
5 CN and the broader policy context

The operation of State forestry agencies over the next decade or so will be affected by many factors, of which CN is only one. This chapter summarises the effects of CN. It then briefly identifies some of these other factors, but does not seek to explore them in depth.

5.1 The role of CN

Conceptually, CN is an extension of institutional reforms implemented over the last decade that have sought to improve the performance of government businesses. The focus on cost recovery, and the trend toward greater transparency and accountability of public agencies in their management of public resources, has encouraged forest agencies to evaluate their forest management practices in terms of their impacts on efficiency and financial performance.

There are expectations that CN will also contribute to a better balance between wood and non-wood uses of native forests. For example, the Australian Conservation Foundation (ACF) has argued that the failure to implement CN has been a problem for the pursuit of environmental goals:

Strong industry and government resistance to the need for the comprehensive application of the competitive neutrality principle to resources and related sectors constitute a major hurdle in moving towards ecological sustainability. (ACF 1998, p. 9)

Underpinning the views of the ACF is the perception that log underpricing has been associated with adverse environmental impacts, as well as reduced investment in private plantations:

The presence of subsidies ... contributes to the over-exploitation of native forests for timber production, particularly in some of the most remote and ecologically valuable areas ... These large subsidies serve as a major disincentive to the establishment of commercial hardwood plantations ... (ACF 1997, p. 3)

The implementation of CN in forestry will contribute to better cost recovery and pricing policies, and hence a more efficient and better managed public forest estate. However, as discussed in chapter 4, there are limitations to the ability of CN to overcome log underpricing. This means that other factors, such as the efficiency of

Australia's wood processors and initiatives to develop more competitive log pricing mechanisms, will also play a role in improving the efficiency of forestry agencies.

5.2 Competitive markets for logs

It is often argued that the use of competitive tendering (or auctions) for the sale of logs would lead to higher prices because processors would be forced to pay the 'true' valuation of the logs. Thus, provided there is competition between buyers, competitive sales might eliminate the rents that have accrued to processors as a result of underpricing and increase the returns achieved for a valuable community resource.

Outcomes from the relatively few auctions held to date suggest that a competitive market could also lead to greater differentials in log prices. For example, SFNSW has reported that the market value (determined by the residual value per cubic metre) of a 70cm diameter log is some 30 per cent higher than a 40cm log (AFFA 1999). Traditionally, there has been some differential in royalty rates (price per cubic metre) depending on the class of log, but these have not fully reflected the size, and hence market value, of logs.

Wider price differentials for larger logs may enable forest agencies to earn higher rates of return from the long rotations which, in turn, would contribute to the protection of non-wood values. Thus, competitive log sales may also provide a means of reducing the tension between the current regulatory approach to protecting non-wood values and the increasing pressures on forest agencies to operate on a commercial basis.

However, in regions where there are incumbent processors who already have harvest allocations, and where there are barriers to entry in sawmilling, competitive tendering may have little impact. The role of secondary markets for harvesting rights may be of greater significance in achieving more competitive log pricing in such markets. Competitive secondary markets for log entitlements would strengthen the processing sector's incentive to operate efficiently. At present, there are some secondary markets in harvesting rights, but they are not well developed.

Currently, harvesting rights can only be held by wood processors. However, there would seem to be no reason why parties other than wood processors should not be able to bid for, and hold, such rights. If a timber right was modified to become a right to appropriate all the values of the forest, then holders may be better able to balance all possible uses — particularly in light of the potential development of some markets for environmental services (see section 5.5).

5.3 Legislation reviews

Some legislation relating to forestry activity restricts competition. Under the provisions of the NCP, State and Territory governments agreed to review, and where appropriate reform, all such legislation that restricts competition.

Sustainable forestry is achieved when the harvest rate is such that it can be maintained in perpetuity. In most jurisdictions, legislated harvest management plans have been used to pursue this objective. Following review, much of the existing forest legislation has been found to be ‘in the public interest’ (on the grounds that the regulations promote sustainable forest management); only a few have either been revoked or had authorisation sought under the Trade Practices Act (TPA).

However, some other potentially anti-competitive forestry legislation has been removed from the review schedule of some States (see table 2.5). As the link between some potentially restrictive legislation (for example, restrictions on entry to sawmilling) and sustainable resource use are not obvious, it would have been desirable if the arguments for restricting competition (and hence for exempting forest legislation from review) had been open to public scrutiny. Transparency and public scrutiny would also be promoted if those forestry legislation reviews that have not as yet been released were made publicly available.

5.4 Transparency of pricing outcomes

There is very little published information on prices realised by forest agencies. While DNRE (1999a) provides some contemporary information for Victoria and listings of royalty and stumpage schedules are available for Western Australia, pricing policies and the terms on which harvesting licenses are allocated are generally confidential. In one particular case, in Victoria, an attempt under Freedom of Information to obtain information on royalties charged by the Department of Natural Resources and Environment was denied on the grounds that the information was ‘Cabinet in Confidence’ (ACF 1997).

In the United States, the Department of Agriculture regularly publishes detailed information on stumpage prices (royalties), fob mill prices, harvest rates and sustainable harvest rates by species and region (Warren 2000). While the relatively small size of the Australian industry may prevent the publication of statistics in the same level of detail without breaching confidentiality, the limited information available in Australia denies the community information on a very significant natural asset and inhibits scrutiny of the pricing practices of State forest agencies. This increases the difficulties in assessing the performance of these agencies. At the

same time, the absence of public information on market prices and conditions itself may constitute an impediment to private investment in forestry — information about farmgate or market prices is readily available to potential investors in most other natural resource and primary industries.

5.5 Extension of market-based approaches to the provision of non-wood outputs

In principle, non-wood values should be factored into decisions about investment in new forests and harvesting schedules (if any) for existing forests. However, the difficulty in valuing many non-wood outputs has led to an emphasis on the use of regulation — such as harvesting controls — to protect environmental values.

Harvesting controls are a blunt alternative to the incorporation of non-wood values in the decision-making processes of forest agencies. They are based on an implicit set of non-wood values, determined at the time the regulations were implemented. As the community's valuation of forests' non-wood services changes over time, the current regulatory framework may no longer be appropriate.

In addition, the regulatory framework generally imposes the same harvesting controls (such as rotation length and requirements for buffers along waterways) in all forests within a jurisdiction. Since both wood and non-wood values may vary significantly between forests, a more flexible regulatory framework may lead to a better set of outcomes.

Increasingly, the development of markets for some environmental services will allow forest agencies (and private growers) to generate new revenue from non-wood outputs. This will provide them with greater scope to incorporate non-wood values in investment and management decisions. (Henry 2000; Smith 2000). To date, discussion about the development of such markets has focussed on carbon sequestration, biodiversity and salinity credits.

By reducing the need for prescriptive harvesting controls, the development of markets for some non-wood values could lead to greater flexibility in forest management. For example, some forests could be managed on short rotations and others on much longer rotations, depending on the particular mix of wood and non-wood values. This would have implications for the competitiveness of plantations, the balance of wood and non-wood outputs, and the supply of logs.

Where markets for non-wood values are unlikely to be developed, the way in which these services are funded by governments can have an important bearing on the manner in which forest agencies incorporate such non-wood values into their forest

management practices. Explicit funding would provide clearer signals to forest agencies on the non-wood values concerned, perhaps again lessening the need for prescriptive harvesting controls.