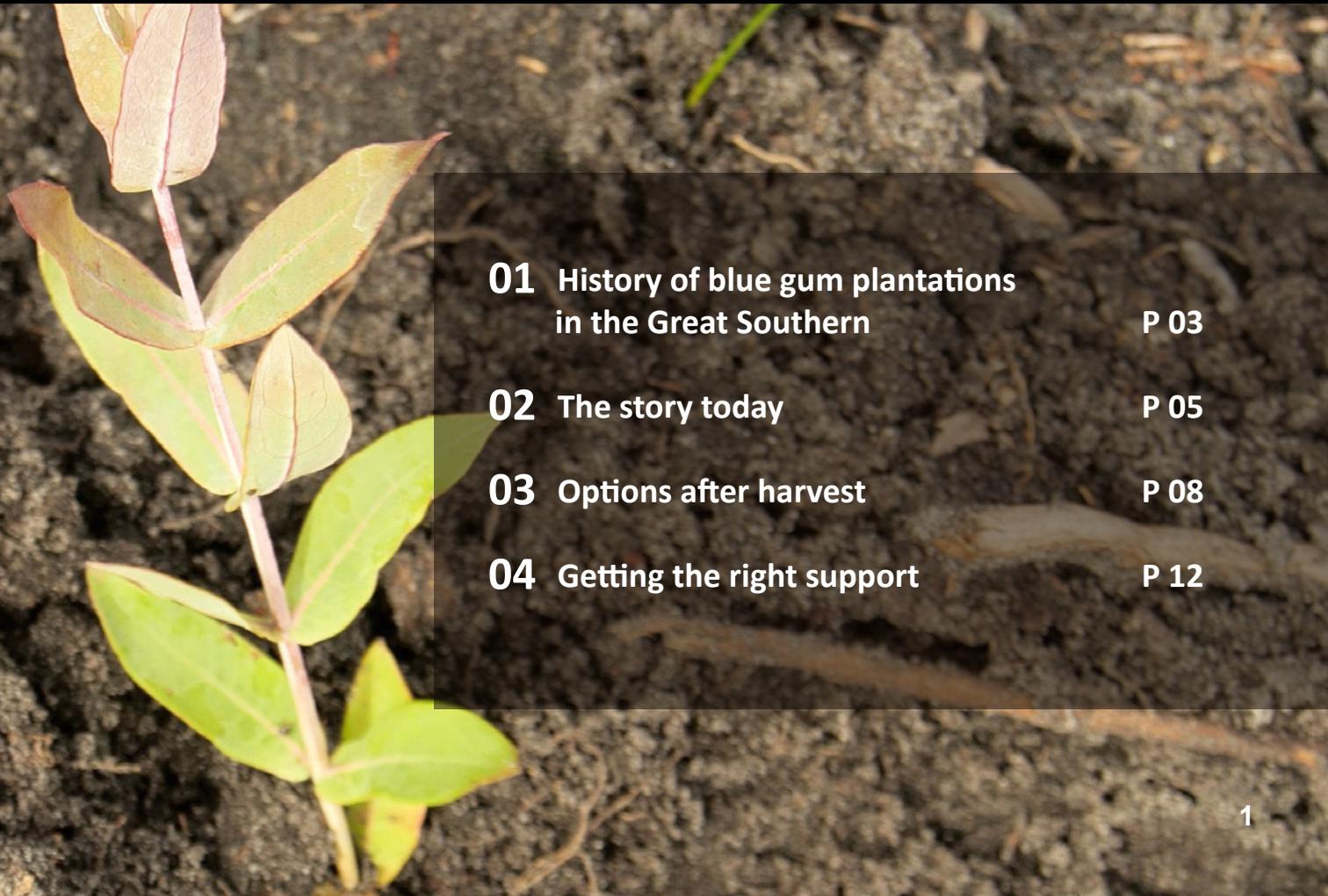


*Make every hectare count*



<b>01</b>	<b>History of blue gum plantations in the Great Southern</b>	<b>P 03</b>
<b>02</b>	<b>The story today</b>	<b>P 05</b>
<b>03</b>	<b>Options after harvest</b>	<b>P 08</b>
<b>04</b>	<b>Getting the right support</b>	<b>P 12</b>



**PATRICK GROENHOUT**  
Managing Director

The outlook for Australian plantation owners is as good as it has been in twenty years. The industry is experiencing a period of sustained growth, buoyed by focused and efficient forest management, strong pricing, secure markets and general industry stability.

