

**INQUIRY INTO LONG TERM SUSTAINABILITY AND  
FUTURE OF THE TIMBER AND FOREST PRODUCTS  
INDUSTRY**

**Organisation:** Softwoods Working Group

**Date Received:** 25 May 2021

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27<sup>th</sup> May 2021

**The Honourable Mark Banasiak, MLC  
Chair Portfolio Committee No.4 - Industry  
Parliament House, Macquarie Street  
SYDNEY NSW 2000**

Dear Mr Banasiak,

**RE: Legislative Council – Inquiry into the long term sustainability and future of the  
timber and forest products industry**

Thank you for the opportunity to make the following submission to the Inquiry.

**Introduction**

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 SW Slopes region contains the largest area of softwood plantations in the State of NSW (approx. **125,000ha** of both public & private land) and is the second largest softwood plantation estate in Australia.

Current members of SWG include senior representatives from:

- The major forest growers – **NSW Forestry Corporation** and **Hume Forests** (part of the GFP Group) with **Hancock Victorian Plantations** (private grower in NE Victoria) being observer participants.
- The product manufacturers (timber processors) – **AKD** (sawn timber products), **Visy Industries** (packaging materials including cardboard and liner board), and **Hyne** (sawn timber products).
- **Local Government** (Snowy Valleys Council, Greater Hume Council, Cootamundra-Gundagai Regional Council, and Albury City)
- **Regional Development Australia** committees for Murray and Riverina
- Various relevant **NSW State Government agencies** (Department of Regional NSW, and Transport for NSW)
- The **Forest Industry Council (FIC)**, which represents the operational, training and safety issues for the industry workforce, with particular regard to harvest and haulage contractors.

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.



To put the SWS softwoods industry into some context, the socio-economic benefits of the industry on our region, just prior to the 2019-20 fires 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 total contribution to local economic activity is \$2.6 billion per annum.***
- ***Contribution to household income is \$560 million per annum.***

The fire impacts have certainly had a serious adverse impact on the future availability of timber products for at least the next 20 years.

**However, it is important to note that even with this reduced availability of wood products, the plantation sector is STILL the most significant socio-economic contributor to the region.**

The processors of our region required the supply of around 3 million tonnes of fibre each year, in order to operate at pre-fire capacity. However, the plantations of the SWS region have only been able to supply 2 million tonnes. The 'shortfall' (approx. 1 million tonnes) has been supplied from plantations in NE Victoria, and from the Central West and Bombala districts of NSW. Some of these areas were also impacted by other fires during 2019-20.

The *Dunns Road* and *Green Valley* fires of January 2020, which burnt around 40% of the SWS plantation resource on which our regional processors depend, have further exacerbated this unsustainable fibre supply situation and resulted in considerable reductions in wood quotas being supplied to the mills. These reductions will be transitioned into place during 2021 and take full effect from the beginning of 2022.

This ultimately means that our region that was already operating under a local wood-supply deficit before the fires, has had that situation significantly exacerbated. This will have implications at a local, state and national level for sawn timber supplies to service the building industry. It will also potentially increase demand for imported timber.

Our submission addresses all but three of the indicated terms of reference **with a strong focus on our region only**. We would, however, suggest that our comments & experiences would constitute a very good case-study of conditions prevailing throughout Australia in the softwood plantation sector.



**a) Value chain relationships**

*(the nature of, and relationship within, the value chain between the timber and forest products industry, logistics companies, manufacturers, retailers, exporters and their relationship with timber supply and environmental management, and opportunities to enhance supply chains)*

**Figure 1** provides a schematic overview of how integrated the industry is within the SWS region. This flow chart shows how the four key components of the industry, listed below, are embedded within the region and generate the socio-economic benefits shown at the base of the diagram.

