Independent Forestry Panel

Public submission

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REPRESENTATIONS ON THE FOREST ACTION PLAN

SOUTH EAST FOREST RESCUE

1. Sustainability of Current and Future Forestry Operations in NSW

The native forest logging and woodchipping industry erroneously asserts that it operates under ecologically sustainable forest management ('ESFM'), alleging strict environmental guidelines and regulatory framework. However, this is *bare ipse dixit*.

The definition of ESFM is as set out in the *Forestry Act 2012* (NSW) s 69L which provides:

> ***"principles of ecologically sustainable forest management"*** *means the following—*
>
> *(a) maintaining forest values for future and present generations, including—*
>
> *(i) forest biological diversity, and*
>
> *(ii) the productive capacity and sustainability of forest ecosystems, and*
>
> *(iii) the health and vitality of native forest ecosystems, and*
>
> *(iv) soil and water quality, and*
>
> *(v) the contribution of native forests to global geochemical cycles, and*
>
> *(vi) the long term social and economic benefits of native forests, and*
>
> *(vii) natural heritage values,*
>
> *(b) ensuring public participation, provision of information, accountability and transparency in relation to the carrying out of forestry operations,*
>
> *(c) providing incentives for voluntary compliance, capacity building and adoption of best-practice standards,*
>
> *(d) applying best-available knowledge and adaptive management processes to deliver best-practice forest management,*
>
> *(e) applying the precautionary principle (as referred to in section 6(2)(a) of the Protection of the Environment Administration Act 1991) in preventing environmental harm.*

When looking at ESFM through the lens of the data on a pure timber quality and quantity basis it is clear that the native forest industry is not sustainable. While there has been declines in volumes due to reservations of forests over the years, the yield estimations following these have been overly optimistic. Supplied volumes have been consistently below the volumes predicted by the Forest Resource and Management Estimation System ('FRAMES'). For example, in the Blue Ridge Hardwood's 2018 submission to government on the new Coastal Integrated Forestry Operations Approval ('CIFOA'):

> One needs to also consider that in the past 20 years FCNSW resource forecast estimates have always been optimistic and as history has exposed, 100% wrong.

Loggers and the Forestry Corporation NSW ('FCNSW') seem to use forests high rotation periods – that they have been logged multiple times over the years as evidence of sustainability. What they fail to acknowledge is that the diameter of the logs that have come from these operations has decreased substantially with each logging cycle. Where once one tree truck loads were common, over the years they have become extremely rare in NSW, and now all giant trees >140cm at stump height are protected, though this condition came in about 50 years too late.

The Wood Supply Agreement for the Eden Region 1999 between the Forestry Commission NSW and Blue Ridge Hardwoods allowed for the supply of 23,000m^3 of High Quality sawlog of which 21,160m^3 were to be High Quality Large ('HQL') sawlogs. The definition of HQL is a log over 40cm Centre Diameter Under Bark ('CDUB') and over 2.4m in length with a minimum Small end Diameter ('SED') of 30cm. A High Quality Small ('HQS') sawlog is the same length and SED as a HQL sawlog, but the CDUB is less than 40cm and more than 30cm.

The current WSA with Allied Natural Wood Exports P/L signed in 2019 contains no minimum volume of HQL sawlogs. It also decreases the SED from 30cm to 25cm. There is also a new specification for HQS being the minimum butt diameter under bark of 40cm for logs less than 4m and 36cm for logs more than or equal to 4m in length.

FCNSW's 'Post 2018 Yield Forecasts – Eden RFA Region (2018)' states in the conclusion that for the 20 year term of the 1999 WSA, 90% of the High Quality sawlog was HQL whereas from 2019 the proportion of HQL will be closer to 25% of sawlog volume, an annual reduction from approximately 20,000m^3 to 6,000–8,000m^3. This clearly highlights how unsustainable native forest logging is. This is also borne out by the fact that the Eden Region has been converted from Multi-Aged Forest to Regrowth Forest by intensive logging for woodchips since the early 70's. This had had a severe impact on threatened species in the region and is certainly not in the spirit and definition of sustainability.

The Post 2018 Yield Forecast was written before the 2019/2020 wildfires, which have severely impacted these yield forecasts and put additional strain on threatened species and their habitats. On the south coast more than 50% of State Forest was impacted by the fires.

ESFM also encompasses forest biological diversity, which has also been severely impacted by native forest logging operations. For example, the Southern Greater Glider *Petauroides volans* (greater glider) decline and habitat loss.

The Greater Glider is an arboreal marsupial endemic to eastern Australia. Greater gliders were once regarded as abundant inhabitants of forests throughout the Great Dividing Range. Over recent decades their numbers have more than halved, to the extent that they have been formally declared as Endangered under both the *Biodiversity Conservation Act 2016* (NSW) and the *Environmental Protection and Biodiversity Conservation Act 1999* (Cth).

Greater gliders are typically found in moist eucalypt forest that contain an abundance of hollow-bearing trees. As a nocturnal species, greater gliders shelter in tree hollows, known as den trees, during the day. Access to tree hollows is essential for greater gliders, providing protection from predation and weather, and providing the stable conditions needed for successful reproduction. Suitable tree hollows for this species take at least 100–200 years to form. It's estimated that each greater glider uses between 4–20 den trees.

Studies into hollow bearing trees show a range of densities for different forest types. One such study has a figure of 13–27 Hollow Bearing Trees ('HBT') per hectare in undisturbed temperate forest.[1] The 1999 Integrated Forestry Operations Approvals ('IFOA') in force until 2019 only required the retention of 5 HBT's per hectare and 5 recruitment trees per hectare. If the spotlight survey found a Greater Glider density of more than 1 per hectare then HBT retention is increased to 8 per hectare to provide for a food resource for Powerful Owls.

While the current CIFOA increased HBT retention to 8 trees per hectare, it removed the need to protect any recruitment trees, or any increased retention for Greater Glider density. The density of hollow bearing trees to be retained is 50% or less of undisturbed forest and will no doubt impact any hollow dependant species.

The CIFOA has required FCNSW to undertake a Broad Area Habitat Search ('BAHS') across the logging Base Net Area ('BNA') to identify threatened species and habitat features to be protected from logging. One such feature is the den trees of Greater Gliders, which also applies to den trees for Yellow-bellied Gliders and Squirrel Gliders. Den trees are required to be protected from logging with a 50m radius exclusion zone. Until last year we had assumed this had been happening but following an investigation into logging in Tallaganda State Forest it was found this was not the case.

Tallaganda State Forest sits on top of the Great Dividing Range and is mainly tall wet sclerophyll forest with an abundance of hollow bearing trees, the perfect habitat for Greater Gliders. Tallaganda has a high-density population of Greater Gliders and is one of the few forests on the south coast that only had a small portion burnt in the 2019/2020 wildfires. Tallaganda Cpts 2447 2448 2449 2450, Tallaganda Cpt 2451 and Tallaganda Cpts 2208 2209 logging operations were active in 2023.

The harvest plans for these logging operations show a total BNA of 1068ha and yet only 1 Greater Glider den tree was located, and this was only after the area was logged leaving the exclusion zone highly disturbed. The fact that in such a high-density Glider area FCNSW had only found 1 den set off alarm bells and a complaint was sent to the EPA to investigate. The result of this was the EPA finding a dead Greater Glider just outside the logging area of one operation and issuing FCNSW a 40 day Stop Work Order ('SWO') on the Tallaganda operations.

