwealth and all State and Territory governments, provides a 'blueprint' for the future management of Australia's forests, particularly its native forests.

The underlying goal of the NFPS is the development of an economically viable and ecologically sustainable forest industry. To achieve this, it sets out the following pricing principles to guide forest resource use:

- market-based prices that cover the full cost of efficient wood production, including a fair return on capital;
- transferable (tradeable) harvesting rights (when this does not result in the creation of excessive market power); and
- flexible allocation of harvesting rights, involving competitive bidding arrangements for 'appropriate' amounts of the resource. Where prices continue to be set through administratively determined allocation systems, the NFPS specifies that prices should comply with the earlier principle of full cost recovery, including a fair return to the community.

Regional Forest Agreements

The NFPS also provides for the integrated management of forest resources through comprehensive regional assessments of forest regions and Commonwealth-State Regional Forest Agreements (RFAs).

These agreements are intended to provide greater certainty and security about both forest conservation and timber resource supply. More specifically, RFAs are intended to:

- reduce uncertainty for industry and duplication in government processes for land use decision-making;
- produce long-term solutions which meet the requirements of governments, the community and industry, and which are consistent with the principles of ecologically sustainable development;
- equitably balance competing objectives and coordinate the policies and activities of governments;

- maintain regional, environmental, heritage and social values; and
- provide secure access to resources for the forest industry. (DPI Forestry 1998)

The successful negotiation of RFAs is a pre-requisite for the export of hardwood woodchips beyond 2000 from the forests concerned. To support the RFA process, the Commonwealth and State governments have provided a total of \$316 million, largely for adjustment assistance and industry development in regions affected by RFAs. However, funding has also been available for plantation development and the conservation of native forests on private land (as in Tasmania).

The RFAs that have been signed to date are listed in table 2.4. There is only one RFA still under negotiation, South-East Queensland.

Table 2.4 Regional Forest Agreements

<i>State/Territory^a</i>	<i>RFAs signed (date)</i>	<i>RFAs under negotiation</i>
New South Wales	<ul style="list-style-type: none"> • Eden Region (<i>August '99</i>) • North East NSW (<i>March '00</i>) • Southern Region (<i>April '01</i>) 	
Victoria	<ul style="list-style-type: none"> • East Gippsland (<i>February '97</i>) • Central Highlands (<i>March '98</i>) • North East Region (<i>August '99</i>) • Gippsland (<i>March '00</i>) • West Victoria (<i>March '00</i>) 	
Queensland		<ul style="list-style-type: none"> • South East Queensland^b
Western Australia	<ul style="list-style-type: none"> • South West Forest Region (<i>May '99</i>)^c 	
Tasmania	<ul style="list-style-type: none"> • Tasmania (<i>November '97</i>) 	

^a South Australia, the Northern Territory and the ACT do not have government-owned commercial native forest operations and therefore have no requirement for RFAs. ^b The Comprehensive Regional Assessment process has been completed for South-East Queensland, but there is no agreement yet between the Commonwealth and Queensland Governments. The Southern Brigalow Forest Region of Queensland was also to have been covered by an RFA, but there is no intention to proceed at this stage. ^c The WA Government unilaterally revised this agreement in July 1999.

Sources: Regional Forest Agreements Homepage; Environment Forest Taskforce website.

'Plantations for Australia: The 2020 Vision'

Increased pressure to reserve native forests for non-wood uses, as well as the limited availability of suitable land for public plantations, has led to a greater emphasis on the role of private plantations in expanding log supplies.

In July 1996, the Commonwealth and State governments agreed on a national goal of trebling the nation's plantation estate by 2020 through both large-scale industrial

plantings and small plantings on farms. Key factors identified as necessary to achieve significant growth in the private plantation estate included:

- boosting the availability of suitable land;
- increasing the commercial attraction of private investment in plantations;
- developing a plantation culture within local communities and improving information on plantation profitability and prospects; and
- removing policy impediments to the expansion of private plantations in areas such as taxation, property rights and inefficient pricing of substitute products (including logs from State forests).

National Competition Policy

In April 1995, the Commonwealth and State and Territory Governments adopted the NCP package. The package entailed wide-ranging changes to increase competition in the economy, including reforms designed to consolidate and build on institutional restructuring in the government business sector such as:

- prices oversight of GBEs that may have monopoly power;
- separation of policy and regulatory functions from the delivery of government goods and services (see table 2.3); and
- increased scrutiny of competition between government businesses and private firms to ensure compliance with NCP principles relating to CN and the removal of legislative restrictions on competition (see table 2.5).

Australian Accounting Standard — AAS 35

As noted in chapter 1, a key CN principle is that prices for commercial government goods and services should at least cover costs. This raises the issue of what are the ‘true’ cost of forestry activities and how they should be accounted for.

For many government business activities, setting prices that cover costs is straightforward. While determining forestry operating costs is straightforward, a significant component of the total cost base comprises the resource itself — that is, the land and standing timber. Unlike assets used by most government businesses, the market value of the land and timber often cannot be determined by reference to either a book value or the cost of acquiring a comparable asset. This is particularly the case for native forests which are ‘gifts of nature’. The valuation of land and standing timber in forests was considered by Roberts et al (1995). This assessment formed the basis of a new accounting standard for self-generating and regenerating assets (SGARAs), described in Australian Accounting Standard (AAS) 35.