If you own a blue gum plantation which is nearing harvest time, you are faced with some critical decisions – when do you harvest, what do you do with your land after harvest, how do you sell your wood, who will do the work for you?

If you are thinking about planting blue gums and haven't done so before, you need to know where to start, how much it will cost, whether your property is suitable and what returns you can expect, at the very least.

Our team has compiled this guide to provide you with advice that will help you to make smart choices to ensure that you make every hectare count.

The choices you make now will influence what you do with your land for the next 10 to 15 years. We'd like to guide you in the right direction.

This guide will get you thinking about what you need to consider to make the right choices for the future management of your property.

## HISTORY OF BLUE GUM PLANTATIONS IN THE GREAT SOUTHERN

The first commercial planting of *Eucalyptus globulus* (Tasmanian blue gum) was established in 1980 on private property a few kilometres south-west of Manjimup. A key driver was pressure on long-term access to native forests for wood chip production.

This first trial planting identified the potential for well-fertilised ex-pasture farms to support high growth rates for blue gums and the industry experienced a period of significant

expansion. Between 1980 and 2009 more than 300,000 hectares of blue gums were established in the South-West and Great Southern regions.

The first round of expansion was supported by woodchip exporters. However, the involvement of the Managed Investment Scheme (MIS) industry was the main driver for blue gum plantation expansion. MIS companies used positive tax incentives to attract private investors into plantation growing.

While the MIS investment model proved enormously popular with private investors across Australia, there were challenges to the model which resulted in the MIS sector collapsing spectacularly between 2008 and 2012, caused by a combination of circumstances, including:

- The Global Financial Crisis (GFC) in 2008 which reduced availability of investment capital.
- A tsunami on the east coast of Japan severely damaged the major pulp mills that were receiving woodchips from these estates.
- The federal government tightened its rules around the tax deductibility of MIS projects.
- Early plantation returns were falling significantly below investment projections.



**MAL PARKER**  
Senior Forester

“Since the MIS collapse there has been some rationalisation of estates to higher rainfall locations generating greater plantation growth rates and closer to ports.”

Following the MIS collapse, a substantial restructuring of plantation ownership occurred, with the majority of the ex-MIS plantations acquired by global investment funds. The structure of these funds meant the estates were purchased debt free. The businesses run efficiently on the profits generated through sound plantation management.

However, there was also a post-MIS legacy of woodlots which were not acquired by larger investors and where ownership ended

up with the owners of land which had been leased to the MIS companies.

Since the MIS collapse there has been some rationalisation of estates to higher rainfall locations generating greater plantation growth rates and closer to ports.

In Western Australia some 51,000 hectares of former blue gum plantations (about 16% of peak area) have been reverted to more suitable agricultural uses such as grazing or cereal cropping.





**MARTIN CREVATIN**  
National Operations Manager

Blue gum woodchip prices have risen steadily from the lows of the GFC and blue gum plantations have steadily demonstrated commercial viability in a growing and long term market. Blue gum

woodchip is primarily used in the production of fine, or high quality copy paper. Global demand for high quality paper has continued to grow over recent years and blue gum is the preferred species for pulp and paper manufacturers.

In Western Australia the timber industry supports more than 6,000 direct jobs, most of which are in regional areas. This is an important

characteristic of a timber and fibre industry worth \$1.4 billion to the state each year. With port infrastructure in place and efficient harvest and haulage service providers based in Albany, the integration of commercial tree plantings into farming enterprises is a great opportunity worth investigating.

The benefits of trees on farms include erosion control, shelter belts, water table management and wildlife habitat. There is also an increasing recognition that, for some farms, trees contribute commercially to farm viability and profitability.

For areas of a farm where sub-optimal returns tend to be the norm, there is an opportunity to ask the question: can I do something different to make every hectare count? A commercial timber crop on that area may deliver a better financial return at lower risk than persisting with a business as usual approach.