In a joint effort South East Forest Rescue (SEFR), Wilderness Australia ('WA') and World Wide Fund for Nature ('WWF') undertook surveys for Greater Glider den trees and in a few hours a night over 4 nights found 17 den trees. The EPA also undertook surveys and identified a further 20 den trees. Clearly FCNSW was failing to undertake adequate BAHS to identify and protect Greater Glider den trees and so the SWO was extended another 3 times.

[1] Gibbons, Philip, Lindenmayer, *Tree Hollows and Wildlife Conservation in Australia*, (CSIRO, 2002) 49.

In November, SEFR noticed for the Flat Rock Cpt 34 logging operation that FCNSW had identified 3 Greater Gliders during a pre logging survey and yet no den trees had been found. SEFR undertook a survey and found a den tree with logging disturbance in part of what should have been its exclusion zone. The EPA again acted and issued a 40 day SWO on this logging operation, which was extended for a second 40 days. During this time SEFR found another 4 Greater Glider den trees and sighted 9 other Greater Gliders while FCNSW found 1 'possible' den tree. While not a high-density area it is still a significant population for a coastal forest that was impacted by the 2019/2020 wildfires.

Through the course of the Tallaganda and Flat Rock SWO's it came out that FCNSW had been looking for nocturnal Greater Gliders only during the daytime when they are asleep in their dens. As FCNSW's interpretation of the definition of a den tree involves seeing a Glider leave or enter its den, then looking during the daytime when there is absolutely no possibility of this happening is clearly not going to identify any den trees. FCNSW's excuse was that the CIFOA does not specify nocturnal surveys and as they also look for other threatened species and habitat features that they have complied. The EPA's response was that the CIFOA is an outcomes based rule set not a prescriptive rule set and as the outcome was to identify Glider den trees then obviously undertaking surveys for nocturnal species goes to the competency of FCNSW and their survey methods.

Because of this the EPA, with FCNSW's involvement, changed the status of the Greater Glider from a species adequately protected by the CIFOA Conditions and Protocols to a species that requires a Site-Specific Biodiversity Condition ('SSBC') to be made. This was done to try and subvert the CIFOA conditions for BAHS to find den trees. The SSBC version 1 to be introduced on 09/02/2024 removed the need to undertake any surveys for Greater Glider den trees and instead leave an extra 6 trees greater than 80cm in the high-density Greater Glider zone and an extra 4 trees greater than 50cm in the low-density Greater Glider zone, Eden Greater Glider zone and North Coast Greater Glider zone, if these are available. As already discussed, the diameter size of trees has been decreasing and, in many forests, there are not these additional trees to be retained, rendering the SSBC useless. Following discussions with environment groups the introduction of SSBCv1 was pushed back to 16/02/2024 and ultimately superseded by the introduction of SSBCv2 on 16/02/2024.

SSBCv2 contained the tree retention requirements of SSBCv1 and new requirements for nocturnal surveys. Unfortunately, these survey conditions fall far short of the requirement of a BAHS over the whole BNA to identify all den trees. The survey conditions only require that for every 100ha of BNA at least 3 separate transects along roads totalling 1km, on a pro rata basis, are conducted spotlighting to identify den trees. The reality is that even if a person could see 50m either side of the road, a 1km transect would mean that 10ha of the 100ha would be surveyed, or 10% of the area. The Gliders in the remaining 90% unsurveyed area get no chance for their den trees to be protected.

One of the few meaningful survey conditions is 14(b), the requirement to commence the transects within 1 hour of sunset, which gives the greatest chance of identifying a den tree by

sighting a Greater Glider leaving its hollow. 80% of Greater Gliders leave their den within an hour of sunset and most of the remaining 20% leaving within 2 hours of sunset. Looking at times other than this narrow window will not identify den trees, the purpose of the surveys, and is completely pointless. This however did not stop FCNSW from undertaking consecutive transects well past the hour after sunset, some as late as the early hours of the morning, in contravention of the SSBC. Our analysis showed that 188 of 243 or 78% of transects undertaken did not comply with Condition 14(b) of the SSBCv2. Only 9 confirmed den trees were found by FCNSW and all were on transects that started within 1 hour of sunset, which shows how important 14(b) is.

Despite the very clear writing of Conditions 12, 13 and 14 of SSBCv2 and the only valid interpretation of these when taking into the account of the whole purpose of the surveys, which was to identify den trees, the EPA and FCNSW claimed there was a "shared understanding" that only the first transect on any given night had to commence within 1 hour of sunset. This "shared understanding" is completely at odds with the intention of the surveys and renders them completely useless. It has to be noted that FCNSW has no incentive to find den trees as it results in the loss of logging area, this also applies to all species and habitat features that are required to be identified and protected.

Following complaints of non-compliance by SEFR and a coalition of environment groups the EPA introduced SSBCv3, with the aim of legitimising the failure of the SSBCv2 to adequately identify den trees by stating that only the first transect of an evening had to start within 30 minutes of sunset and the rest could be done consecutively and introducing a requirement to temporarily protect a 25m radius exclusion around sightings of Greater Gliders. While this is a small improvement it only represents 0.2 of a hectare or 6.5% of a Greater Gliders 3ha average home range. It also has to be remembered that the transects are along roads and so sightings are near roads and therefore a portion of exclusion zones are roads and not forest. The sighting exclusion also only applies to FCNSW sightings not community sightings.

While all of these SSBC amendments have been happening SEFR and other environment groups have been consistently finding more Greater Glider den trees and sighting more Gliders than FCNSW, bringing into question the competency of FCNSW's surveys. FCNSW have also failed to implement exclusion zones for 10 community found den trees in 2 forestry operations in Styx River state Forest, resulting in actual environmental damage of den tree exclusion zones and the logging of 2 actual den trees. The EPA is investigating these breaches but are severely underfunded, understaffed, constrained by politics and thus it will possibly be 4 years before there is an outcome for these offences.

Whilst the SSBC's might be a slight improvement on what was happening on the ground previously they do not reflect what is required by the CIFOA conditions for BAHS, that is, the search of the whole BNA and identifying all den trees. A lot less than 1% of dens are protected and, even with the sighting exclusion, the CIFOA and SSBC will not adequately

protect the Greater Glider from being severely impacted by logging. This is death by a thousand cuts for the species.
The reason for the ineffectiveness of the SSBC is the stated belief by FCNSW and the EPA that timber volumes cannot be impacted by any rule changes because of the CIFOA Condition 13.1(b)(i)(ii):

> *(b) It is a condition of this **approval** that any of the above **harvesting operations** are carried out so that they:*
> *(i) comply with the **timber product** requirements in **Part 5** of **Protocol 31: Matters covered by the approval**;*
> *(ii) are limited to the **timber product** type and maximum volumes specified for the area of*
> *the relevant **harvesting operation** in **Table 1** of **Part 5** of **Protocol 31: Matters covered by the approval**;*

And the *Forestry Act 2012* s :10

10 Objectives of Forestry Corporation

> *(1) The principal objectives of the Corporation are as follows—*
> > *(a) to be a successful business and, to this end—*
> > > *(i) to operate at least as efficiently as any comparable businesses, and*
> > >
> > > *(ii) to maximise the net worth of the State's investment in the Corporation,*
> > *(b) to have regard to the interests of the community in which it operates,*
> > *(c) where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6(2) of the Protection of the Environment Administration Act 1991,*
> > *(d) to contribute towards regional development and decentralisation,*
> > *(e) to be an efficient and environmentally sustainable supplier of timber from Crown-timber land and land owned by it or otherwise under its control or management.*
> *(2) Each of the principal objectives of the Corporation is of equal importance.*

In the conflict between s 10(1)(c) and s 10(1)(e) FCNSW relies upon s 10(2) which says these objectives have equal importance and therefore there can be no or minimal impact on timer volumes at the expense of ESFM. In our view, this is a slanted interpretation as it implies ESFM is of less importance than timber volumes. That is, FCNSWs argument is that if the only actual way to protect a species from being severely impacted leads to an impact on timber volumes then the species has to make way for volumes.

