

**Submission
No 196**

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

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PORTFOLIO COMMITTEE NO. 4 – INDUSTRY

Inquiry into the long-term sustainability and future of the timber and forest products.
Legislative Council of NSW

Dear Sirs,

I am writing to provide an alternative view to the current lobbying by Pine interests for government help in expanding planting areas in the Tumut and Tumbarumba area.

It seems sensible to compare alternative land uses when deciding on backing a change in land use. In this case the continued use of land for Grazing enterprises is the alternative to purchasing and planting of Pine forest.

My analysis shows that the returns from Pine are much lower and much riskier than the returns from reasonably well-managed Grazing enterprises. The Pine analysis has been reviewed by a forester whose comment was that I have been generous in my assumptions. Analysis of farming has been done assuming long term profitability and reasonable productivity assumptions. It is backed by plenty of evidence of the profitability of grazing farms in the region. My own enterprise has sustained an internal rate of return of 12% over the past 40 years – a very significant creation of wealth. I know of numerous other farm businesses that would be at least competitive with this.

Analysis of likely returns from Pine plantations suggests a likely return over the life of a plantation of -1%-3%. Although this may seem low, it seems reasonable when looking at the fate of private plantations in the past, where virtually all private plantation schemes have faced insolvency at somewhere between 2 and 20 years into forest rotation. They have then been sold off as distressed assets at well below cost of establishment, leaving investors, taxpayers and treasury well out of pocket.

The very poor economic performance of Pine plantations is exacerbated by the extreme riskiness of the venture. We have just seen a large proportion of local Pine wiped out by bushfire. Surely in a world of climate change it is likely that this will occur again within the next 30 years. Compared to a grazing business, bushfires are devastating to a pine plantation business. A grazing business can be recovered from a major fire within a year or two (or less). A pine plantation has to be replanted and begin from zero.

Rather than load you up with analysis I would summarise my findings thus; at long term prices and assuming no change in land value, a net present value (NPV) per Ha of a 30-year Grazing enterprise would be in the realm of \$24k per Ha. A Pine plantation on similar land could expect a NPV of -\$1.1k per Ha. If an inflation rate of 3% is assumed the figures become \$66k and \$28k respectively. These numbers assume zero capital gain and 3% gain respectively, which is a big advantage to the pine enterprise, as the conversion of Grazing land to Pine forest implies a very significant initial devaluation of the underlying land.

My understanding is that the forestry lobby is currently seeking another 30,000 Ha of land for pine planting. **Over a 30-year period this implies an impoverishment of around \$750,000,000 to \$1,150,000,000 in today's dollars to the nation.** A very large portion of this loss would be to our local area.

I ask you to seriously consider the above. The pine lobby is well organised and strongly aware of its own self-interest. Assessment of optimal land use is complex and the results often not intuitively obvious, which makes their lobbying efforts easier. Farming interests are politically fragmented and generally poorly represented. However, they do create real wealth and underpin the prosperity of regional areas. For the past century this area has been impoverished by poor land use decisions made at government level driven by the lobbying of self-interested groups. Perhaps it is time for a rethink.

Yours Faithfully

Geoff Daniel

Also attached is a copy of *FINAL REPORT – FEBRUARY 2016 The Economic Potential for Plantation Expansion in Australia. Report to the Australian Forest Products Association by; Anna L. Matysek and Brian S. Fisher*. This paper sets out the lack of economic viability of pine plantation issues clearly.

Geoff Daniel BVSc MVS

1. Farmer and Grazier; Joint Principal of 3 larger scale family grazing enterprises covering 10 farms and running 50,000-75,000 sheep and 3,000-5,000 beef cattle in Tumbarumba, Upper Murray and Bombala regions.
2. Founder, board member, former CEO and part owner of Growth Farms; a larger-scale farm management company founded in 1999 and currently with about \$500m currently under management.
 - Wide experience in the assessment of competing agricultural land uses including Grazing, Dryland cropping, Irrigated cropping, Horticulture and Forestry.
 - Wide experience in capital raising and funding of large-scale agricultural enterprises.
 - Wide experience in management of large-scale agricultural enterprises.
 - Wide experience in reporting to stakeholders.