

Heartwood Plantations celebrates 20 years in the forest industry



heartwood
plantations

By Philip Hopkins

JON LAMBERT has spent more than 20 years working in forestry - a period when the industry has undergone massive upheavals.

When his company Woollybutt was formed in 1995 (it was later changed to its current name, Heartwood Plantations), there were few private forestry businesses. State Governments owned most of the resource - both hardwood and softwood.

Over the next two decades, that changed: most State Governments sold off their plantations; the Plantations 2020 Vision to triple the amount of plantations was launched; regional forestry agreements were ratified and undermined, leading to big cutbacks in the native hardwood resource; managed investment schemes sprang up on hundreds of thousands of hectares with short-rotation hardwood plantations; the global financial crisis (GFC) struck, leading to the collapse of MIS and major public companies such as Gunns, Timbercorp and Great Southern Plantations; and international pension funds moved in, becoming the main owner of Australia's plantations.

Innovation

During this time, Lambert's small private company survived, a minnow navigating the storm. Now, Heartwood Plantations has learnt the lessons of its experience and is forging a new path for private forestry: it aims to grow and process durable hardwoods using innovative sawing technology - something that nobody in Victoria has ever achieved.

The company's business model uses farming's "Paddock to Plate" approach: growing three or four tree species in a forestry region for private investors, backed by professional financial advice, and then processing the timber through a local partner saw mill that has a stream of readily saleable products.

The region Heartwood has chosen to concentrate on is the Victorian province of Gippsland, which stretches east from Melbourne to the New South Wales border. With high rainfall and good soils, it's classic forestry country - and the home of Australia's biggest hardwood processor, Australian Sustainable Hardwoods, and the biggest paper manufacturer, Australian Paper, both in central Gippsland. Heartwood is based in Warragul,

just 100 kilometres from Melbourne, where most clients are located, while the partner processor, Radial Timber Australia, is another 120 kilometres away at Yarram, near the south coast.

Three species

"In Gippsland, we have focussed on three species - yellow stringybark, southern or red mahogany, and spotted gum. All are endemic to Gippsland and importantly they are naturally durable - lasting 15-plus years above ground without treatment. We are now also dabbling in silvertop ash," says Lambert, a Melbourne University forest science graduate, who grew up in Melbourne but was drawn to forestry when spending school holidays in 'farm stays'. "Being in the outdoors, visiting national parks - that gave me my love of forestry," he says.

He started the business in Bairnsdale in East Gippsland in mid-1995, after some work in Tasmania. There was little opportunity for private forestry businesses - the Government virtually owned all the forests.

However, the then Victorian Premier, Jeff Kennett, began the privatisation boom, selling off the State's plantations and outsourcing many tasks, creating work for the fledgling Woollybutt that Lambert formed. This soon led to the employment of his university forestry mate, Clinton Tepper.

The Government work dried up when the Bracks Labor Government came to power at the end of the decade. Woollybutt began to offer farm forestry services, establishing and maintaining hardwood plantations for farmers just as the MIS schemes began to take off. "We were offered work in the Green Triangle - there was little work elsewhere. We moved there to service that part of the world, and Clinton stayed in Gippsland and looked after our private plantations. We had east and west offices for a number of years," says Lambert.

The farm forestry business had its problems. It was hard to service plantations that were so far apart, with plantations in the west, north-east and Gippsland. It was also hard to find clients. "We advertised in doctors' and lawyers' magazines, but this did not amount to anything. You never knew where the next person would come from," says Lambert. "People were not that interested in the economics, they just wanted to put in the trees."



■ Spotted gum high pruned

GFC struck then MIS collapse

Often the farmer wanted to grow different species, or grow small plots, which did not make it economically feasible to plant and harvest.

Then the GFC struck and the MIS collapsed. "This really hit. Unfortunately the whole industry was painted with the same brush. It was a terrible time," says Lambert.

"The stories kept rolling out - and still are."

At the same time, Lambert had got to know Chris McEvoy, a wood scientist and former CSIRO employee who had recently commercialised radial sawing technology initially developed by Andy Knorr. Radial sawing involves cutting a log into wedge pieces like a cake, creating less waste wood. The technology is unique in Australia and also probably internationally.