The EPA is not constrained by the *Forestry Act 2012* and so must be relying on Condition 13.1(b)(i)(ii) overriding Condition 14(1)(a) that forestry operations are in accordance with ESFM. This reading is also incorrect as Part 5, Protocol 31 only requires a maximum volume of timber to be supplied not a minimum. Thus, the EPA can take action which may impact

timber volumes to protect endangered or threatened species if it is needed to ensure true ESFM.

The combination of gray wording, non-adherence and regulatory failure of environmental rules has ensured little protection of species such as Greater Gliders, and indeed many other species and habitat. Forest values are being damaged in contravention of the principles of true ESFM and highlight the outrageous lie that native forestry is sustainable. As already stated, just because you say so does not make it true.

In our view the logging and woodchipping of State native forests decreases forest values for future and present generations, including biological diversity, the health and vitality of native forest ecosystems, soil and water quality, contribution of native forests to global geochemical cycles, long term social and economic benefits of native forests, and natural heritage values.

Because of the longevity of these failures the time has come to immediately stop native forest logging as it is completely unsustainable and allow the forest to recover and return to their original state along with all the forest dependent species.

2. Environmental and Cultural Values of Forests, Including Threatened Species and Aboriginal Cultural Heritage Values

All environmental and cultural values of forests are negatively impacted by native forest logging and these impacts, have not, nor cannot be mitigated to make the logging and woodchipping activities truly sustainable.

Environmental values negatively impacted are many and varied and include but not limited to:

- the provision of clean, reliable, sustainable water supplies.
- weed infiltration and tree dieback
- 150 threatened species in NSW are directly impacted by logging native forests
- logging makes forests more fire prone and increases the severity of fires
- carbon stocks of forests are degraded by logging and add to GHG emissions

It is offensive that Aboriginal cultural heritage values are lumped in with the same question as threatened species. The main impacts on cultural values relate to First Nations people who have a deep connection and spiritual relationship with country. Ongoing connection to native forests and forest landscapes are an integral part of cultural practice and knowledge.

Many areas have been logged and desecrated, for instance the logging of the gazetted Biamanga Aboriginal Place in 2010, and the logging of Gulaga Mountain in 2007. Destruction of Aboriginal heritage in State Forests proceeds at the hands of FCNSW. If logging and woodchipping is to continue then FCNSW should undertake distinct archaeological surveys of each proposed logging compartment in accordance with Cultural Heritage Guidelines.

Our representations on threatened species are as above at 1. However, a thorough analysis is required of all FCNSW logging conducted under the CIFOA which should include number and type of species found in any surveys, and an analysis of prescriptions that were triggered (by number and area). This should be accompanied by scientific data on the impact the logging will have or on those species. This is because FCNSW currently do not have to provide any environmental impact statements ('EIS').

Based on the state and territory listings the largest increases in numbers of threatened taxa nationally are occurring on the south coast of New South Wales: *Assessment of Australia's Terrestrial Biodiversity* (Department of the Environment, Water, Heritage and the Arts, 2009). Change in status of listed taxa in New South Wales is concentrated in subregions along the east coast. All species have as reasons for listing or decline, habitat loss, modification and fragmentation due to road construction, intensive logging and altered fire regimes.

3. Demand for Timber Products, Particularly as Relates to NSW Housing, Construction, Mining, Transport and Retail

Native hardwoods make up less than 10% of Australia's total log production, with 87% of this volume comprising low value woodchips. From the small volume of native sawlog only 5% ends up as a high value long lasting construction timber. The remainder goes to fencing, tomato stakes, firewood, pallets and dunnage.

On the south coast region 80% of logs go to the Eden woodchip mill, which are called pulp. About half of the sawlog volume (that is, not pulp) in the South Coast region goes to Bluescope Steel to be used as short lifespan dunnage.

These figures also show the absurdity of the industries claim that carbon is sequestered in long life timber products, with only a third of a tree being taken as a log and then 95% of logs ending up as short term products.

Plantations can provide for all of our timber needs with the right investment. Presently we export whole softwood logs, we should be utilising and value adding them here.

4. The Future of Softwood and Hardwood Plantations

The future is softwood and hardwood plantations on already cleared farmland to meet timber supply needs. This has been done in New Zealand and South Australia and can be done here. The plantation sector is highly profitable and employs large numbers of people. Subsidising the logging of public native forests is non-competitive and distorts the market away from the more profitable softwood plantation industry.

A higher proportion of harvested logs from plantations should be prioritised as saw and veneer logs, rather than exporting them as wood chips. Investment in new technologies to

value add in composite timber products like Laminated Veneer Lumber is needed to transition to a fully plantation supply forest industry.

Private native forestry should be phased out as we move to a plantation based industry and in the short term should focus on high value low volume products under a strict environmental regulatory regime.

5. The Role of State Forests to Manage

Native forests have significant environmental and cultural value and need to be managed accordingly. The degradation of environmental values by logging is not worth the few jobs that depend on it. This degradation is not monetised and does not show up in the loss making of the native forest industry. The current economic losses of tens of millions per year are unsustainable even without environmental degradation being included: see Frontier Economics, *Public Native Forest Logging: a Large and Growing Taxpayer Burden* (2023) at Attachment 'A'. The vast majority of people want an end to native forest logging.

The so-called 'Forest Gardening' has no scientific basis, is mere green-washing to perpetuate the ongoing logging of forests and should not be adopted.

Managing forests for environmental values, recreation and tourism is a far better option than the current system that only benefits a few people with highly vested interests. Honey production should take precedence over logging.

Once there is complete transfer of native wood product reliance to the plantation timber industry and salvage recycled hardwood timber industry (with native forests removed from logging) then there should be an immediate program of catchment remediation, restoration, and native habitat re-afforestation.

6. Opportunities to Realise Carbon and Biodiversity Benefits and Mitigate and Adapt to Climate Change Risks

Native forest logging in NSW is estimated to release 3.6 million tonnes of carbon every year. Ending native forest logging would be the equivalent to removing 840 thousand cars from the roads per year. Ending native forest logging will allow previously logged forests to regain lost carbon and make a significant contribution to meeting our emissions targets and will be key to reaching Australia's 2030 greenhouse gas ('GHG') reduction targets.

Intact native forests store significantly more carbon than logged and regenerated native forests.[2] Increased carbon storage in intact native forests can be included in State and National carbon accounts. Carbon does not have to be traded to show these benefits on

[2] Keith, H, D B Lindenmayer, B G Mackey, et al 'Managing Temperate Forests for Carbon Storage: Impacts of Logging Versus Forest Protection on Carbon Stocks' (2014) 5(6) *Ecosphere* 75 (online) <http://dx.doi.org/10.1890/ES1814-00051.00051>.

carbon accounts. Any carbon trading mechanisms must be of high integrity and not allow leakage of emissions or provide perverse incentives to continue native forest logging.