“ Blue gum woodchip prices have risen steadily from the lows of the GFC and blue gum plantations have steadily demonstrated commercial viability in a growing and long term market. ”

### PLANTATION AVAILABILITY REDUCING

Nationally there has been a decline in plantation area since the heights of the MIS boom. The hardwood plantation estate has been reduced by some 82,000 hectares, or eight percent, since 2009. That reduction has been most pronounced in Western Australia, which has contributed 51,000 hectares to the total reduction in hardwood plantation area.

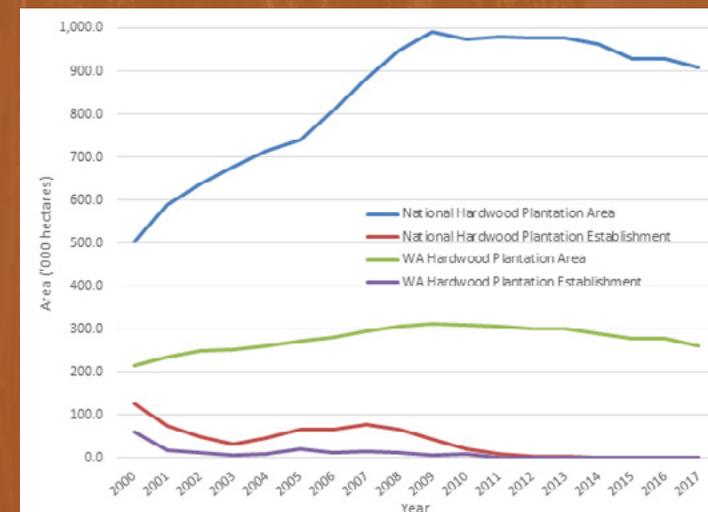


Figure 1: Hardwood plantation area Australia and Western Australia, 2000 to 2017 (Source: ABARES)

### WOODCHIP MARKETS STRENGTHENING IN FAVOUR OF GROWERS

Hardwood woodchip demand is forecast to increase and supply is forecast to contract over the next decade. This is positive for anyone thinking about establishing a blue gum plantation. Industry analysts forecast a long term undersupply, increasing to an estimated shortage of 3.5 million bone dry tonnes by 2023.

In response to reduced supply from some of the major traditional suppliers there has been an increase in demand for Australian grown blue gum woodchip principally driven by demand from China and Japan. Consequently,

Australian suppliers are now experiencing a strengthening of their position as key suppliers of high quality woodchips for major Asian markets.

This undersupply situation is not likely to be resolved in the short term. Markets are increasingly specifying supply of certified forest products which will further reduce the pool of suitable suppliers. At the same time biofuel markets continue to emerge and grow. Overall the outlook is positive for well located, professionally managed plantations in the Albany region.

## ALTERNATIVE APPROACH TO REVENUE GENERATION FROM PLANTATIONS

The “pay day” for plantations is a fair way off from when the trees are first planted. For some landowners the length of time between the costs of planting and the sale of harvested wood can be daunting – it can be seen as locked up cash. Although still an important consideration, this is no longer as much of a challenge as it had been in the past. With a well established and maturing market for plantation grown

wood operating in the region, there is now an active secondary market for existing plantations. It is this market that presents opportunities to generate revenue earlier than having to wait until harvest age is reached. These opportunities involve an agreement to sell a right to harvest the trees under negotiated terms including access, time of harvest and other considerations.