McEvoy wanted to develop a hardwood plantation resource for his business Radial Timber Australia. Some Heartwood clients were coming back for additional plantations, Gippsland was not covered in MIS and had an extensive, experienced forestry workforce. With the demise of MIS, work in

the Green Triangle dried up. "From 2009, I realised the future was in Gippsland," says Lambert, who moved to Warragul with his family in January 2011. Clinton Tepper already lived in the town.

McEvoy came on board - forming a strategic alliance with Heartwood, the company's new name since 2009. He is now the biggest plantation owner.

Closing the gap

The last piece of the puzzle was how to close the gap on the investor side. Few accountants looked on private forestry with much interest or knowledge.

Enter Dr Steven Enticott, an adviser with his business CIA tax located in Melbourne's south-eastern suburb of Moorabbin who had been a Woollybutt customer since 2007.

The two forged closer ties; Dr Enticott and Heartwood began to buy up blocks hitting the market, including assets that had belonged to the collapsed Great Southern.

"Then Steve started to bring in some of his clients who wanted

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land, and we started to look more seriously – not just ad hoc, but in a more formalised way,” says Lambert.

The result was the creation of a unit trust investment model, where investors – many with self-managed super funds – have units in a trust that buys the land. A separate entity (often themselves) then funds the forestry activity, picking up on both the tax effectiveness of superannuation and the tax deductibility of forestry.

“What we are doing is matching clients. He has clients who are interested, he explains the model and how it could work well for them, and it’s about us matching the client with a forest investment opportunity – which I love, because I don’t have to sell them the economics, or the structuring. All I have to do is find them the land and put together the project,” says Lambert.



■ Chris McEvoy (Left) and Jon Lambert (Right) at Radial Timber Sawmill in Yarram

Different model

“It’s a different model because they own it all – the land and the trees. We are paid to set it up and manage it – that’s where we make our money. Their security is, they have the land and the trees. If Heartwood ceases to exist, they still have the things they paid for.

They would have to find another manager, but that’s better than losing the investment. If they really want, we can give them a forward sale agreement for the wood, to Radial Timber Australia.”

The big advantage, given the MIS furore and the controversial role of financial advisers who received money to recommend the schemes, is that Enticott has got skin in the game. So, too, do Lambert and McEvoy, who also own plantations. “This creates a lot more confidence for investors,” says Lambert. The ideal age group for investors is 30-50 years – people who can reap the financial rewards in their superannuation after 20-25 years of growing the trees.

Says McEvoy: “By having a business model, we get consistency – in species, how we grow them, when we grow them and how they are planted, eliminating the unknowns and variables.”

40 properties

Heartwood’s inventory now totals about 40 properties in Gippsland, with an average size of 30-40 hectares – 1,500 hectares all up. In the rest of Victoria, there are about 350 ha in the north-east and 250ha in the Green Triangle.

“The most common size we buy is 200-250 acres. (80-100 hectares) in Gippsland – that’s not an uncommon parcel of land to buy,” says Lambert. With transport a killer cost, the aim is to buy land within 150 kilometres of the Yarram mill.

Heartwood often plants two or three eucalypt species on the one block. “We always knew the mill liked yellow stringybark, but when we tried on fertile ground, it branched and had terrible form – it didn’t like it,” says Lambert.

“We planted red mahogany on those sites and it loved it. Red mahogany is also very frost tolerant, so in those gullies where it’s sheltered and there are lot of nutrients, they performed beautifully.”

In contrast, yellow stringybark loved less fertile, shallower soils where it was drier, but red mahogany did not perform as well; it attracted insects and the form was not as good. “Because you have a lot of hills in Gippsland, we tended to adapt and site accordingly. So if you have a really flat square block, you could plant one species. As soon as you introduce hills and different aspects and slopes, it’s less likely one species would suit the whole property,” he says.

Durable hardwood plantation rotations are 20 to 25 years, depending on the site, which is shorter than pine. “It might be easier with pine, but we are past all that. The pine industry is not expanding because the money is not in it, and the blue gum industry is contracting at a rapid rate,” says Lambert.

