

Answers to questions taken on notice – Forestry Corporation of NSW

Page 14: The Hon. MICK VEITCH: Do we have a handle on how much this costs Forest Corp annually, both in actual expenditure but also lost productivity or productivity constraints?

Mr ANDERSON: We could take that on notice. But in terms of the productivity, that was what we were trying to gain from those trials. We have been set back and will be able to give you a more definitive answer on that. Weeds are competing for moisture, so you would expect there would be some tree growth lost. But I cannot give you a definitive figure at the moment.

The Hon. MICK VEITCH: In one of the other hearings that I have been involved in, there was discussion around—people dismiss weeds as a part of operation and a cost that you have to incur, but in fact it is a more than \$1 billion cost on the State's productivity every year. If you had a billion-dollar loss every year for something somewhere else, the Government's attention would be really focused on why. But this just seems to be an accepted cost of practice, which I do not accept. Hence I keep asking about this.

Mr ANDERSON: I would have to agree with you. Just from the early training back in university days when we were looking at plantation establishment, all the cost analysis showed investment in weed control paid more than fertiliser and a lot of other productivity gains. Staying on top of the weeds is important. It is just how you do it without killing the trees that is always the problem. In the native aspect, we also have to be super careful about what other species you can harm when you are treating weeds. It does get really tricky in that landscape.

The Hon. MICK VEITCH: It can be quite technical in its application, yes. Thank you for that. I would be keen to see what that information looks like if you take it on notice.

Answer:

Expenditure on weed control is reported annually in Forestry Corporation's Sustainability Report, which is available on the Forestry Corporation website at

<https://www.forestrycorporation.com.au/about/pubs/corporate/sustainability-reports>

Productivity impacts have not been quantified, however long experience and a large body of research work from many locations has demonstrated that effective weed control, by reducing competition for soil water, nutrients and light, can greatly increase the survival and growth of plantation trees.

Page 15: The Hon. MICK VEITCH: Both forest and plantation. We are able to meet our supply contracts going forward from hardwood?

Mr KEARNEY: Yes, we are. So, I guess, if you would like me to expand on how we look at sustainable yields?

The Hon. MICK VEITCH: Yes.

Mr KEARNEY: We have a modelling system that looks 100 years into the future. So, how we set our sustainable yield is to have a plan for a 100-year period. There are a couple of principles in that. The first one is that we have a harvest now that is sustainable across that 100-year period and the other principle is that the growing stock that is present in the forest at the start is present in the forest at the end. So, we are not just whittling away the growing stock until there is nothing left; it is perpetual sustainable yield. Within that there is a range of factors that go into that modelling but, effectively, we measure plots in the forest. Those plots are put into a simulator that grows them and simulates harvesting. They have growth models and that gives us an answer that looks at what is that sustainable yield from the forest?

We undertook work in the immediate aftermath of the fires to work out what we think the impact of the fires is likely to be. It was informed by the best available information we had and there have been some reductions in supplies forecast from that. But we have published that work and that is available. I am happy to give the Committee that work.

The Hon. MICK VEITCH: That would be good, thank you.

Answer:

The 2019–20 Wildfires NSW Coastal Hardwood Forests Sustainable Yield Review is available on the Department of Primary Industries website at https://www.dpi.nsw.gov.au/_data/assets/pdf_file/0004/1299388/fcsw-sustainable-yield-report-2019-20-wildfires.pdf

Page 16: The CHAIR: You may not be able to answer this, but there were some concerns raised by Timber NSW around wood supply agreements. You potentially may take this on notice. They raised concerns that Boral seemed to have preferential clauses in their wood supply agreements dating back almost 17 years. Do you have any view or vision of those wood supply agreements in setting them up at all?

Mr ANDERSON: Not in setting them up. Obviously, those clauses originated in 2003. That was before I had any visibility on that so I would have to take on notice where that originated from.

The CHAIR: Yes. If you could perhaps take the whole premise of their concerns on notice and come back to us and get some comments as to why those species preference clauses existed.

Mr ANDERSON: Sure. Yeah. I cannot tell you about exactly why they have been inserted in contracts or anything because I was not privy to that; but, look, broadly speaking the original contracts that Boral purchased—and it is no longer Boral because Boral has sold those contracts.

The CHAIR: They have indicated they are getting out of timber, essentially.

Mr ANDERSON: Well, they have sold those contracts so it is a different company that has those contracts now. But the original contracts were, again, not owned by Boral but came from two other family companies that sold those contracts to Boral many, many years ago. The supply area of those contracts reflected the species requirements. That is my understanding. In terms of how or where those particular clauses came from or through what process, I am unaware of that. I can take that on notice.

The CHAIR: Yes. That would be good.

Answer:

The Government's ICON Decision of 2002 saw 63,000 hectares of north coast forest moved to the reserve estate. This was in addition to the reservation in 1999 of 420,000 hectares of north coast forest as a result of the Regional Forest Agreements. Boral's previous contract was re-negotiated at the time to reduce overall quantities to accommodate these reductions and extend it for 20 years. As part of this process some species, size and supply area Key Performance Indicators (KPIs) were introduced to support its downsizing and further investment in value adding processing at its Herons Creek and Koolkhan facilities. Contract KPIs generally reflected historical supply levels to Boral and modelled resource estimates at the time.

