Australian National University

Key information for NSW forest policy today

Judith Ajani
Fenner School of Environment and Society
Australian National University

judith.ajani@anu.edu.au
March 2014

Australian National University

Key messages for the NSW Government

1. Forestry in NSW is not doom and gloom: NSW has Australia's biggest and most robust forestry industry – softwood plantation processing.

2. Losses in Forestry Corporation's native forest operations will continue because all the key metrics will remain negative for fundamental reasons (sales volume, prices and productivity).

3. Opening native forest wood to new markets (bioenergy and other biomass feedstocks) will not ameliorate the losses on native forestry operations because renewable energy and plantations will do the job better. It will just erupt the conflict.

4. Retiring native forests from wood production will increase Forestry Corporation's profits by 70 to 80%, proving the funding for new plantations/ongoing productivity improvements and an increased dividend to the State.

Australian National University

Native forest wood production will remain a loss maker: undermining FC's core business of providing cost competitive plantation wood to the NSW wood processing industry

FC operating profit (loss) before tax ($ million)

YEJ	Plantation operations[a]	Native forestry operations[a]	Total[b]
2013	34	(15)	19
2012	32	(16)	14
2011	45	(13)	34

Source: Forestry Corporation Annual Report 2012/13.

a. Excludes hardwood plantations (8% of plantation estate) that are reported with native forestry operations.

b. Excluding significant items.

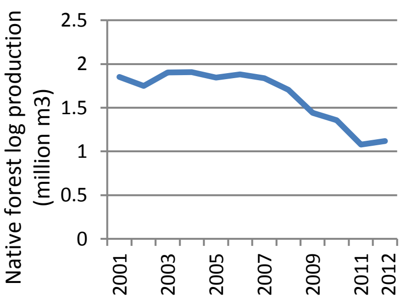
FC profits would increase by 70 to 80% without native forestry.

Increased profits could be reinvested in a bigger and higher performing plantation estate supporting processors and employment in rural NSW and increased dividends to the State.

Future profits (losses) = revenue - costs

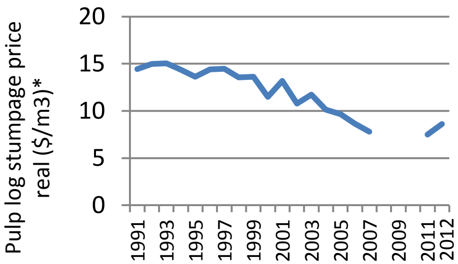
Revenue outlook (sales x price)

NSW native forest log production



Native forest log sales will keep contracting Australia-wide because of plantation competition.

FC pulp log stumpage price (real terms)



Survival in commodity production requires declining real (inflation adjusted) prices over the long term.

* Prices adjusted using CPI – Sydney all groups.

Cost outlook

FC productivity (m3 log production/ha)

	Actual (2013)	Future
Southern region native forestry	85*	45**
FC softwood plantations	480	540***

* Calculated using IFOA Logging Reports for 2013.
** Calculated using Southern region harvest plans for 200 plus compartments.
*** Calculated assuming FC success in raising plantation MAI from current average 16 m3/ha/yr to 18 m3/ha/yr.

FC Southern region harvest plans show large decline in future productivity.