With the best pine prices in the \$80-100-per tonne range, and the best blue gum log price \$50-\$70, depending on market, durable hardwood sawlogs offer better returns. “Good quality spotted gum sawlogs fetch \$220-\$250 a tonne. The numbers stack up, because you are aiming for the highest quality product,” says Lambert. “My biggest frustration is, with such high labour costs and all the constraints and regulations, OHS and environmental – why does Australia’s plantation industry have its primary focus on the lowest value products, pine and blue gum? It makes little sense.”

Loyalty

Heartwood has a small, close-knit group of subcontractors who work for them. “We tend to be very loyal; we look after them and they look after us. One sub has been with us since the mid-1990s. At times I have been known to send back a quote – ‘It’s too cheap, you’re not going to make any money out of that. I need you to be profitable so you stay in business, so that you have good equipment and good staff. You’re no use to me if you are going to go broke,’” says Lambert.

“That’s met with, ‘I’ve never had that before’. Unfortunately that’s not a common attitude in our industry. Sadly – there is too much greed and short-term thinking.”

Heartwood has not gone down the certification path, but “we have tried to run the business as if it were”. “The day will come when we go down that path – but it’s expensive. Some schemes are better than others,” says Lambert.

The radial timber mill currently processes about 4,000 cubic metres of log a year. The company still buys some logs from VicForests, which sells the State’s native hardwood timber, while Radial waits for the plantations to mature.

Heartwood plants about 1,000 stems per hectare, with two thinnings at five and 12 years, bringing the tree numbers down respectively to 500 and 250. With each tree expected to be 40-45cm in diameter when mature, that’s about one cubic metre, or one tonne per tree. “Thinning leaves the best trees, which are also pruned,” says McEvoy. “Heartwood measures growth



■ Clinton Tepper in 4.5 year old southern mahogany



■ Silvertop wedges cut and ready for back sawing, Radial Timber Sawmill in Yarram

rates each year. Basically most trees seem to be on track. We have also undertaken some preliminary trials sawing plantation logs. The results have been very encouraging.”

Radial Timber’s main products are decking, screen boards and cladding – weatherboard (the distinctive ‘wavy’ or ‘wonky’ weatherboard pattern) and Shiplap cladding – and batten boards. Screen boards are thin bits of timber used in both external and internal screens.

Premium product

“Shiplap is really popular, a premium product, with 70% of sales to the high-end Melbourne market,” says McEvoy. “The market loves naturally durable appearance products.”

Both spotted gum and silvertop ash also have the advantage of being in a small group

of recognised and approved bushfire-resistant timbers.

Radial cutting creates various board widths, such as 50 millimetres, 75mm and 125mm, making them ideal for random patterns. “It’s quite fashionable to do it that way. It works well for recovery, and the timber performs better,” says McEvoy.

Also, “instead of having a lot of wide boards, you have boards expanding and contracting at different rates”.

“With wider boards, you get a lot of shrinking, whereas smaller boards compensate for each other. That works really well, and also when there is a market for smaller boards, you can use smaller logs.”

Box-heart trial

Radial and Heartwood are also involved in a trial to ‘box-heart’ the plantation thinnings to make fence posts that can compete with Cypress pine posts.

McEvoy plans an expansion to be phased in over two years that will triple output at the radial mill, which now has 12 employees, with more to be hired. That will involve more automation, including automated waste control. That in turn will require more plantations to feed it.

Woodchips generally go to Australian Paper’s mill, but McEvoy’s long-term aim is to develop a closed loop, bioenergy plant. This would process all the sawmill waste and some of the plantation thinnings on site, generating its own electricity that could be used to power the mill’s kilns and also pump energy back into the grid.

McEvoy is bullish about tripling production. “We are not looking at interstate let alone exports. We are only looking at Victoria, but we could easily sell to NSW and South Australia if we had more resource,” he says.

Heartwood, Radial and CIA tax are innovators. Their aim - to grow and produce durable hardwood timber using unique radial sawing technology – promises to take forestry where it has not been before.



■ Silvertop ash as shiplap



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