The biodiversity benefits of intact native forests are well known. The biggest threat to biodiversity is climate change. Logging exacerbates the impacts of climate change and so the best way to adapt is to obviously stop these impacts by stopping logging of native forests. Forests that have not been logged are more resilient to the changing climate and catastrophic fires that are occurring.

Conclusion

Logging of native forests has vast economic, social and environmental impacts, including loss of biodiversity, ecological degradation and increase of effects of climate change. It is clear that FCNSW has failed to enact principles of ESFM, and principles of inter-generational equity. Further, due to current logging practices, it is difficult to argue that maintaining environmental values at or above target levels can be achieved. Given current knowledge on causes and effects of climate change it would be difficult to argue that continuance of logging could maintain these levels given the amount of environmental harm caused. Certainly, with regard to climate change and extinction of species it would be very difficult to argue that logging was ‘for the common good’.

Native forests need to be managed for their significant environmental and cultural value. In our view, the better solution is an immediate ending of native forest logging on public lands and a transition to a plantation based forest industry with a just transition for affected workers.

Attachment 'A'

frontier economics

Public native forest logging: a large and growing taxpayer burden

A report for the Nature Conservation Council of NSW | November 2023

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Introduction

The Nature Conservation Council of NSW (NCC) asked Frontier Economics to examine the financial and budgetary drivers behind the Victorian Government's decision to accelerate the closure of its public native forest logging (NFL) – and how comparable these drivers are in New South Wales and Tasmania.

Poor financial performance and associated budgetary burdens associated with State run NFL operations are common across Australian jurisdictions. Taxpayers are bearing the cost burden of these risky and persistently loss-making government businesses.

States can avoid the cost burden of loss making and environmentally damaging NFL operations by closing them down.

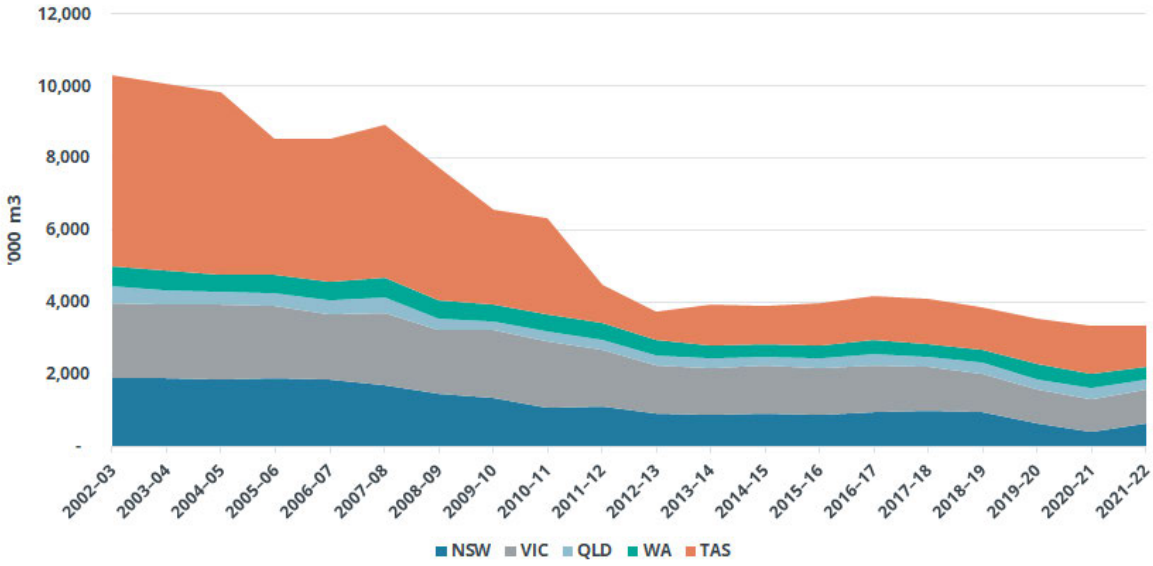
It is crucial that governments develop and implement effective programs to support the communities affected by the transition out of NFL.

Drivers of poor financial performance are intensifying

The size of the native forest industry in Australia has already declined significantly, as shown in **Figure 1**.

Roundwood production (saw logs and pulp logs) from native forests has declined by over 60% with hardwood production falling from over 10 million cubic meters (m^3) per year to less than 4 million m^3 per year.

Figure 1: Native forest hardwood log production, 2002-03 to 2021-22



Source: ABARES 2023, Australian Forest and Wood Product Statistics Datasets.

As this report shows, the publicly owned native forestry businesses have provided little to no financial returns over this period. NFL businesses have become financial risky for governments and their forestry harvesting activities eat away at the increasingly scarce environmental value of Australia's dwindling native forests.

We find that downstream markets, particularly domestic markets, have likely already adjusted to lower levels of native forest wood supply and signalling the closure of this industry would simply accelerate the downstream transition that is already occurring.

The financial and budgetary pressures that have contributed to the closure of publicly owned native forestry operations, including those in Western Australia and Victoria, are:

- long-standing (see **Box 1**),
- are increasing, and
- are common to the remaining NFL operations in Australia.

Box 1: Long standing drivers of contraction of the NFL industry

An Australia Institute report published in 2013 summarised key factors that had contributed to the contraction of the native forest sector in Australia:

- Increase in competition from domestic plantation softwoods in the structural timber market.
- Increase in competition in export hardwood woodchip markets from domestic and foreign plantations, particularly in Vietnam.
- Increase in competition from domestic and imported engineered wood products.
- Weak demand in the structural timber market.
- In some jurisdictions, a reduction in the public native forest estate and introduction of more stringent forest management regulations.
- Wood-saving innovations in production processes and related product substitution that have suppressed growth in global wood demand and helped constrain global solid wood prices.
- Increasing harvesting and haulage costs.

These market trends are continuing to contribute to the decline of the sector.

Source: Macintosh, A, 2013, The Australian native forest sector: causes of the decline and prospects for the future, The Australia Institute Technical Brief No. 21 April 2013

Key pressures include reducing log supply, increasing unrecovered costs and risks associated with NFL operations, and changing markets, particularly increasing competition in key markets. These pressures are briefly discussed below.

Reduced supply

Supply shortages will continue as a threat to the financial viability of the public NFL sector. Key pressures on supply are bushfires (noting that the frequency and severity fires are predicted to increase), continuing environmental reservation (such as the proposed NSW Great Koala National Park), court challenges to forest access (such as those that have occurred in Victoria) and overharvesting in more accessible areas.

Growing costs and risks

Many of the same pressures on supply are also increasing the costs and risks associated with NFL operations. Key examples are bushfire risk, losses and damage costs and higher regulatory and compliance risks of logging activity and associated costs. More generally input and operational costs are rising such as labour and fuel, including due to longer haulage distances in some areas and the need to harvest in more remote and inaccessible areas.

The industry has not been well placed to respond in a timely way to these challenges to better manage risk and to protect their financial viability. In most cases, the publicly owned businesses are locked into long-term contracts offering log prices that are insufficient to recover increasing costs or to ensure that the full market value of an increasingly scarce log supply is realised. This has also led governments (Commonwealth and State) to provide financial support to the public NFL sector.

Changing markets and competition for the resource values

There are long-standing market changes that have reduced the demand for native forest products and put downward pressure on prices. The most significant of these are:

- the increase in competition in the domestic structural timber market from plantation softwoods,
- the increase in competition in solid wood markets from domestic and imported engineered wood products, and
- the increase in competition in export woodchip markets from domestic and foreign plantations.