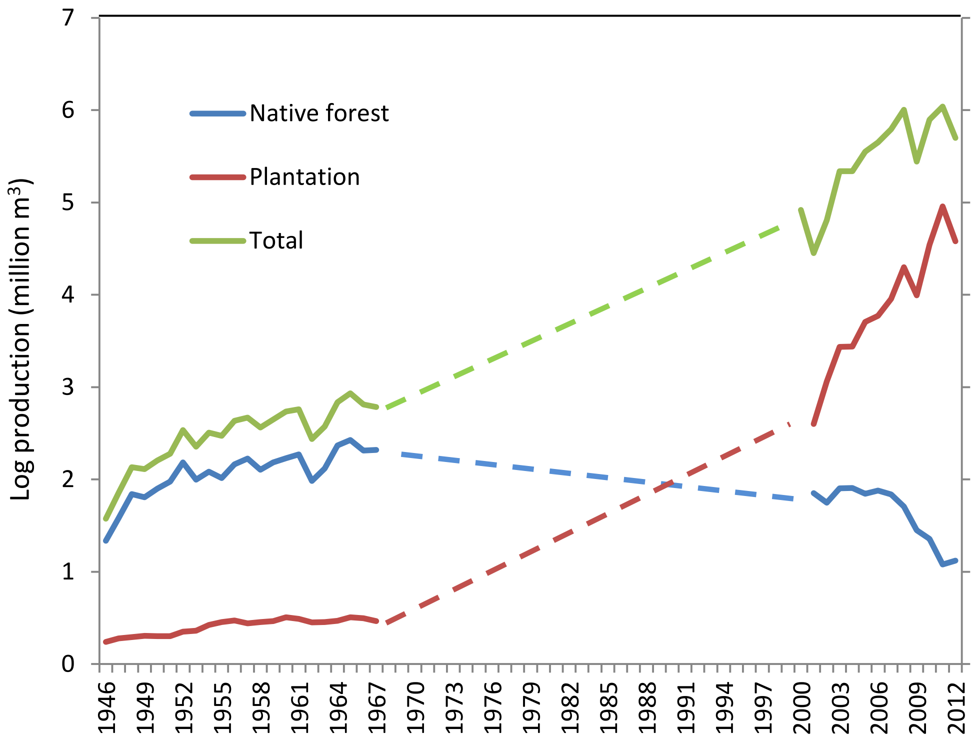
Native forest productivity cannot be increased without loss of environmental values.

Softwood plantation productivity is expected to increase – reaping the benefits of an agricultural cropping regime.

Australian National University

The NSW forestry industry is not doom and gloom

Figure 1 Wood production in NSW 1946 to 2012 (plantation and native forest sawlogs, pulplogs and other logs from public and private sources)

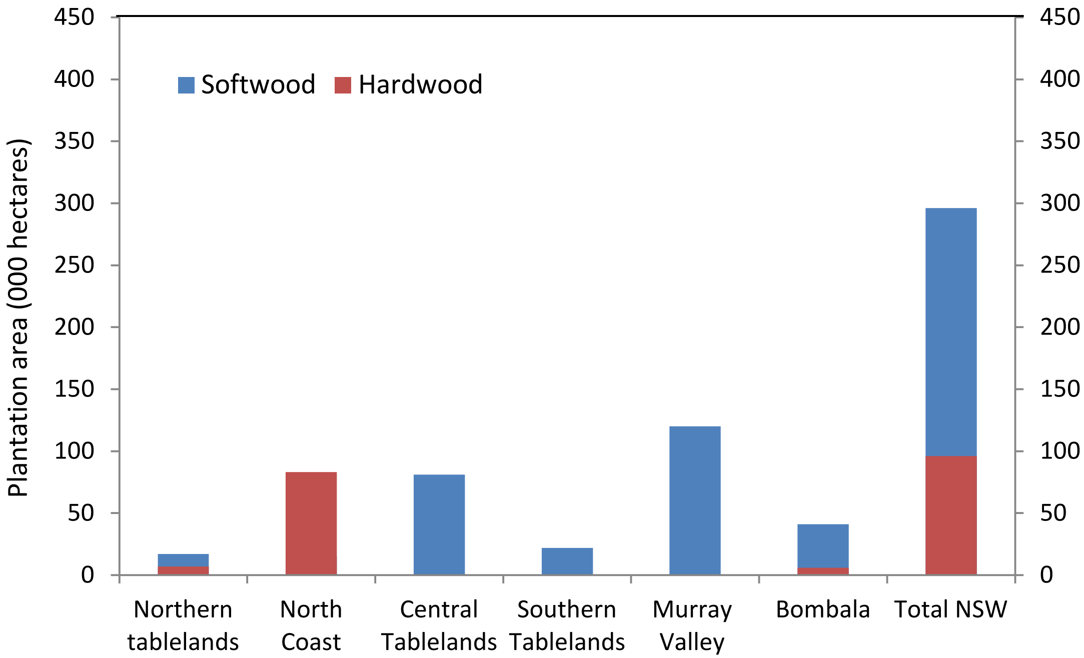


Source: Forestry and Timber Bureau 1969, *Compendium of Australia Forest Products Statistics 1935-36 to 1966-67*; ABARES forestry statistics. The dotted lines indicate no data available. Minor adjustments made to original data to enable the plantation/native forest disaggregation.