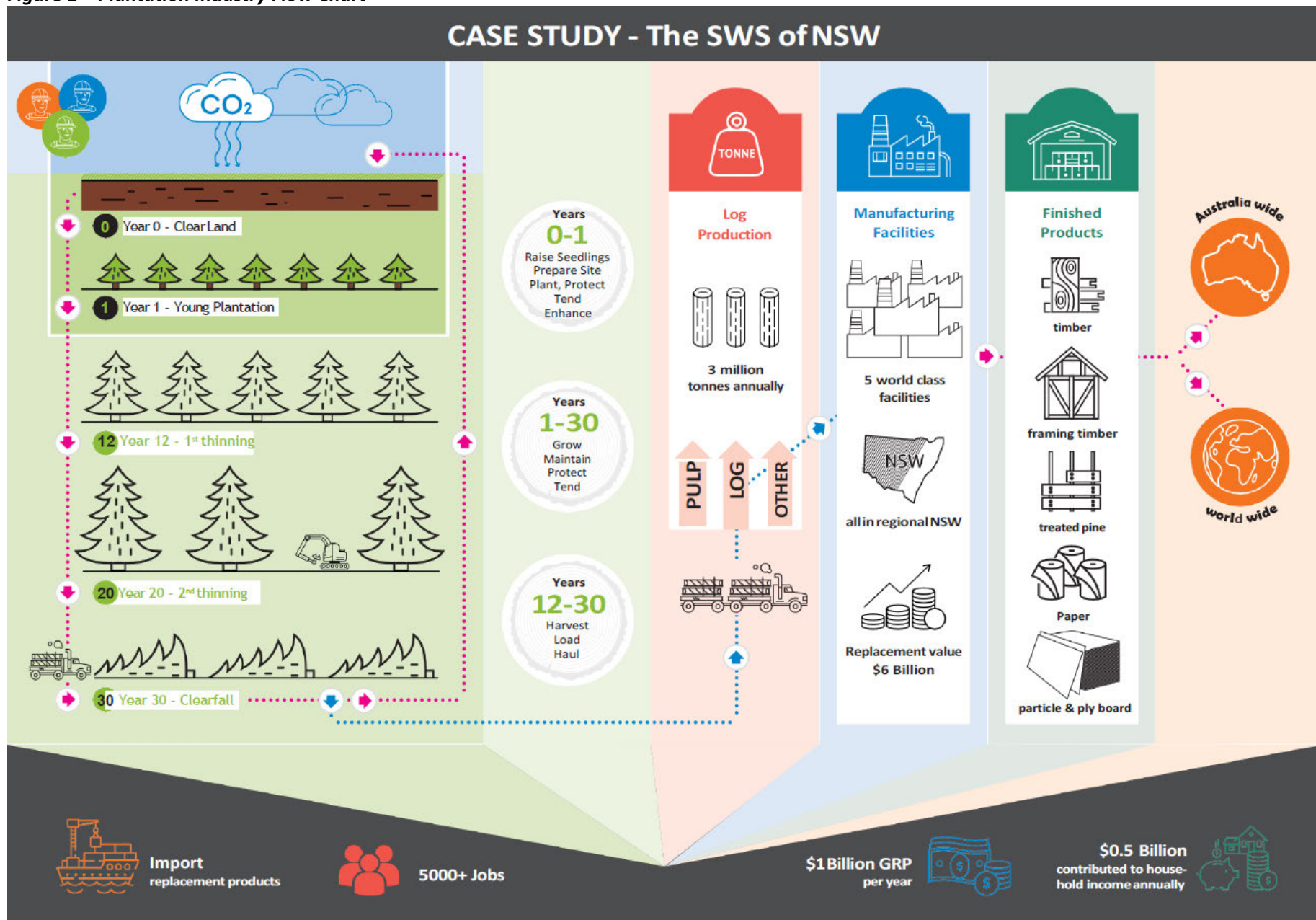
- i. Growing
- ii. Harvesting & Haulage
- iii. Processing & Manufacturing
- iv. Marketing & Distribution

The integrated nature of the industry in the SW Slopes enables high labour productivity rates to be realised as well as maximising the value derived from the trees. This therefore maximises the positive economic impact for the regional communities.

The components of this flow chart are highly inter-dependant on each other and the incentives between all parties across the value chain to operate collaboratively is very high. The outputs generated are a mix between commodity and specialty products that require high levels of cost & operational efficiency from the four functional units, in order to retain acceptable levels of global competitiveness.

The plantation industry is also participating, as a partner, in the proposed 'Smarter Regions' Co-operative Research Centre (CRC) through Forest and Wood Products Australia (FWPA). The FWPA is a not-for-profit company that provides national, integrated research and development services to the Australian forest and wood products industry. Research projects planned include the delivery of increased productivity via the incorporation of AI (Artificial Intelligence) and ML (Machine Learning) 'smart' technologies into the supply chain to enhance efficiencies.

Figure 1 – Plantation Industry Flow Chart





## **b) Impact of external influences**

*(the impact of external influences on the timber and forest products industry, including but not limited to drought, water, fire, regulatory structures, habitat protection and local, state and federal policies regarding climate change and plantation establishment)*

External influences on the industry have always been of major significance. Many of these factors are beyond the direct control of the industry *per se* but need to be either prepared for or mitigated against. This is where the timber industry has many similar characteristics to the agricultural sector.