AAS 35 applies to all SGARAs, other than those held primarily for aesthetic, heritage, ecological, environmental or recreational purposes, where asset valuation is particularly problematic (AARF 1998). Thus, in the forestry sector, the standard applies to forests managed for commercial uses, such as wood production, but not to those within national parks or otherwise managed solely for non-commercial uses.

The new standard, which applies to reporting periods ending on or after 30 June 2001, amongst other things, requires forest agencies to:

- Calculate the net market value (NMV) of their forests on the basis of what they could sell them for as a going concern. Where no market price for a ‘whole’ forest exists, the standard specifies that agencies can use wood prices to determine a NMV. AAS 35 suggests that the best measure of NMV is the net present value (NPV) of the forest: that is, the value of discounted cash flows from harvested logs minus the costs of forest management and harvesting.
- Undertake valuations each year to ensure that asset values account for changes in timber prices and biological growth or decay.
- Base their valuations on the use of wood for sawlogs (unless the market value of the forest when harvested for pulplogs is higher).
- Apply an appropriate discount rate (for example, the long-term bond rate adjusted for forestry-related risks) when calculating forest asset values from expected future cash flows.
- Disclose the nature of any proxies used to estimate a forest's NMV, together with significant assumptions made in deriving the estimate.
- Provide details of any regulatory or other restrictions (such as environmental controls on harvesting) that have a significant impact on a forest’s NMV, including the area of the forest subject to the restrictions.

AAS 35 provides a consistent framework for forest asset valuations across jurisdictions, but gives forest agencies considerable flexibility in implementing it. This has led to differences in asset valuations between agencies, and has particular implications for the implementation of CN by forest agencies. These matters are discussed in the next chapter.

Table 2.5 Progress in reviewing potentially anti-competitive State and Territory forestry legislation

<i>State & Territory^a</i>	<i>Legislation</i>	<i>Potential anti-competitive concerns</i>	<i>Review progress</i>	<i>Outcomes and recommendations</i>
New South Wales	No forestry-specific legislation listed for NCP legislative review ^b	–	–	–
Victoria	<i>Forests Act 1958</i>	Department of Natural Resources and Environment's exclusive management of State forests. Determination of sawlog supply levels and prices. Allocation of logs under licensing arrangements.	Completed	Recommended separation of commercial regulatory/policy functions; market-based pricing of forest products; and guidelines for greater transparency in the allocation of licenses and permits. The Victorian Government is currently developing its response to the review.
	<i>Forest Agreement Act (softwoods) and Forest Agreement Act (hardwoods)</i>			Both Acts were removed from the review schedule as any amendments would breach the State Government's contractual obligations.
Queensland	<i>Forestry Act 1959</i>	Allocation system for native sawlogs.	Completed	Allocation system found not to affect competition – exemption from Trade Practices Act retained and extended for 10 years (pending authorisation by the Australian Competition and Consumer Commission)
Western Australia	<i>Sandalwood Act 1929</i>	Tradac stumpage system. Entry restriction – the proportion of annual sandalwood harvest that may be taken from private land. Licensing arrangements.	Completed	No longer exists. Legislation to remove the restriction has been prepared.
	<i>Conservation and Land Management Act 1984</i>	Permits, licences and contracts; resource quotas etc.	Commenced	Awaiting the results of a Ministerial inquiry into apiarist regulation.
	<i>CALM Amendment Bill 1999 and Forest Products Bill 1999</i>	Restrictions, requirements and powers of CALM and FPC.	Completed	Under consideration by Government.
	Forest-related State Agreement Acts		Completed (only a sample of Acts reviewed)	Deemed to be 'in the public interest'.

Continued

Table 2.5 **continued**

<i>State & Territory</i>	<i>Legislation</i>	<i>Potential anti-competitive concerns</i>	<i>Review progress</i>	<i>Outcomes and recommendations</i>
South Australia	<i>Forestry Act 1950 and Local Government (Forestry Reserves) Act 1944</i> have not been listed for review.	–	–	According to the SA Government, there are no obvious competition restrictions in these Acts.
Tasmania	<i>Forest Practices Act 1985</i>	Forest Practices Code, Timber Harvesting Plans, Private Timber Reserves and Forest Practices Officers.	Completed	Justified in the public interest as representing the minimum level of control necessary.
	<i>Forestry Act 1920</i>	Granting of forest permits and licences, and registration of sawmills. Minimum supply requirements for eucalypt veneer logs and sawlogs to the veneer and sawmilling industries.	Completed	Most of these restrictions are to be removed from the Act. Justified as being in the public benefit during the RFA process.
	Other relevant Acts deemed largely redundant or repealed.			

^a There is no forestry-specific legislation in the Northern Territory or the ACT. A number of broader Acts applying to ACT Forests are yet to be reviewed. ^b The NSW Government has been reforming some regulations affecting forestry in NSW, separate to the NCP timetable.

Source: Based on information supplied by State and Territory CN agencies.