- NSW produced a quarter of Australia's wood in 2012.
- 80% came from plantations.
- Wood production in NSW has grown steadily over the past six decades.
- Within this trend growth, there has been an economically and environmentally desirable structural shift away from native forest wood to plantation grown wood.
- The last decade saw plantation wood production in NSW growing by an average 4.2% pa.

The core of NSW forestry is softwood plantation processing at Bathurst, Oberon, Tumbarumba, Tumut and Bombala

Figure 2 Softwood and hardwood plantations in NSW, 2012

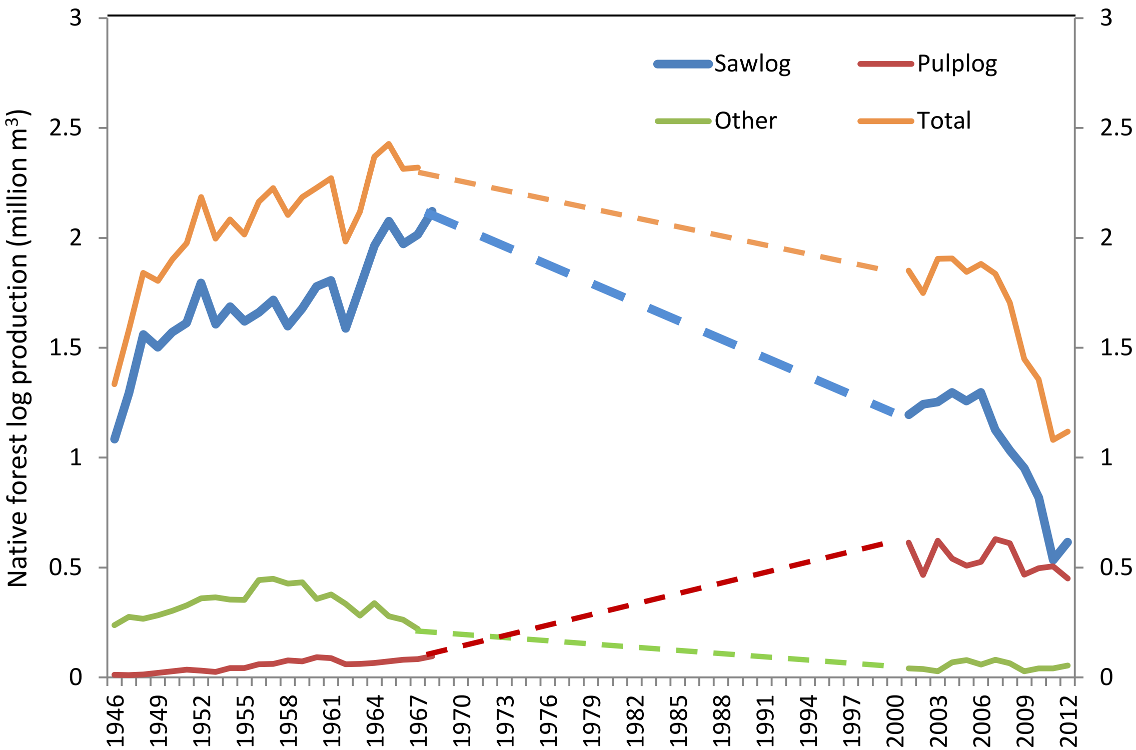


Source: ABARES *Australian Plantation Statistics 2013 Update*.
Note: Data adjusted to exclude Victorian plantations in the Murray Valley region and Bombala/East Gippsland region.

- The forest conflict is focussed to native forest logging in the North and South Coast but forestry industry growth, wealth and employment depends on the plantation estate.
- **All** the State's paper production is made using softwood plantations at Tumut and Albury.
- **Virtually all** the State's wood panels are made using softwood plantations at Bathurst, Oberon and Tumut.
- **85%** of the State's sawn timber is made in softwood plantation sawmills in regional NSW. This share will keep increasing.