The ToR has identified the key elements of these external factors and we have provided a further list of dot points below. Various studies, reports and inquiries have been prepared over many years that are available should the Committee wish to examine these issues in more detail.

- **Fire**

As evidenced by the 2019-20 season, fire is obviously a 'clear and present' danger to the plantation sector.

**Without doubt this factor is the single most significant risk to the future of the industry as a whole.**

Separate Inquiries & Royal Commissions have provided volumes of data, commentary and recommendations on this topic over many decades.

There is nothing new that can be added to this collection of documents. It would be interesting to undertake a study of all the recommended actions that have been proposed and identify what actions have/have not been implemented.

The key elements relating to fire are:

- Preparation
- Mitigation
- Detection
- Suppression
- Training
- Resources
- Firefighting capability



- **Weather**

- Drought
- Flood
- Wind
- Snow

All these weather elements could impact on the productivity of the plantation estate. However, it should be noted that the plantations are generally more resilient over time to these elements compared to other agricultural land uses.

From a regional perspective the existence of plantation timber production & manufacturing has, in an economic sense, effectively drought-proofed rural communities otherwise dependant on agriculture alone.

- **Climate**

- Climate Change  
Has the potential to have an impact on where the most suitable areas are for the establishment of new plantations and how the re-establishment of existing plantations is undertaken.
- Carbon Market

NSW's forest plantations are a renewable and sustainable resource that can store carbon dioxide (CO<sub>2</sub>) as they grow, and continue to store carbon as wood, paper and bioproducts and for many years. New plantations also underpin regional employment, economic activity, environmental and social outcomes. Major pathways for emissions abatement from the forest products industry include:

- the carbon sequestered in growing forests.
- the carbon stored in durable wood and paper products.
- the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre-based products that have low embodied energy, and
- the use of woody biomass for renewable energy (including for renewable heat and biofuels), thereby displacing fossil fuels.



NSW is looking for new solutions to curb carbon emissions and trees could assist the NSW Government to achieve its goal of net-zero emission by 2050<sup>1</sup>.

Expanding the plantation estate will assist the transition of the NSW economy to this sustainable, lower emissions future.

An important issue to consider is that the opportunities for participation in the carbon market appear to be encumbered by regulatory complexity and 'cost of compliance' burdens that make participation difficult, expensive & generally only accessible to proponents with large areas of land available for plantation establishment. This factor will potentially hamstring the involvement of the farm-forestry sector in the carbon market.

- **Weed control**

As with all land-use sectors, weeds, feral animals and other pests & diseases are a pervasive influence and need to be carefully managed.

These matters are a significant source of disputes & discussions between the plantation sector (public & private) & neighbouring farmers & communities.

It is particularly worth noting that blackberries are generally regarded as the single biggest pest/weed problem that is encountered by the plantation sector. This has been further exacerbated by the ideal growth conditions associated with the post-fire re-establishment program.

Apart from the insidious nature of blackberries, they present the forest grower with a competitor to the tree crop that takes up valuable nutrients & moisture, resulting in significant measureable reductions in wood yields over the rotation. Based on observed growth reductions, an average loss (stumpage value alone) of \$2,250/ha can be caused by blackberry infestation.

The need to invest heavily in research for a biological control agent is essential. Chemical means will only be a temporary abatement measure that will require multiple applications & never fully counter the problem.

- **Other Regulatory Structures**

- The 600mm rule –Government policies – the relaxed 'water rule' for Commonwealth designated Hub areas is helpful, but the 'additionality' rule means that re-planting after fire loss cannot benefit from carbon market.

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<sup>1</sup> <https://climatechange.environment.nsw.gov.au/About-climate-change-in-NSW/NSW-Government-action-on-climate-change>

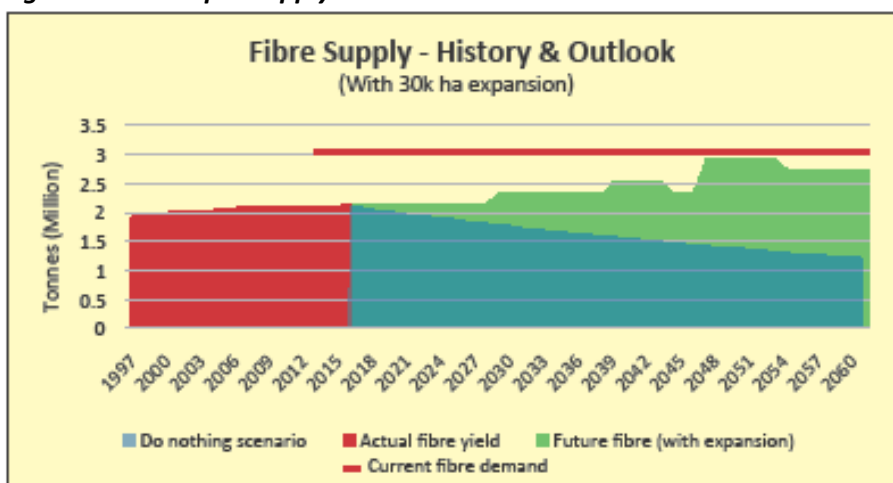


### c) Projections for softwood supply and demand over the next 30 years

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. As indicated in Figure 2:

- 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 new plantation establishment 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 from industries that are also expanding within the non-SWS supply zones.
- Forecasts of supply were for a declining yield into the future, as some areas of private plantations were not replanted after harvest but sold for conversion back to agricultural use.

**Figure 2 : SW Slopes supply and demand imbalance**



Source : SWG analysis (2017)

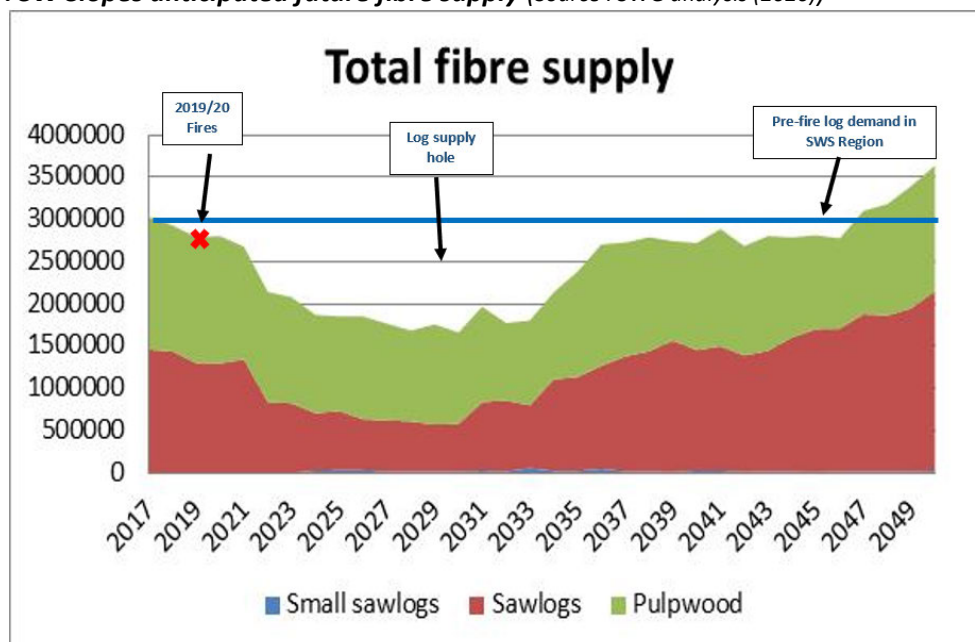
**Figure 2** also indicates the likely increase in supply of fibre that the SWG's plantation feasibility model predicted would occur if another 30,000 ha (net) of plantation were to be established. This would arrest the anticipated decline in supply, even if not totally removing the shortfall for the industry. The industry would still not be able to expand, but at least the existing activity would be supported by local production, 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 loss of very significant areas of softwood plantation because of the 2020 fires – not only in the SW slopes region, but also in 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 3** shows a summary of information provided to SWG which presents the most recent forecasts of fibre flow available to the processing industry of the SW Slopes. These forecasts have been made by the growers based on resource losses predominantly because of the fires in 2020 and based on anticipated re-planting schedules over the next 2-10 years.

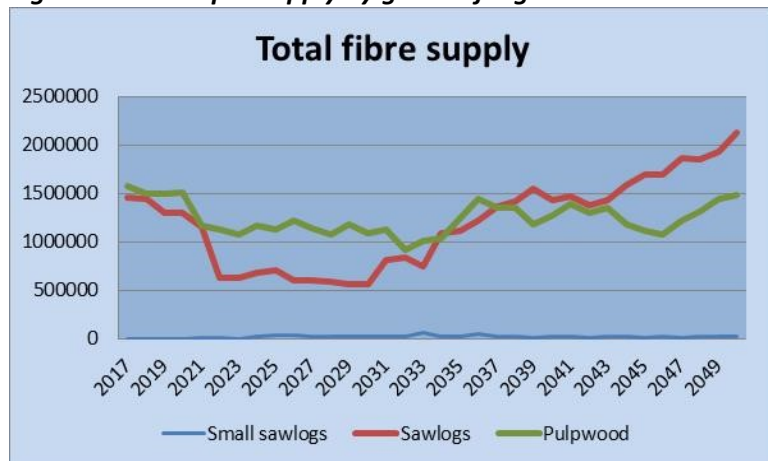
The current supply of 3 mtpa is forecast to decline to around 1.69 mtpa by 2023 – i.e. a decline of 44%. After 2023, forecast fibre supply volumes remain at around the same (low) level for 10 years before rising slowly to reach another 'plateau' in around 2037. It is not until around 2047 that volumes start to increase again, reaching and then exceeding previous levels of around 3 mtpa.

