



August 12, 2020

Committee Secretariat
PO Box 6021
Parliament House
CANBERRA
ACT 2600

Dear Sir/Madam

Re: House Standing Committee on Agriculture and Water Resources
Inquiry into timber supply chain constraints in the Australian plantation sector

Introduction

The SWG welcomes the opportunity to make the following submission to the Inquiry.

This submission is being made by the **Softwoods Working Group (SWG)** which is a joint timber industry & community body that has been in existence since 1987 and serves the interests of the SW Slopes (SWS) region of NSW. The SWG also incorporates the **South West Slopes Forestry Hub (SWSFH)**, established in 2019 under the Federal Government's National Forest Industry Plan. The SW Slopes region contains the largest area of softwood plantations in the State of NSW and the second largest softwood plantation estate in Australia.

Current members of SWG/SWSFH include senior representatives from:

- The major forest growers – **NSW Forestry Corporation**, and private growers, including **Hume Forests** (part of the GFP Group) and **Hancock Victorian Plantations** (private grower in NE Victoria).
- The product manufacturers (timber processors) – **AKD** (sawn timber products, including dressed and treated timber), **Visy Industries** (packaging materials including cardboard and liner board), and **Hyne Timber** (sawn timber products).
- Local Government (Snowy Valleys Council, Greater Hume Shire Council, Cootamundra-Gundagai Regional Council, and Albury City)
- Regional Development Australia committees for Murray and Riverina
- Various relevant NSW State Government agencies (the Regions, Industry, Agriculture and Resources division of DPIE, and Transport for NSW)
- The Forest Industry Council (FIC), who represent the operational, training and safety issues for the industry workforce.



The SWG is widely regarded as a unique and effective forum that examines strategic issues and prepares plans to focus on regional community-development based on the local plantation industry.

By way of background, and to put the softwoods industry into a socio-economic context, the benefits of the industry *in the region covered by the SWSFH* are:

- ***It is the most significant economic driver in the region, supporting \$1.2 billion in Gross Regional Product (value-added)***
- ***Total employment (direct & indirect) - approx. 7,000 people***
- ***Annual contribution to local economy via output supported - \$2.6 billion per annum***
- ***Contribution to household income - \$560 million per annum***

Studies conducted by the SWG have revealed that the processors of our region require the supply of around 3 million tonnes of fibre each year, however, the plantations of the region can only supply 2 million tonnes. The 'shortfall' has (to date) been supplied from plantations in NE Victoria, and from the Central West and Bombala districts of NSW.

The supply of logs from the plantations is therefore already inadequate. The *Dunns Road* and *Green Valley* fires of January 2020, which burnt around 40% of the plantation resource on which our regional processors depend, have further exacerbated this unsustainable fibre supply situation.

Our submission addresses three of the indicated terms of reference given to the Committee, **with reference to our region only**. We would, however, suggest that our experiences would constitute a very good case study of conditions prevailing throughout Australia in the softwood plantation sector.

1. Projected timber volumes available over the next 30 years, and the potential grades of logs available.

Before the bushfires of January 2020, the processing sector of the SW Slopes region had already identified resource security as a major impediment to growth in the industry. (This is also shown in *Figure 1*):

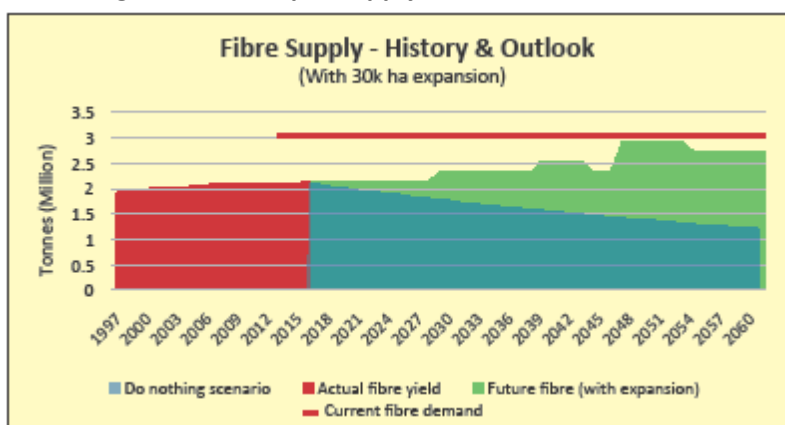
- Actual fibre yields from the 125,000 ha of softwood plantations in the SW Slopes region had reached a plateau of around 2 million tonnes per annum (mtpa) before the fires. Virtually no plantation establishment on new land has occurred over the last 10-15 years.
- Demand from the processing industry of this region was running at around 3 mtpa, indicating a need to import around 1 mtpa of fibre from other areas of NSW and NE