The combination of these factors has shrunk the market for native logs and reduced the financial viability of publicly owned NFL businesses. The result has been to increase the exposure of governments and tax payers to sustained, increasing and unpredictable financial losses from these businesses. The sustainability of these businesses is further eroded when consideration is given to the value of the cultural, ecological, climate, hydrological and recreational services that are lost when the forests are harvested.

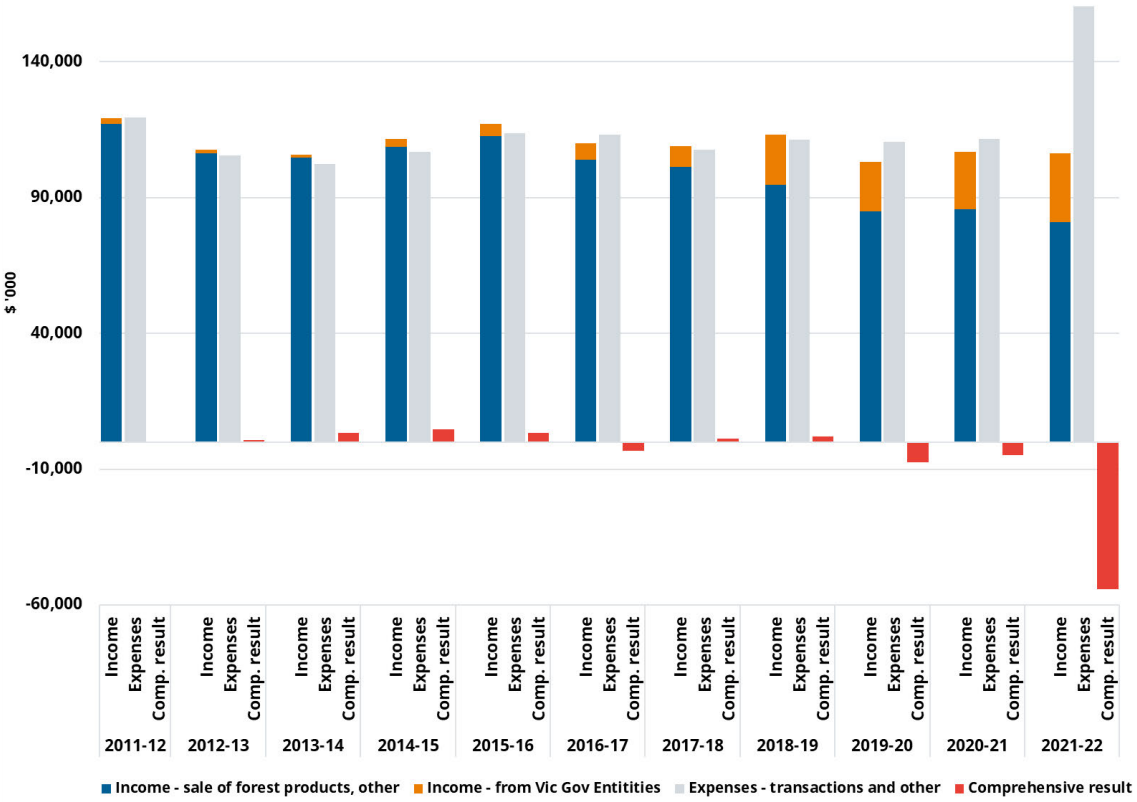
The proactive approaches of Western Australia (WA) and Victoria to transition out of their publicly owned NFL businesses have been financially prudent decisions that have stemmed the financial losses and preserved the remaining forest resource for protection of biodiversity and to allow provision of more highly valued services.

Victorian experience provides lessons for others

Inability to achieve financial viability

Victoria made substantial losses on its investment in VicForests. Over the 11-year period from 2011-12 to 2021-22 VicForests earned little or no profit (**Figure 2**) and was reliant on government support. VicForests paid a dividend in only five out 19 years of its operation to 2023, and the total dividends amounted to only $7.6 million in total.

Figure 2: VicForests revenue, expenses and comprehensive financial results



Source: VicForests' Annual Report data, Frontier Economics analysis.

Poor management and increasing reliance on taxpayer support

Following a series of successful court injunctions preventing VicForests operations in a number of harvesting areas (see **Box 2)**, VicForests incurred a substantial loss of $54.2 million in 2021-22 in addition to existing debts of $19 million, and a loan facility with the Treasury Corporation of Victoria, reportedly of $80 million.[1] VicForests' 2021-22 Annual Report acknowledged that VicForests was no longer able to operate as a going concern without ongoing further taxpayer support.[2]

[1] The Sydney Morning Herald, 29 May, *Native forest logging back in the spotlight in NSW after changes in Victoria*, 2023, https://www.smh.com.au/national/native-forest-logging-back-in-the-spotlight-in-nsw-after-changes-in-victoria-20230528-p5dbus.html

[2] VicForests 2021, Annual Report VicForests 2020-21.

Box 2: Legal challenges to VicForests

Successful legal challenges in recent years prevented VicForests' logging activity unless improved management practices could be implemented. These cases included:

- *Environment East Gippsland Inc v VicForests*, which was concerned with protection of the southern greater glider and the yellow-bellied glider. This case prevented VicForests from harvesting in East Gippsland and the Central Highlands.
- *Warburton Environment v VicForests*, which was concerned with protection of a slow-growing tree species only found in wet forests in Victoria's Central Highlands, the Tree Geebungs. This case prevented VicForests from logging in the Central Highlands.
- *Friends of Leadbeater's Possum Inc v VicForests*, which was concerned with the protection of two threatened species of possum, the Greater Glider and the Leadbeater's Possum. This case prevented VicForests from logging in the Central Highlands.

Source: Supreme Court of Victoria and Federal Court of Australia

VicForests' financial position would have been worse that reported had it not been for regular and significant financial support provided by the Victorian taxpayers. The size of this support grew over time, particularly after 2018–19. For example, in 2021-22, VicForests received over $25 million to support its service delivery and other operating costs, as well as access to a relatively low cost of debt backed by the credit rating of the State of Victoria.

The Victorian taxpayers support to the sector also extended beyond VicForests. Among other support, it took an equity stake in the Australian Sustainable Hardwoods (ASH) mill at Heyfield in 2017 for $62 million[3] and provided support for the Maryvale Mill in Gippsland, including funds for Opal to support wage payments to stood-down workers during recent disruptions to wood supply[4].

Logical decision by Victorian Government to stop financial and environmental losses

In 2023, the compounding financial and budgetary pressures on Victorian taxpayers, the Victorian Government brought forward its planned closure of NFL by six years, to 1 January 2024. The previous 2019 Victorian Forestry Plan had committed over $200 million to phase out NFL and expand plantation resources out to 2030.[5]

The drivers of VicForests' financial distress are varied, interlinked, and difficult to mitigate, including:

- an ongoing lack of supply resource following 2009 Black Saturday fires and 2019-20 bushfires in East Gippsland,
- loss making forestry operations,

[3] See. https://www.premier.vic.gov.au/heyfield-timber-mill-purchase-saves-locals-jobs/, accessed 16 February 2023 and Victorian Government, 2017-18 Budget Update, Appendix A, p. 112.

[4] See https://www.premier.vic.gov.au/support-maryvale-mill-workers.