**Figure 3 : SW Slopes anticipated future fibre supply** (Source : SWG analysis (2020))



**Figure 3** also indicates that it will be the higher value **sawlogs** that will suffer the greatest decline in our region. **Figure 4** demonstrates the different fibre flows forecast for these two different grades of log – sawlogs and pulpwood.

**Figure 4 : SW Slopes supply by grade of log**



This forecast of fibre supply suggests that, in the longer term, 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 in addition to the re-establishment of the burnt plantation areas.**

At the same time, demand for the products of our softwood plantations is increasing. The stimulus provided to the housing construction industry during 2020, as part of the COVID19 economic stimulus measures, has increased demand for house framing and other timber-based products.

**d) Transparency and data reporting of timber supply**

The SW Slopes region has access to reliable and robust data relating to timber supply. All growers are members of SWG and share aggregated forecast production data.



**f) The role of Government in addressing key challenges.**

*(the role of the government in addressing key economic, environmental and social challenges to the industry, including funding and support to encourage improvements in forestry practices, training, innovation and automation, workplace health and safety, industry and employee support, land use management and forestry projects)*

The key challenge facing the softwood plantation industry of the SW Slopes is the urgent need for **expansion of the plantation estate** – not only replacing areas lost to the 2020 fires but delivering a net addition of at least another 30,000 ha, to meet the demand of the local processing sector. Ensuring the continued operations of the existing processors would provide increased 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 public sector has historically played a major role in the establishment of the existing estate, over the last 100 years. Government needs to continue this role, as 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 requires.
- The major barriers to achieving a higher IRR include:
  - the high capital requirement at the beginning of the investment (usually the cost of land, plus establishment costs including roading)
  - no revenue is delivered for at least 12-13 years, and the majority of revenue (78%) is not achieved 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 of the plantation operation.

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 tracts are offered on the open market, over at least a 10-year period, to build to a total new estate of 30,000 ha. 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.**

Action by the public sector to deliver this expansion program would also deliver important (and sustainable) regional economy growth and jobs.

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 fibre 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 SWG 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 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 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. Recent removal of the 'water rule' in identified Plantation Hubs now allows for access to the ETF for **new** plantation trees grown in areas with more than 600 mm of rainfall per year. It does not assist with the re-establishment of **existing** plantations lost to fire (or other agencies).

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 adequately 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 as plantation.

This policy would allow the landowner (the Government) to recoup the entire capital outlay 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 payable.

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 grower-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.

#### **h) Implementation of the NSW Forestry Industry Roadmap and the Bushfire Industry Recovery Package**

SWG acknowledges the significant support from the NSW Government to affected forest industry businesses to assist with the Black Summer bushfires recovery effort.

The NSW Government's \$140 million Bushfire Industry Recovery Package was very welcome and the share of that contribution that came to the SWS Region was commensurate with the damage that was inflicted.

The program provided immediate support across the forest industry sector, softening the impact of the bushfires, and supported employers as they dealt with the arrival of COVID-19.



SWG also notes the NSW Government's commitment of \$46 million equity injection into Forestry Corporation of NSW to support the recovery & rebuilding efforts.

### **Conclusions and Recommendations**

- Global wood shortages currently being experienced are a major concern for the sector and are likely to persist for the foreseeable future. Imports will not be available to meet the local demand.
- Plantation expansion is the only effective, long-term option for resolving the supply problem.
- The softwood plantation-based integrated forest industry is still the largest single driver of the regional economy in the SW Slopes area of NSW (despite losses associated with the 2019-20 fires)
- This industry can be regarded as a sustainable driver of regional economic growth – the resource is grown in the region and is then processed in the region. The environmental credentials of timber, as a building material, far outweigh non-timber materials in terms of carbon sequestration, energy consumption, sustainability, renewability, flexibility adaptability & appearance!
- The future development & expansion of this industry is compromised by a lack of fibre supply. Although this situation was pre-existing, the 2020 bushfires have greatly exacerbated the problem.
- 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.
- 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