Victoria. This was not considered to be a sustainable situation, given the ongoing conversion of former Managed Investment Scheme (MIS) plantations to other agricultural uses and the increasing demand for wood from industries within those other areas.

- Forecasts of supply show a declining yield into the future, as some areas of private plantations were not replanted after harvest but sold for conversion to agricultural use.

Figure 1: SW Slopes supply and demand imbalance



Source: SWG analysis (2017)

Figure 1 also indicates the likely increase in supply of fibre that the SWG’s plantation feasibility model predicted would occur if another 30,000 ha (net) of plantation were to be established. This would arrest the anticipated decline in supply, even if not totally removing the shortfall for the industry. The industry would still not be able to expand, but at least the existing activity would be supported, thus maintaining jobs and the industry’s contribution to the regional economy.

However, since these forecasts of supply were made, the region has suffered the *additional* loss of very significant areas of softwood plantation as a result of the 2020 fires in the SW slopes region and other parts of the current supply zone (Bombala and NE Victoria). Around 58,000 ha (40% of the resource supply zone) has been burnt, which will make a significant difference to the anticipated wood flows available to the industry.

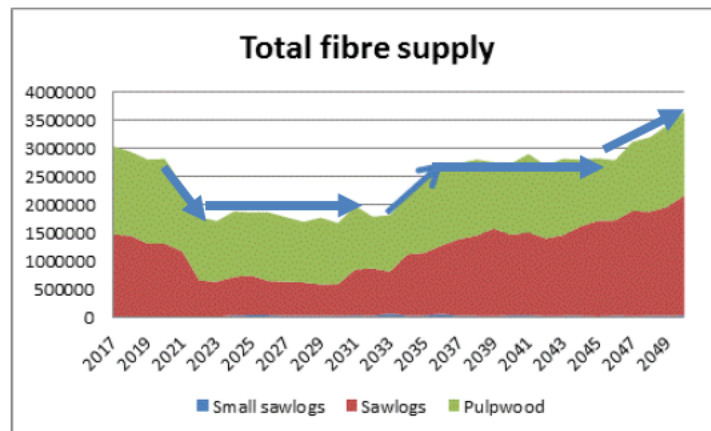
Figure 2 shows the summary of information provided to SWG which presents the most recent forecasts of fibre available to the processing industry of the SW Slopes over the next 30 years. These forecasts have been made by the various growers involved based on



fire losses experienced in 2020, current salvage operations, and anticipated re-planting schedules over the next 2-10 years.

Figure 2 demonstrates how the current supply of 3 mtpa is forecast to decline to around 1.69 mtpa by 2023 – i.e. a decline of 44%. This is caused by the loss of 40% of the plantation resource resulting from the 2020 fires (plus earlier fire losses in 2006), together with an element of reversion of some areas to other uses which was forecast before the fires. After 2023, forecast fibre supply volumes remain at around the same (low) level for 10 years, before rising slowly to reach another ‘plateau’ in around 2037. It is not until around 2047 that volumes start to increase again, reaching and then exceeding previous levels of around 3 mtpa.