[5] Frontier Economics 2022, *Transition support for the NSW native forest sector*, https://wwf.org.au/blogs/transition-support-for-the-nsw-native-forest-sector/

- constraints on operations following court challenges related to environmental protection, and
- loss of keystone customers of the NFL business (the Opal paper mill in Gippsland).

Many of these same issues are undermining the viability of other public NFL businesses and increasing the financial burden on governments and taxpayers.

NSW has a similar loss-making NFL business and growing costs of taxpayer funded industry support

Forestry Corporation of NSW (FCNSW), the publicly owned forestry business in NSW, is facing many of the same challenges to the financial viability of its native forest logging business as VicForests. This has included large reductions in log supply (due to bushfires and expansion of the national park estate), rising costs that are not being recovered and similar environmental and regulatory compliance challenges (noting that this has not yet interrupted operations as experienced in Victoria).

FCNSW is experiencing significant loss of supply

Sustainable forest management and environmental protection, forest reservation, severe fire events and their impact on growing stock are all reducing wood supply in NSW. The impact of the 2019-20 bushfires has been substantial for short to medium term wood supplies, particularly in the Southern regions (see **Table 1**).

Table 1: 2019-20 fire impact

	Tumut	South Coast	Eden	North Coast
Net harvestable area (NHA) ha	44,800	128,800	109,400	408,500
Per cent of NHA impacted by 2019-20 fire	69%	85%	80%	49%
Medium term sustainable yield reduction (to 2034)	27%	30%	13%	4%

Source: NSW Forestry Corporation 2020, 2019-20 Wildfires NSW Coastal Hardwood Forests Sustainable Yield Review, December.

In the wake of the fires, FCNSW's total harvest fell to 574,000 cubic metres of hardwood and cypress from native forests in 2020-21, which was about 60% of the level of two years earlier.[6] Additional and more frequent fire events would place further pressure on yields.

The proposed Great Koala National Park will remove a significant area of supply in the North Coast Region as the intention is to incorporate 175,000 hectares of state forests (which is 43% of the net harvestable area of the North Coast Region of 408,500 hectares) plus 135,000 hectares of existing National Parks.[7] In September 2023, the NSW Government announced that logging in

[6] Audit Office of NSW 2023, *Regulation of public native forestry*, 22 June. https://www.parliament.nsw.gov.au/la/papers/Pages/tabled-paper-details.aspx?pk=84567

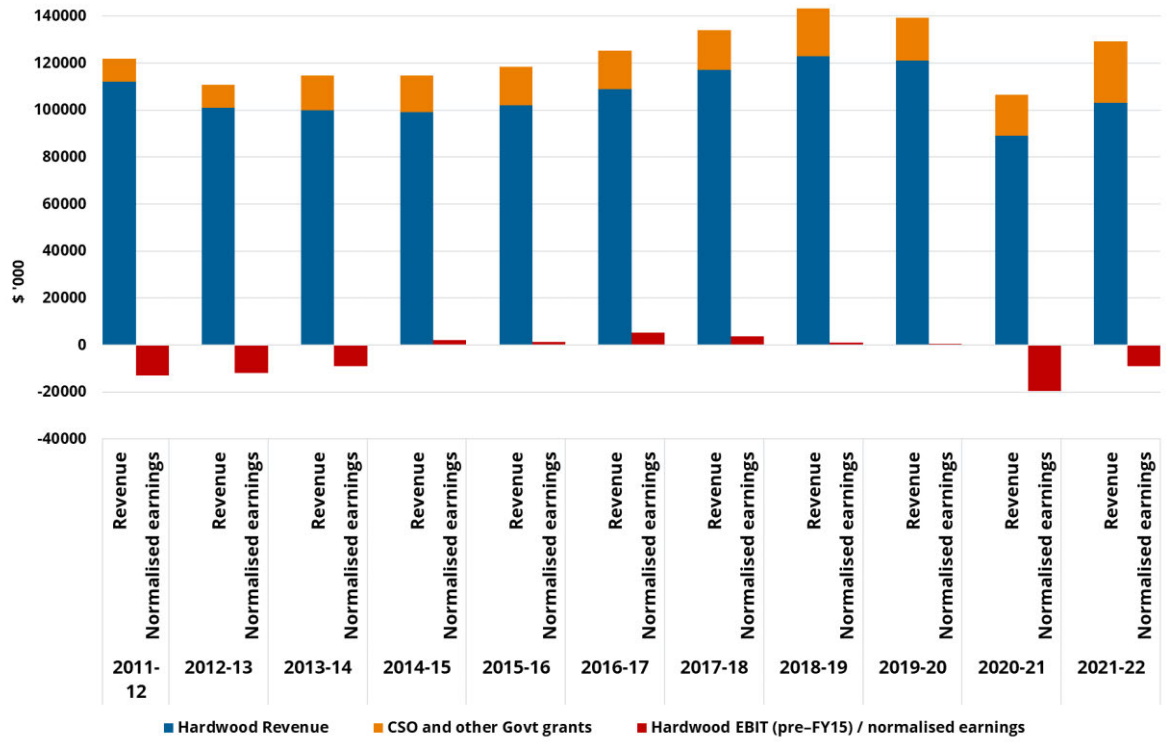
[7] https://www.theguardian.com/environment/2023/sep/12/nsw-logging-cease-stops-koala-national-park-106-hubs

high value koala habitat within the area being assessed for the national park will cease immediately, reserving over 8,400 hectares of state forest.[8]

Poor financial returns over long history

As in Victoria, FCNSW's NFL business has offered poor financial returns to NSW taxpayers (see **Figure 3**). FCNSW's hardwood division lost $30 million in the last two years.

Figure 3: Revenue and normalised earnings from FCNSW's hardwoods division



Source: FCNSW Annual Reports, Frontier Economics analysis; Note: FCNSW does not disclose cost information for its Hardwood Division.

Primary sources of income for the native forest business include timber sales and government grants, including Community Service Obligation grants. The hardwood division made an earnings loss of $19.6 million and $9 million in FY2021 and FY2022, respectively. While the 2019 bushfires contributed to pressure on FCNSW's native forest logging business, these events acted to compound many years of poor financial performance and losses.

The poor profitability of the hardwood business reflects that the costs of production exceed revenue. The Independent Pricing and Regulatory Tribunal (IPART) of NSW, which reviews FCNSW's native timber harvesting and haulage costs, has noted its concerns that these and other costs have not been recovered over a significant period and that rising costs will make this more challenging in the future:[9]

> *Cost recovery refers to Forestry Corporation's ability to recover its harvesting and haulage costs through revenue for its activities. In addition to its delivery charges, Forestry Corporation received*

[8] https://www.nsw.gov.au/media-releases/great-koala-national-park#:~:text=While%20the%20work%20to%20establish with%20Forestry%20Corporation%20of%20NSW

[9] IPART 2021, *Review of Forestry Corporation's native timber harvesting and haulage costs 1 July 2016 – 30 June 2019*, Final Report, May, p. 23, 25.

industry adjustment grants from the NSW Government, which related to forestry policy changes on the South Coast. However, during the review period, Forestry Corporation's costs exceeded its revenue from these 2 sources, with an average shortfall of $3.96 per green metric tonne.

We note that the negative operating margin is an issue that has carried over from the previous review period, when a shortfall of similar magnitude was reported.

We note that the post-bushfire operating environment is likely to be more costly because of supply-side impacts and increased environmental regulation.