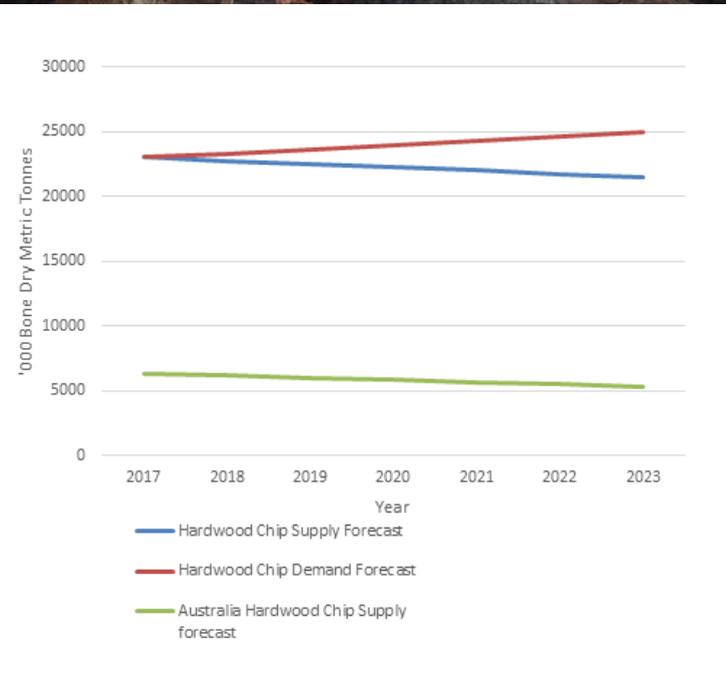


Figure 2: Hardwood woodchip forecast supply versus demand to 2023 (Source: RISI, 2018)



## OPTIONS AFTER HARVEST

### *Replant to blue gums*

Farmers who already have plantations on their land are faced with the decision of what to do with their land once the crop is harvested. A simple option is to replant the harvested area with a second or third rotation of trees. There is no truth that tree plantations spoil the soil. When established correctly, a land owner can expect to achieve similar returns in the future with successive timber plantations. The first thing to work out is whether trees are the right option for your land. With the lessons learned over four decades of growing blue gums in the region and relative market stability, it is clear which districts are the most suitable

and profitable for timber production and returns are more predictable than previously. Essentially the higher the rainfall, the better the trees will grow. The other main influence on returns to growers is haulage distance to the export facility.

Before you make the decision about whether to replant you need to understand the comparative benefits and suitability of the various land use options available. If you are looking to replant, this includes a detailed understanding of the activities and costs required to replant, as well as the likely timber growth and future revenues from growing a plantation.

There are many sound reasons to establish plantations on farms. These include:

- Spread of agricultural risk. As one rural commodity can fluctuate in value over the years another commodity can offer alternate income streams when prices are not so strong.
- By planting some or all of a farm to trees, the daily workload required to manage the farm will decrease.
- Tree crops can be harvested over a wide period of time providing the land owner with flexibility when revenue is generated. They do not need to be harvested on a set date like a wheat crop.
- The landowner can choose to sell in a year that suits their needs and objectives. If timber prices have drifted down the landowner can wait until prices have rebounded.
- Tree crops provide advantages for farm management such as controlling wind and water erosion, limiting the spread of salinity, providing stock shelter, habitat linkage between remnant native forest for native birds and animals and visual amenity.

Timber farming is an opportunity for you to diversify your existing enterprise. It also remains a good option for current plantation owners to reinvest in blue gums for a second or third rotation.

### *Agriculture after blue gums*

Despite the well known benefits of trees on farms, sometimes it just doesn't make sense to go back to blue gums after plantation harvest. Maybe the distance to market is too far, or maybe the farm just isn't suited to growing commercial trees. In this instance, it may be that removing the stumps and moving back to grazing or cereal cropping is the right decision.

It sounds easy enough, but farmers may have many questions about the best

reversion options, techniques, associated costs or if it is even likely to be viable.

PF Olsen Australia has successfully reverted over 6,000 hectares of blue gum plantations in the Great Southern and has been continuously cropping reverted farms (previously under blue gum plantations) for five years. There are plenty of challenges in moving back to cropping after the land has been growing blue gums for fifteen years but they are manageable.



“PF Olsen Australia has successfully reverted over 6,000 hectares of blue gum plantations in the Great Southern and has been continuously cropping reverted farms (previously under blue gum plantations) for five years.”

Land condition after harvesting is very similar to what is known to the farming community as “new country”. While there are some views that blue gum plantations destroy soils, the evidence does not support this. Soil testing will indicate low soil fertility levels due to negligible fertiliser application during the forestry phase. Initially high rates of phosphorous and nitrogen are required to raise soil fertility to cereal crop requirements, in addition to normal potassium and trace elements. Lime is generally also required to get soil pH back to a range suitable for cropping.

The plantation harvesting system, reversion techniques and soil type ultimately determine the cost and the amount of clean-up work to bring a farm back into production.

During the year immediately after reversion of a plantation to cropping, we usually experience low crop yields due to dry soil,

low fertility, uneven seeding depth and difficulties traversing worked land during winter. However, with each successive year we have seen improved yields and by year three and four, these properties are producing crops equal to district averages. Burning of stubble cleans-up much of the remaining plantation harvest residue and cultivation continues the levelling process.