Figure 2: SW Slopes anticipated future fibre supply

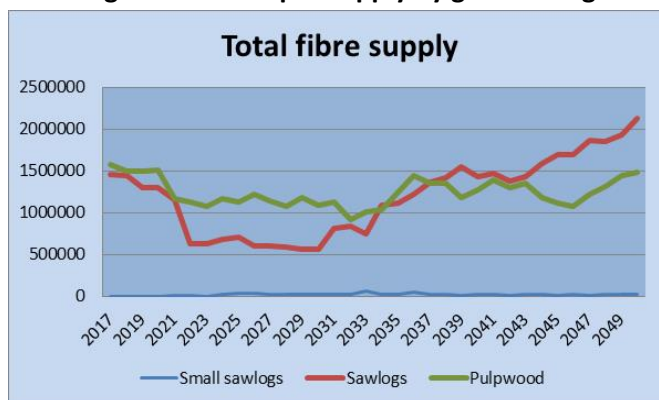


Source: SWG analysis (2020)

Figure 2 also indicates that it will be the higher value sawlogs that will suffer the greatest decline in our region. Figure 3 demonstrates the different fibre flows forecast for these two different grades of log – sawlogs and pulpwood.



Figure 3: SW Slopes supply by grade of log



This forecast of fibre supply suggests that, **if no action is taken**, the plantation-based timber processing industry of the SW Slopes region of NSW cannot continue to operate at current (2019) levels. More importantly, no growth or expansion of the industry can occur unless a dramatic increase in fibre supply can be developed – i.e. **major new areas of plantation must be established**.

2. Opportunities to increase Australia’s wood supply, including identifying and addressing barriers to plantation establishment.

As a result of detailed examination of the supply/demand imbalance that existed in the SW Slopes even prior to the 2020 fires, the SWG has been lobbying for a major expansion in the plantation estate. This would ensure the continued operations of the existing processors and thus the provision of some security over the economic contributions made to the regional community by the plantation-based timber industry. Ideally, even larger increases to the estate should be made. The existing industry of the SW Slopes region will need at least an additional **60,000 ha of plantation** to be available if any real growth (new operations or expansion in existing output) is to occur.

Modelling undertaken by the SWG during 2017 indicated that:

- Under current conditions, the private sector is unlikely to make major investments in plantation establishment. Under average conditions (as modelled for the SW Slopes region), IRR results delivered cannot meet the ‘hurdle’ rate of around 7% that private (long term) investment nominally requires.



- The major barriers to achieving a higher IRR include:
 - the high capital requirement at the beginning of the investment (usually the price of land, plus establishment and roading costs)
 - no revenue is obtained for at least 12-13 years, and most of the revenue (78%) is not realised until clear-fall at around 30-32 years after the initial investment.
- the ability of new plantations to access the 'carbon' market, via the sale of Australian Carbon Credit Units (ACCU), can improve the IRR delivered by up to 1%, by providing a revenue stream for the first 10 years after the establishment of the plantation.

As a result of the modelling work undertaken by SWG, and continual lobbying for plantation expansion, the NSW government made a budget allocation of \$24 million in Oct 2018 for the purchase of land suitable for plantation establishment. At current (average) land prices, this sum would be adequate for the purchase of just 3,000 ha. To date, very little of the sum has been spent on new land acquisition. A further equity injection of \$46 million was made to Forestry Corporation of NSW in 2020 to assist in re-establishing plantations destroyed in the 2019/20 bushfires. Although essential, this funding will not provide the addition to the softwood plantation estate that is so desperately needed.

The modelling work and other related studies undertaken by SWG has suggested that:

- a public ownership/private operation mixture would appear to offer the more attractive mix of returns.
- Suitable land is available within an economic haul distance of the SW Slopes processing mills
- Land purchases should be made opportunistically as suitable properties become available on the open market over at least a 10-year period. The initial target for this new estate should be 30,000 ha (net). This will assist in both minimising impacts on land prices, and in enabling an annual planting schedule that is within current capacity.

Other options for increasing wood supply, such as silvicultural treatments, higher productivity based on genetic improvement, and shorter rotations cannot deliver the quantum increases in supply that an increased plantation estate would produce.