A previous benchmarking report by IPART published in 2017 found that significant parts of the business were not covering costs:

The harvesting and haulage costs for some species of native timber – particularly some of the species grown in the New England area – are so high relative to the value of the resource that the price FCNSW charges for supply (stumpage plus delivery) does not fully recover these costs, or any of the direct costs FCNSW incurs in managing the forests for harvesting.

Significant taxpayer funded government support is being provided to the sector

The NSW government provides significant additional financial support to FCNSW as shown in **Table 2.** It is noted that these funds compensate FCNSW for the provision of a range of non-commercial services such as providing community and recreational facilities and in more recent years to assist with recovery from large, unforeseen external events including bushfire, flood and COVID-19. The commercial operations are not capable of funding these activities which have been in the order of $250 million since 2020.

Table 2: NSW Government grants to FCNSW

Amount	Description
$17.8 million (2021-22)	An annual CSO payment is provided to FCSNW to provide a range of community services including recreational facilities, education, regulatory and fire protection services. The 2021-22 CSO grant is shown to the left. CSO payments in the previous four years were: $16.8 million (2020-21); $16.8 million (2019-20); $17.5 million (2018-19); $15.9 million (2017-18). (FCNSW Annual Reports)
$46 million	2020 equity injection to FCNSW providing funding for fire recovery and COVID-19 stimulus funding. (FCNSW Annual Report 2019-20, p. 11, 22) The 2019-20 Department of Regional NSW Annual Report indicated that an additional $66,000 had been allocated to FCNSW for bushfire clean up. (Department of Regional NSW Annual Report, 2019-20, p.62)
$4 million	Regional Growth - Environment and Tourism Fund allocation to develop tourism precincts. (FCNSW Annual Report 2019-20, p. 11)
>$5 million	Implementation of recommendations from the Independent Bushfire Inquiry (FCNSW Annual Report 2020-21, p. 15)
$60 million	2022 program of funding over three years to repair flood damaged roads, bridges and culverts and to restore access for forest management and the broader community. (FCNSW Annual Report 2021-22, p. 11)

Amount	Description
$7.5 million	2021-22 Government grant for provision of specific services - flood stabilisation, tourism precincts, ministerial compensation to redirect wood to the domestic market, light fleet fire spray protection and strategic fire trails. (FCNSW Annual Report 2021-22, p. 35)
$15 million	2021-22 Rural Fire Service contribution to FCNSW to upgrade fire tanker fleet. (FCNSW Annual Report 2021-22, p. 12)
$58 million	The latest 2022-23 budget allocated funds to a Forestry Land Stabilisation and Repair Program to undertake repair work on state forestry roads and related infrastructure. It is not clear whether all of these funds would be allocated to FCNSW. (Regional NSW – NSW Budget 2022-23, p. 20)

The broader downstream industry associated with the NFL in NSW also receives significant taxpayer support via a number of grants from the Commonwealth and NSW governments. In recent years, the industry has received significant support to respond to natural disasters and to encourage industry innovation. Recent financial support of over $200 million is presented in **Table 3**.

Table 3: Selected industry support

Amount	Description
$108 million	April 2023: funding was announced for timber manufacturing companies under the Accelerate Adoption of Wood Processing Innovation grant program, about a quarter of which went to NSW based mills.[10]
$10 million	The $10 million Hardwood Timber Haulage Subsidy Program was part of the $150 million Primary Industry Support Package which was co-funded by the Australian and NSW governments. It provided a subsidy of $30 per tonne of timber associated with transporting High Quality and/or Construction Grade hardwood timber from forests and plantations located outside of existing supply areas and into processing facilities across the NSW Mid and North Coast.[11]
$15 million	Forestry Transport Assistance provided after the 2019–20 bushfires, with funding allocated to help with the increased costs of transporting burnt salvaged logs longer distances to surviving timber mills or storage sites in NSW and Victoria.[12]
$10 million	A Salvage Storage Fund provided funding after the 2019–20 bushfires through the COVID-19 Relief and Recovery Fund, for establishing storage facilities for fire-affected timber in NSW and Victoria.[13]

[10] https://minister.agriculture.gov.au/watt/media-releases/108-million-grants-lift-forestry-value-adding

[11] https://www.nsw.gov.au/grants-and-funding/storm-and-flood-recovery/hardwood-timber-haulage-subsidy-program

[12] https://www.agriculture.gov.au/agriculture-land/forestry/bushfirerecovery

[13] https://www.agriculture.gov.au/agriculture-land/forestry/bushfirerecovery

Amount	Description
$40 million	Forestry Recovery Development Fund Program to assist privately-owned wood processing facilities to recover and rebuild using innovation and product diversification over the period from 2020-21 to 2022-23.[14]
$30 million	NSW Forest Industries Innovation Fund provided low-interest loans to support innovation and development of new markets. The scheme was fully subscribed supporting 15 projects[15].

The risk profile of FCNSW's native forest business is increasing

The re-signing of wood supply agreements creates a financial risk for FCNSW:

- In June 2022, the then Coalition government, announced a five-year extension of north coast wood supply agreements to "provide certainty for the industry". The Minister confirmed that the main terms were unchanged, meaning that FCNSW would continue to supply existing quantities and species.
- Rolling over the contracts at pre-fire levels presents a financial risk if FCNSW cannot meet the required volumes, for example due to fire or other supply impacts.
- In 2014, the NSW Government spent $8.5 million to buy back timber allocations on the north coast from Boral. The purchase reduced Boral's annual supply of high-quality native saw logs by 50,000 cubic metres for nine years to achieve sustainable harvest levels. The buyback was recommended by a government steering committee which considered it the most effective way of achieving a sustainable yield after investigating North Coast timber supply issues. Boral had in the past sued Forests NSW (predecessor to Forestry Corporation) in 2006 and 2011 for a failure to supply the contracted amount of high-quality timber.[16]

FCNSW has also incurred the following recent fines and Stop Work Orders:

- During FY22, Forestry Corporation received seven convictions from two forestry operations and four penalty infringement notices (PINs) from two forestry operations. These operations took place between 2018 and 2020. Three prosecutions remain to be heard in FY23.[17] [18]
- On 30 August 2023 the EPA issued a Stop Work Order on forestry operations in Tallaganda State Forest after a deceased Southern Greater Glider was found around 50 metres from forestry harvest operations.[19]
- On 22 June 2023 the NSW Audit Office released a report critical of FCNSW's processes and assessments for non-compliance during logging operations across the public native forest

[14] https://www.agriculture.gov.au/agriculture-land/forestry/bushfirerecovery

[15] https://www.dpi.nsw.gov.au/forestry/policy/projects-and-programs/forest-industries-innovation-fund

[16] IPART 2017, Review of Forestry Corporation of NSW's native timber harvesting and haulage costs, Final Report, December.

[17] FCNSW Annual Report 2021-22, p. 6.

[18] https://www.abc.net.au/news/2022-03-15/logging-forestry-corporation-native-timber-greens/100910456

[19] NSW EPA 2023, EPA issues Stop Work Order on forestry operations in Tallaganda State Forest, viewed 14 September 2023, https://www.epa.nsw.gov.au/news/media-releases/2023/epamedia230830-epa-issues-stop-work-order-on-forestry-operations-in-tallaganda-state-forest

estate. In particular, it found that FCNSW does not consistently monitor compliance of contractors and failed to assess the risk of its timber operations in the state's west.