Native forests have served their time as wood suppliers: the forestry industry has shifted to more competitive plantation processing

Figure 3 Native forest wood production NSW 1946 to 2012

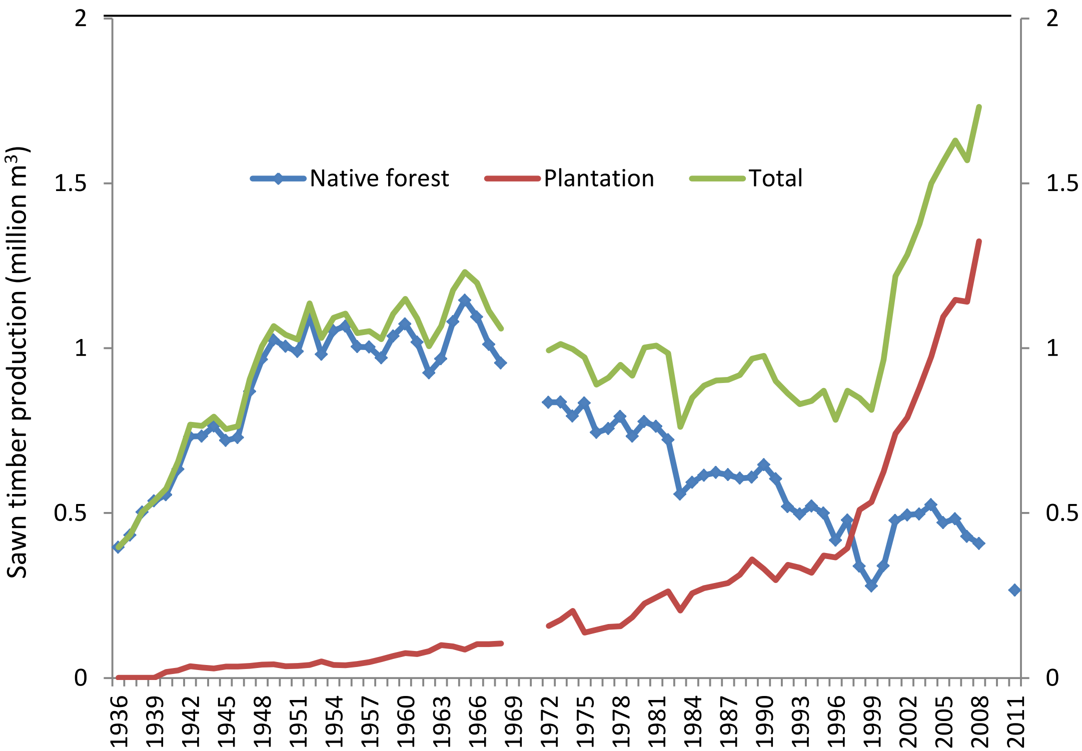


Source: Forestry and Timber Bureau 1969, *Compendium of Australia Forest Products Statistics 1935-36 to 1966-67*; ABARES forestry statistics. The dotted lines indicate no data available.

- Historically, sawmilling has been the mainstay of the native forest industry.
- Native forest sawmilling today operates at just 30% of its late 1960s level.
- A combination of softwood plantation competition and unsustainable native forest logging explains the contraction.
- The 1950s foresters and politicians crafted this outcome. Politicians today are not engaging to capitalise on the opportunities. Instead the public gets unnecessary conflict.

Thanks to softwood plantations, NSW sawmilling is at an unprecedented high despite native forest sawmilling's decline

Figure 4 Sawn timber production NSW 1936 to 2011



Source: Forestry and Timber Bureau 1969, *Compendium of Australia Forest Products Statistics 1935-36 to 1966-67*; ABARES forestry statistics. Gaps in the series indicate no data available. Minor adjustments made to original data to enable the plantation/native forest disaggregation.

Note: NSW sawn timber production includes processing logs sourced from other states.

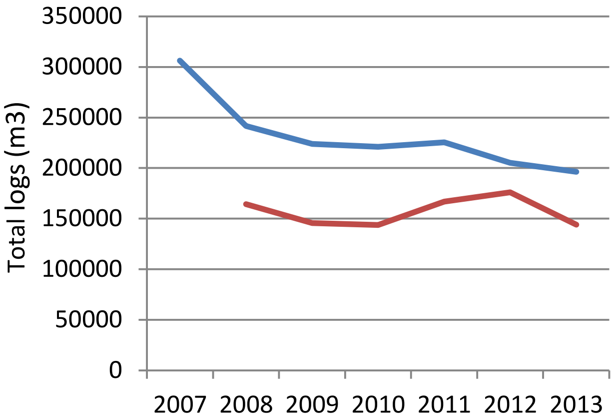
- 85% of the NSW sawmilling industry is now plantation based and the industry is economically better for it. Fortunately this production share will keep increasing.
- Even allowing for the native forest collapse, over the decade ending 2008*, sawn timber production in NSW doubled.
- **What explains the silence over this extraordinary good news story?**

* Since 2008, softwood plantation sawn timber production in NSW is reported together with Qld for confidentiality reasons.