A major land acquisition and plantation establishment program must occur, as has happened in the past, to overcome the wood supply crisis currently existing in Australia.

3. The role that State Government could have in assisting in addressing any problems identified by the work of this committee.

It is clear that significant costs are being imposed on the regional economy by:

- a) the inability of the SW Slopes plantations to meet the needs of the existing local industry.
- b) the additional costs imposed by not being able to expand the existing industry.
- c) not having the plantation resource required to support the establishment of new processing operations.

These costs have been exacerbated by the recent losses of plantations in our region because of the Jan 2020 fires. Studies and reports prepared by the SW have built a **sound business case for a State Government policy to be developed to deliver 30,000 ha of new softwood plantation in the SW Slopes region of NSW.**

The existing industry, with its demonstrated high levels of contribution to regional socio-economic wealth (and thus regional development priorities), is now under threat because of an extreme plantation-resource shortfall situation. There are high risks of future business closures and thus reduction in the contribution made by the timber industry to the region's prosperity. Moreover, future industry investment potential will be prevented by perceived (and real) resource constraints acting to limit future profitability.

Despite the barriers created (as set out in section 2) and the associated lower returns possible, plantation investment is still positive and viable. Key variables that impact on the level of return available could potentially be 'influenced' by carefully focussed government policy to deliver incentives that will overcome impediments to private sector involvement. One such variable is the ability to derive revenue from the sale of ACCU's (Australian Carbon Credit Units) generated through the establishment of new plantations. This also required the removal of the 'water rule' which prevented access to the ETF for plantation trees grown in areas with more than 600 mm of rainfall per year.

Intervention by the Government can be justified because of the market failure existing in the situation where no single processor could derive sole benefit from investment in



resource production (i.e. plantation establishment), as multiple products (sawlogs and pulp) are sold to different processors.

The SWG would therefore suggest that the NSW State Government should undertake major land purchases, in suitable areas and in a gradual (and opportunistic) manner over the next 10 years, to use for investment in plantations. This expenditure should be considered as an investment in **regional infrastructure** and would be an appreciating asset on the State's balance sheet. The mechanisms for establishing new plantations on this land could be a mix of public and private options involving a combination of partnership and leasing arrangements with appropriate operators.

These types of arrangements have been modelled and can be shown to deliver a positive and attractive IRR and BCR for the forest grower. It also has the advantage of allowing for ongoing resource security with continued use of the land for plantations.

This policy would allow the land owner (the Government) to recoup the entire capital outlay (around \$320 million for the establishment of a net 30,000 ha of plantation) via lease fees paid by the grower over the period of the first rotation (30 years). The lease fee would be set as a % of the capital value of land, in the same way that land is leased for agricultural purposes – so as land prices increase, so too would the lease fees.

The land remains in Government ownership, so that the policy can be viewed as an investment yielding a positive return into the foreseeable future, with no operational risk attached. **This option can thus be regarded as an investment in the essential infrastructure required to support continued operation of the existing regional industry, in the same way that roads and energy are considered essential industry infrastructure.**

This approach to expansion of the plantation estate is administratively simple, leaves all production risk with the private (or public) sector partner, and retains the value of the initial investment by Government in the form of purchased land. This proposal does not therefore require any grant to the private sector, but simply investment in a land bank which is then available to the Government for on-going timber production in a variety of forms.



Conclusions and Recommendations

- The softwood plantation-based integrated forest industry is the largest single driver of the regional economy in the SW Slopes area of NSW.
- The future of this industry is threatened by a lack of fibre supply that has been greatly exacerbated by the 2020 bushfires.
- It will take 30 years for total fibre supply to attain pre-fire levels, and the higher value sawlog grade of timber will be particularly restricted over this period.
- Plantation expansion is the only effective option for resolving the supply problem.
- The State Government should take steps to either adopt policies that will mitigate the barriers to private investment in plantations, and/or invest directly in expanding the plantation estate

We would welcome the opportunity to appear before the Inquiry to discuss these issues with you further.

Yours sincerely,

Peter Crowe
Chair