In 2014, the Government bought back 50,000m³ of timber allocation from Boral, made up of about 40,000m³ of Blackbutt and 10,000m³ of other species. This reduced the total volume of timber, and specifically the total volume of Blackbutt to be supplied from the north coast for the remainder of the contracts. This both ensured that an adequate volume of timber continues to grow in the forests up to and post 2023 to service the industry well into the future and has enabled ongoing supply of Blackbutt and other preferred species to other customers.

Page 19: Mr JUSTIN FIELD: The EPA's annual report that came out two weeks ago indicated that there are 10 prosecutions underfoot for forestry operations in New South Wales. How many of those are prosecutions against Forestry Corporation?

Mr KEARNEY: I have not seen the report and I would probably best take that on notice.

Mr JUSTIN FIELD: It is not so much about the report I am referring to; it was just an indicator that these prosecutions are happening. You must have an indication of how many prosecutions are currently occurring by the regulator against Forestry Corporation or its contractors for breaches of either the CIFOA or the site-specific site operating conditions?

Mr KEARNEY: I am aware of some issues and I am aware of some prosecutions, but I do not want to mislead or provide a number that is just not correct.

Mr JUSTIN FIELD: Sure. I am happy for you to take it on notice. Mr KEARNEY: It is best to take it on notice.

Answer:

Details were provided by the Environment Protection Authority on page 23 of the transcript.

Page 20: Mr JUSTIN FIELD: But that is my point. With a 30 per cent reduction on the South Coast, this must mean that the sector ultimately has to change. The mills on the South Coast cannot sustain 30 per cent into the future. There is going to have either be a consolidation, a contraction in the sector or a change in the use of these materials. Have you started negotiating, particularly—I know South Coast contracts are currently, I think, just on a rollover basis. North Coast ones, the 2023 ones, have you started renegotiating these contracts with customers?

Mr KEARNEY: No, not to my knowledge.

Mr JUSTIN FIELD: Is that a decision for Forestry Corporation or is it ultimately a decision bound up in this Cabinet process with this document?

Mr KEARNEY: I am not going to comment on that document, but when we make wood supply agreements we always do so in consultation with the Government and the Minister.

Mr JUSTIN FIELD: But who would ultimately decide to commence—some of these mills are screaming out. They need some certainty. These contracts expire in 2023; it is obviously getting close. They have got no certainty about these contracts going forward. The force majeure has been in place now for—it will be over two years early next year. It is not about to lift anytime soon, based on the evidence here. When would you reasonably expect to start renegotiating those contracts?

Mr ANDERSON: It is probably worthwhile us taking that on notice and responding a bit more in full about time frames.

Answer:

Forestry Corporation and the State of NSW holds Wood Supply Agreements (WSAs) with a range of businesses throughout NSW for the supply of sustainable timber from State forests. These agreements have various durations and in normal circumstances Forestry Corporation manages market processes to enter into new agreements when existing terms expire.

Long-term sawlog WSAs on the south coast expired at the end of 2020. Timber harvesting in this region has reduced and is below the updated sustainable timber yield published by the NSW Government in March 2021, with timber produced being sold under interim short-term contracts. A process for allocating longer term contracts in line with sustainable supply levels is expected to commence during 2022.

On the north coast, the term of many WSAs for high quality sawlogs ends in December 2023. Forestry Corporation will commence good-faith discussions with customers in early 2022 about potential extension to 2028 under the terms of the WSAs.

Page 20: Mr JUSTIN FIELD: This has been going for a while now. Have you got any sort of time line on when you would be looking at starting to supply that material into the market? What sort of volumes are we talking about?

Mr KEARNEY: I am not aware of time lines or volumes. I would have to take it on notice to see if we have those numbers, but I am not aware of any.

Mr JUSTIN FIELD: If you could, that would be good. You must have a bit of an idea of the volumes that are available. That process started before the fires. I would be interested to know if there has been a reduction in the amount that you have made available to the market based on the impact of the fires, as well. That would be very useful.

Answer:

The original Expressions of Interest process sought interest for up to an indicative quantity of 95,000 tonnes per annum of Low Quality Sawlogs and 321,850 tonnes per annum of Pulp/Residue Logs. Forestry Corporation chose to consider the proponents for the Pulp/Residue Logs first and identified a number of successful parties in Stage 1 of this process. Two parties have expressed interest in all of the available Pulp/Residue Log resource produced as a by-product of sustainably harvested native forest and hardwood plantations. Forestry Corporation commenced direct negotiations with these parties during Stage 2 of the process and has entered into a Heads of Agreement with one party and exchanged final draft contracts with the another.

Any final quantities of pulp/residue log which may be committed in Wood Supply Agreements arising from this process will take into account the most up-to-date sustainable resource estimates for these low grade by-products.

Page 21: Mr JUSTIN FIELD: The suggestion in these minutes was that Forestry Corporation was seeking access to private native forestry to be able to support supplementing the timbers from public native forests for its customers. So in that instance are you saying to the private landholder, "We can organise for the contractors and we can provide you with someone to sell it to"? Then do you facilitate a direct relationship between them and the mill or do you guys buy it directly off the private landholder and sell it? How does it work?

Mr ANDERSON: Given how specific the example is, it might be better if we take it on notice and give your full answer, if that is okay.

Mr JUSTIN FIELD: I appreciate that. That would be useful.

Answer:

Forestry Corporation does not actively pursue opportunities for private native forestry but may provide marketing and harvesting services when approached by private landholders.

In these instances, Forestry Corporation purchases timber from the landowner. Forestry Corporation engages its existing harvest and haul contractors to harvest the timber and supply it to its customers.