Australian National University

Forestry Corporation native forest log production in the Southern Region

Total log production



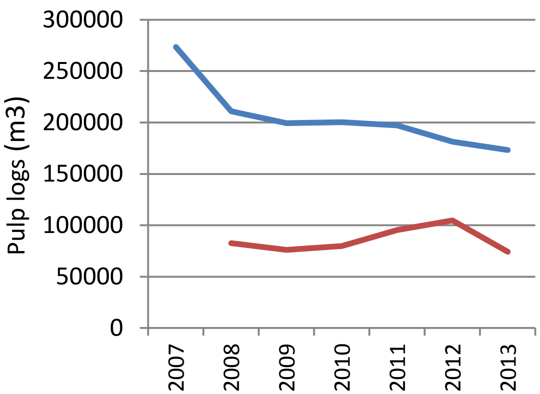
Total log production in the Eden region declined 36% over the six years 2007 to 2013.

Total log production in the South Coast – Southern region has remained steady.

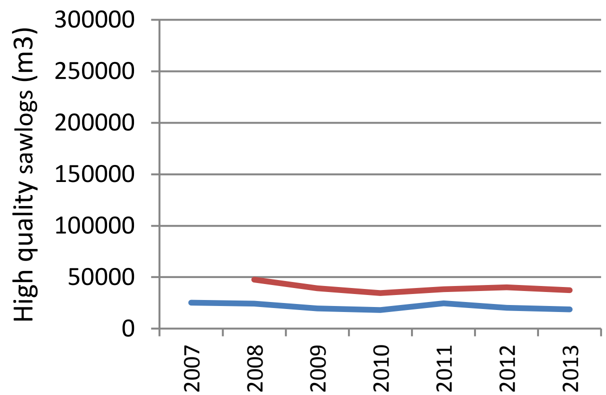
Eden region

South Coast- Southern region

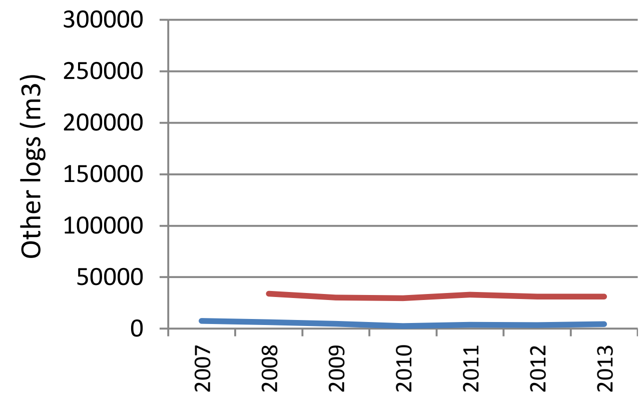
Pulp logs



High quality saw logs



Other logs (salvage, small and low quality sawlogs, posts & piles etc)



Source: IFOA Annual Reports on Logging Operations

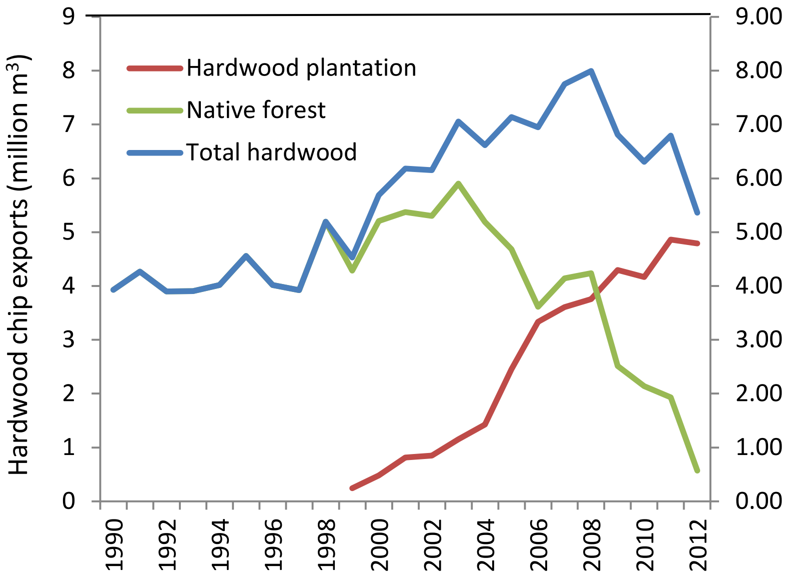
Notes:

Pulp log production reported in tonnes converted to m3 by multiplying by 0.85.

Eden region data reported in calendar years, South Coast-Southern region data reported in financial year ending June.

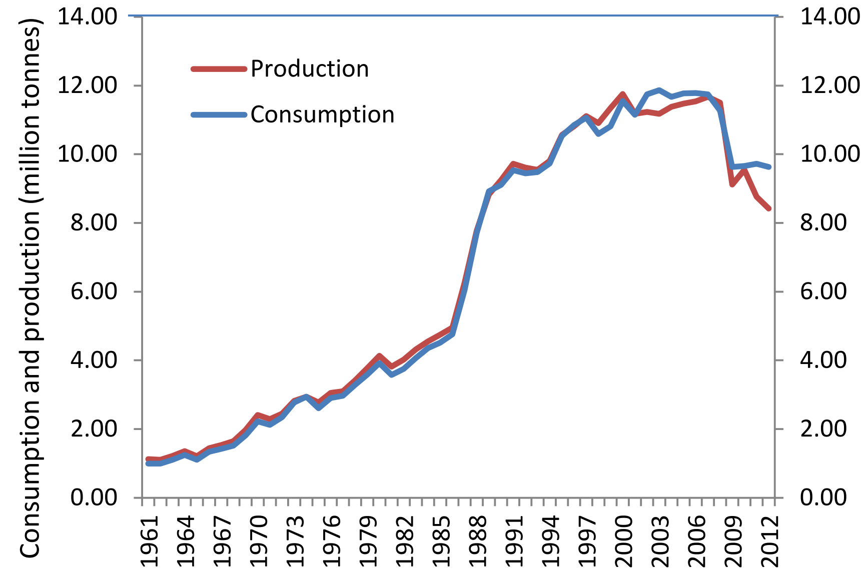
Australia’s native forest chip exports collapse as does Japan’s paper market

Figure 5 Hardwood chip exports Australia 1990 to 2012



Source: ABARES Australian forestry statistics. Minor adjustments made to original data to enable the plantation - native forest disaggregation.

Figure 6 Printing and writing paper consumption and production Japan 1961 to 2012