Managing the forestry residues and stumps can either be done in a short period of time at higher expense, or over a longer period to enable the stumps and residue to rot naturally at far less cost. The best approach will be determined by the end use for the farm. If going into crops, then all stumps and residue must be removed and the land levelled. If the land is to be used for grazing only, then this can be accomplished over a number of years, during which time weeds can be controlled and pastures re-established.

If you're looking for assistance to manage your harvesting and sales, replanting of tree crops or reversion activities, there's a few things you should consider about your service provider:

#### ***Managing operations safely***

Whether you undertake the work yourself, get contractors in to do it or engage a manager like PF Olsen Australia to oversee works, as the landowner you have certain safety obligations you must meet. If you are looking to use a manager, you should ask the manager for evidence that it:

- Operates under an accredited Safety Management System.
- Ensures that all contractors it uses have their own comprehensive Safety Management System that is being effectively used.
- Has routine and structured safety governance and continuous improvement processes in place.
- Uses formal written agreements to engage all contractors.
- Only engages qualified and trained contractors to undertake operations on client land. Scopes all work, identifies hazards on the work site and assesses the risks related to the operations with appropriate controls in place to manage hazards and risks.
- Inducts all contractors, staff and visitors at the commencement of operations and monitors operations.
- Has management systems which are subject to scrutiny by external auditors.
- Develops, communicates and implements safety initiatives and a program such as Zero Harm.
- Is an active member of industry safety committees.
- Operates a drug and alcohol free workplace and undertakes testing at operations.
- Monitors and reports on key health and safety statistics.



**Looking after the bottom line**

A manager should be focused on the best outcomes for you. If looking to engage a manager, you should look for evidence that it:

- Will maximise your profit by:
  - chasing the highest price for your timber
  - sourcing the most cost effective contractors to undertake any works on your behalf
  - making sure that contractors do what they say they will do and leave your property in as good or better condition as when they started the job
  - maximising the recovery of any products
  - using scale to find purchasing efficiencies for agricultural chemicals, fencing materials and other products.
- Ensures you get paid by establishing payment guarantees with customers or having a payment insurance policy in place.
- Provides a plan detailing all activities that will be undertaken, what the quality expectations for those operations are and how they will be ensured.
- Provides a budget and reports against that budget.
- Actively monitors all operations and provides reports of the monitoring to you.

**ALBANY**

378-382 Albany Highway  
Albany WA 6330

**P: 08 6819 7000**

PO Box 2039  
Albany WA 6331

**HEAD OFFICE**

Suite 6 Level 1  
50 Upper Heidelberg Rd  
Ivanhoe VIC 3079

**P: 03 9490 5400**

**GIPPSLAND**

Suite 9  
55 Grey Street  
Traralgon VIC 3844

**P: 03 5173 6809**

**KANGAROO ISLAND**

PMB 270  
Newland Service  
Kingscote 5223

**P: 0428 816 241**

**HAMILTON**

94 Thompson Street  
Hamilton VIC 3300

**P: 03 5551 1000**

**BATHURST**

103 Piper Street  
Bathurst NSW 2795

**P: 02 6338 2606**

**TUMUT**

3 Adelong Road  
Tumut NSW 2720

**P: 02 6947 6740**

**LAUNCESTON**

8-2 Trotters Lane  
Prospect, TAS 7250

**P: 03 6343 0273**

**BURNIE**

7 Edwards Street  
South Burnie TAS 7250

**P: 0419 253 908**

**What PF Olsen can offer you**

- Confidence: knowing that you are doing business with Australia's largest independent agribusiness property management services provider.
- Experience: our history and scale of rural property management and rural contractor engagement underpins our knowledge of the costs to ensure that the rates we agree on are reasonable.
- Independence: working for the client rather than a customer or large supplier means we seek to get the best sales and purchasing outcomes for the client.
- Transparency: our fees are transparent. We will lock them in with a management agreement before anything else progresses so that you will know your fees.
- Reputation: our reliance on client feedback drives us to ensure that the client is happy at the end of the job.
- Risk management: our clients do not want to be exposed to the liability associated with high risk operations. We have developed risk management processes and contracts to minimise our client's exposure to risk.