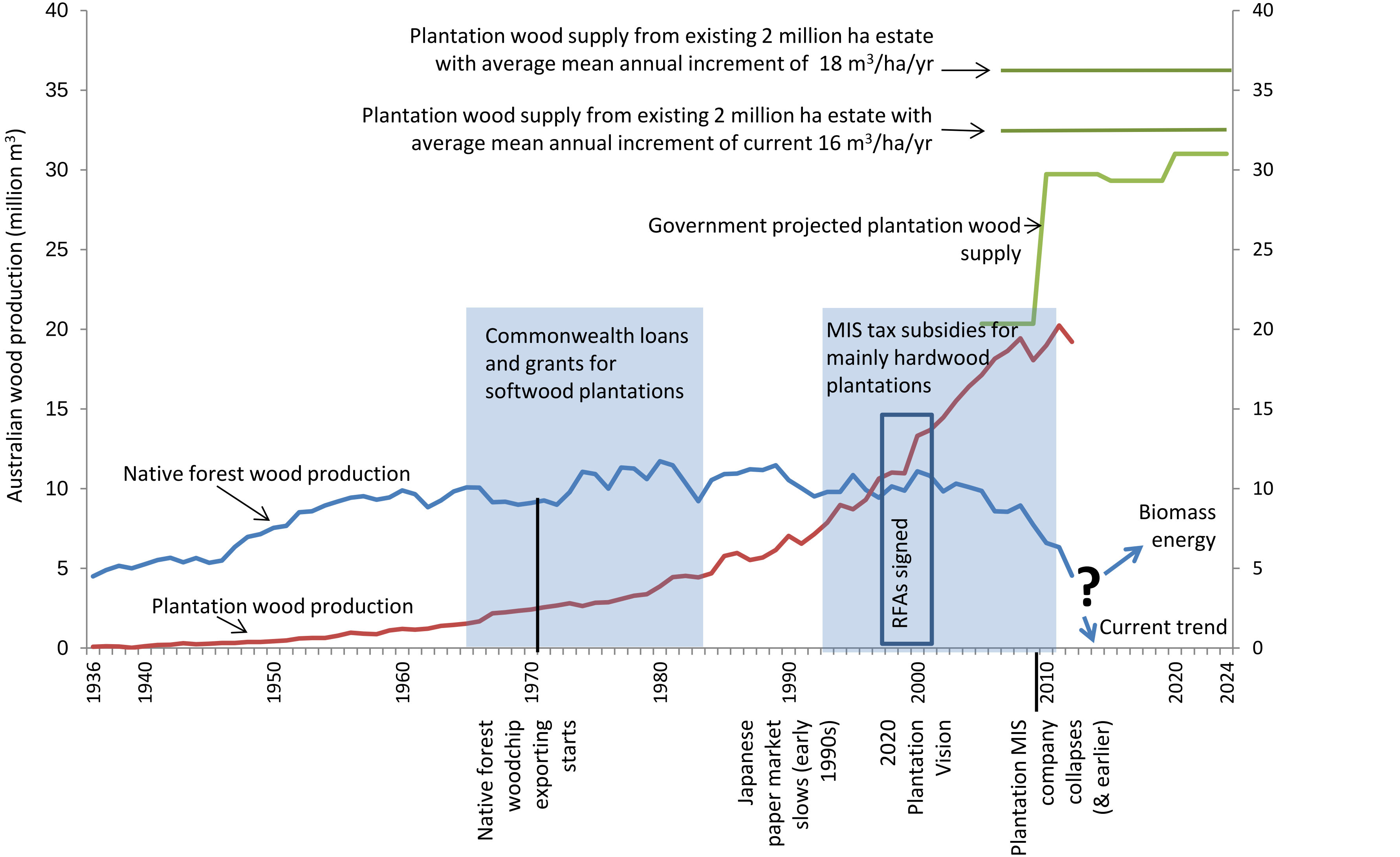


Source: FAO forestry statistics.

- After four decades of government-facilitated extraordinary profits exporting native forest chips, the industry has collapsed.
- The causes are plantation competition and a strongly contracting Japanese market.
- NSW is fortunate that it avoided the plantation managed investment scheme debacle.

Australian National University

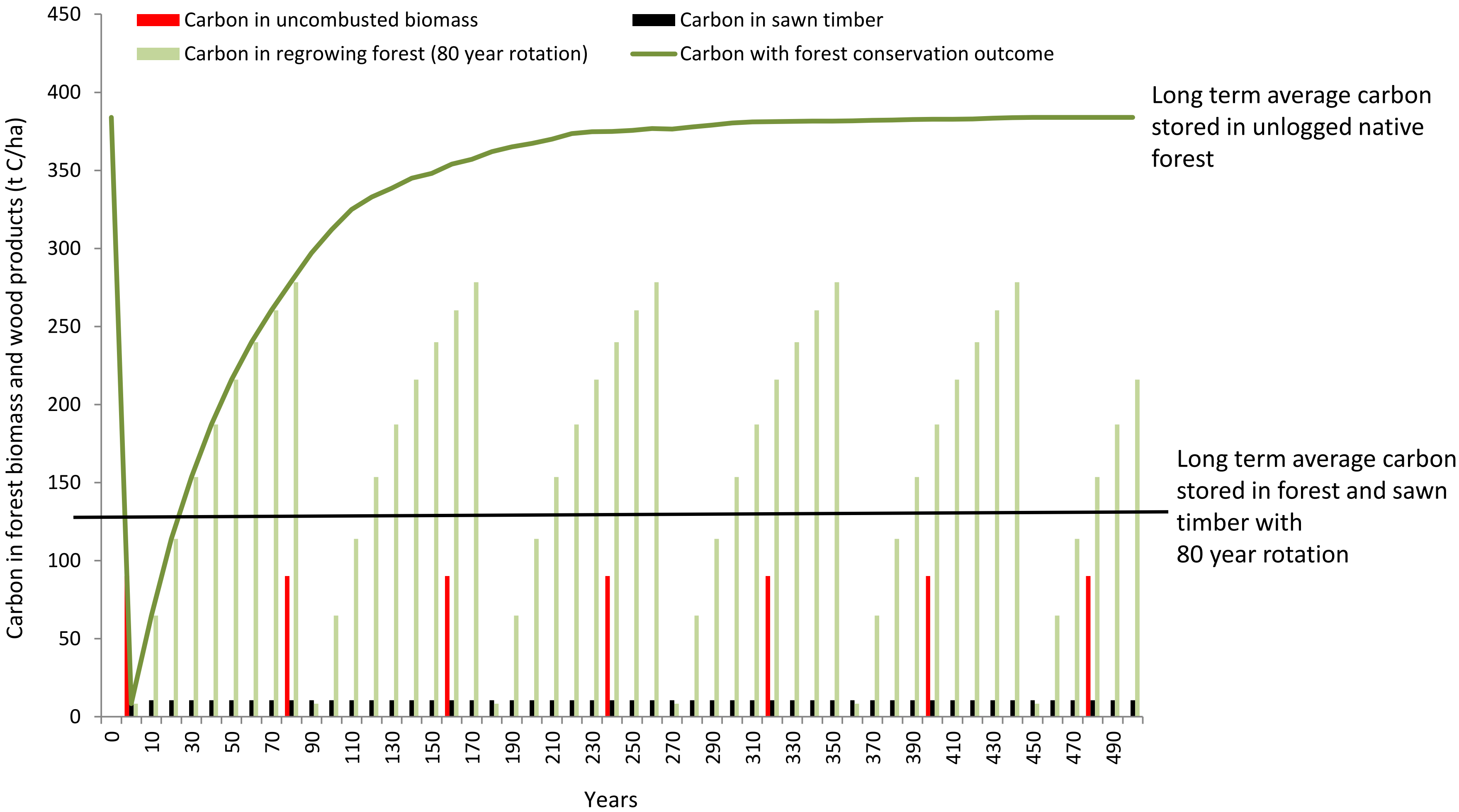
Australia-wide, only new and big markets like biomass energy can return native forest logging to historic levels



Prepared by Judith Ajani, Fenner School of Environment and Society, Australian National University July 2013. Data sources: Forestry and Timber Bureau 1969, *Compendium of Australian Forest Products Statistics 1935/36 to 1966/67*; ABARES *Australian Forest and Wood Products Statistics* & *Australian Commodity Statistics*; Bureau of Rural Sciences 2007, *Australia's Plantation Log Supply 2005 – 2049*; Ajani 2007, *The Forest Wars*, MUP.

Australian National University

With the forestry industry heavily plantation based, carbon storage is now the best use for native forests (biodiversity means native forests are very good at long term carbon storage)



Growth trajectory for mixed eucalypt native forest. Carbon in above and below ground biomass but excluding soil. MAI for wood production = 4 m^3/ha/yr; r = 80 years, 30% sawlogs, 35% sawn timber recovery, 80 year life for all sawn timber, all other wood goes into bioenergy and combusted in year of logging.

Australian National University

NSW is well positioned for a new and pragmatic forest policy

Plantation business

AIM: Cost competitive supplier of quality plantation wood for **processin**g into sawn timber, wood panels and paper for rural wealth and jobs.

Maintain strong grower-processor communication (growing cost attractive, quality wood for changing market).

Build greater reliance on market signals to set plantation investment level.

Priority on productivity improvements to existing estate as cost-effective strategy to expand plantation wood supply.

Build regional supply networks with land owners near existing processing centres.

Plantation processing industry strategy for processing productivity improvement, transport infrastructure and skills development.

Native forests

AIM: To realise the ecologically-based carbon storage attributes of native forests.

Let market forces continue to contract native forest wood production.

Do not open native forest wood to the bioenergy or other new biomass feedstock markets (renewable energy and plantations will do the job better).

Enhance public revenues by avoiding losses in native forestry operations.

Investigate cost-effective options for public native forest land management (looking at marginal costs of public land management).

Enjoy the benefits of no native forest conflict.