- The report also identified that the EPA needs to increase the resources and training provided to compliance officers to ensure they are able to complete their job regulating the logging of native forests.[20]

Tasmanian NFL also a poor investment

Sustainable Timber Tasmania (STT) (formerly Forestry Tasmania) is a Tasmanian Government Business Enterprise that manages approximately 812,000 hectares of public production forest. The majority is native forest (87%) and there is a similar amount of hardwood and softwood planation (each around 6.5%).[21]

Concerns over financial viability

There have been concerns raised over many years in relation to STT's (Forestry Tasmania's) financial sustainability. In 2011 the Tasmanian Audit Office reported that:

> *Forestry's financial situation is particularly difficult it being faced with declining revenues, relatively high fixed costs including CSO-type costs, declining productive forests, particularly since 2000, but increasing obligations for non-productive forests, declining operating cash flows, long periods prior to investments in plantation development providing returns, declining local and world markets, increasing Australian dollar, increasing defined benefit superannuation obligations and uncertainty regarding its CSO obligations.*[22]

The Tasmanian Government commissioned a review of Forestry Tasmania which was undertaken by URS. URS' report released in 2012 also highlighted significant market challenges confronting the forestry industry. The report recommended Forestry Tasmania's non-commercial operations be split and taken over by other government departments.[23]

STT is reported to have suffered operating cash losses of $454 million over the period 1997 to 2017 and write downs to the Forest Estate assets of $751 million.[24] STT has twice failed to secure Forest Stewardship Council certification, a certification the company describes as important to 'provide further and ongoing access to key markets.'[25] [26]

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20 Audit Office of NSW 2023, *Regulation of public native forestry*, 22 June. https://www.parliament.nsw.gov.au/la/papers/Pages/tabled-paper-details.aspx?pk=84567

21 Sustainable Timber Tasmania 2022, Annual Report 2022, p. 80. https://sttwebdata.blob.core.windows.net/stt-prod/assets/Sustainable_Timber_Tasmania_Annual_Report_2022_3fa0adddde.pdf

22 Auditor-General Special Report No. 100, 2011, Financial and economic performance of Forestry Tasmania, July 2011, p 3.

23 https://www.9news.com.au/national/tassie-govt-confirms-forestry-overhaul/cdd75abf-a085-4298-b55c-9f3f42c266fe

24 Lawrence, J. (2018) 'Tasmanian regional forest agreement delivers $1.3bn losses in 'giant fraud' on taxpayers', Thursday March 29. https://www.theguardian.com/environment/2018/mar/29/tasmanian-forest-agreement-delivers-13bn-losses-in-giant-on-taxpayers

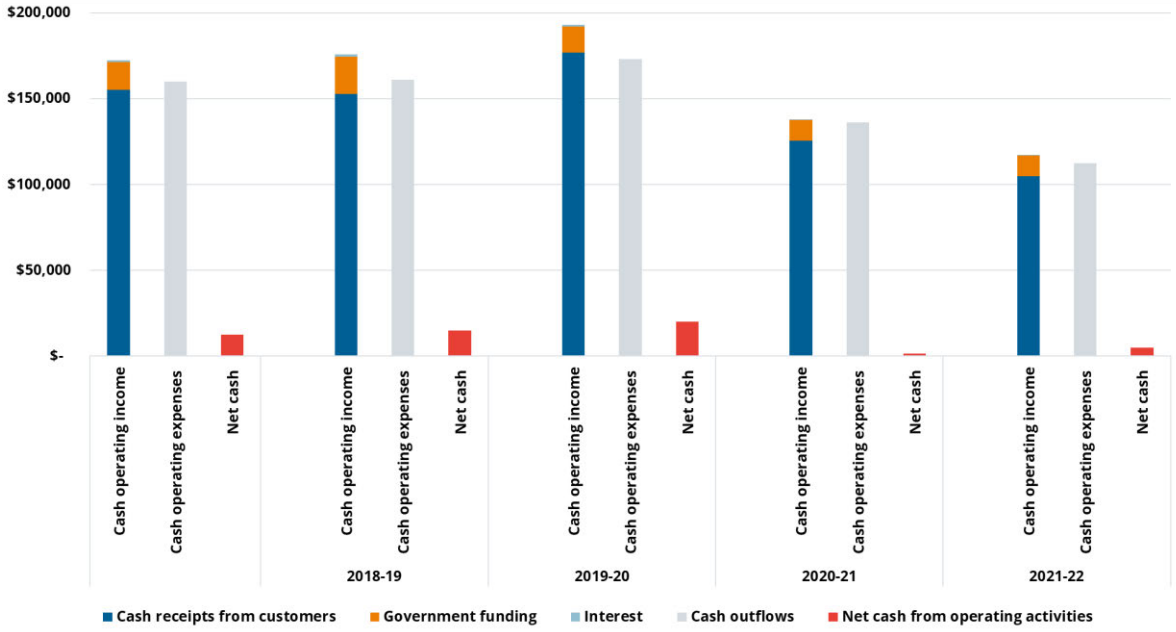
25 ABC, 2020, *Sustainable Timber Tasmania denied Forest Stewardship Council Certification for second time*, accessed 4 September 2023, https://www.abc.net.au/listen/programs/northtas-drive/sustainable-timber-tasmania-fsc-certification/12567014

26 Sustainable Timber Tasmania, *Fact Sheet No. 2 Forest Certification*, accessed 4 September 2023,

Restructure and recent financial performance

Figure 4 summarises STT's cash flows from operating activities. This shows that over the past few years there have been modest cash operating surpluses. However, these have relied on government subsidies which contributes toward the performance of Community Service Obligations.

Figure 4: Sustainable Timber Tasmania cash flows from operating activities



Source: STT Annual Reports, Frontier Economics analysis.

A poor investment for taxpayers

One of the objectives for a Government Business Enterprise is to *achieve a sustainable commercial rate of return that maximises value for the State in accordance with its corporate plan and having regard to the economic and social objectives of the State*.[27]

STT continues to be a poor investment even after its restructure in 2017-18. Over the five years to 2021-22, total government funding to STT amounted to $77.4 million, while STT dividends back to government were $20.1 million. This reflects a net subsidy from Tasmanian taxpayers of $57.3 million over this period.[28]

The latest budget statements for Tasmania also do not factor in any dividend from STT over the forward estimates (2023-24 to 2026-27), and a further $10 million annual subsidy.[29] This includes $2 million per annum to provide firefighting services and $8 million in further grants and subsidies. Budget Paper 2 notes that "*This provision will ensure that permanent timber production zone land continues to be managed and is accessible and available for multiple uses. It includes funding for maintenance of the forestry road network to allow for continued community, tourism and*

27 Section 7, *Government Business Enterprises Act 1995.*

28 Calculated from STT annual reports from 2017-18 to 2021-22.

29 Tasmanian Budget 2023-24, Budget Paper 1 and 2, https://www.treasury.tas.gov.au/budget-and-financial-management/2023-24-tasmanian-budget

firefighting access management of public recreation sites, provision of forest education activities, special species timber management and ongoing facilitation of forestry research."[30]

There is strong evidence that NFL in Tasmania is not financially sustainable and represents a poor economic use of Tasmania's forests, even as there is pressure for greater access to wood supply, including the 400,000 hectares of reserves or "wood bank", known as Future Potential Production Forest (FPPF) land.[31]

Ending publicly owned native forest logging would not materially disrupt downstream markets or increase illegally logged supply

As shown in **Figure 1** at the beginning of the report, wood supply from NFL in Australia has reduced by over 60% since the early 2000s. The major market adjustments to a very limited supply of native forest resource have already been made and show the likely consequences of ending NFL. Industry often suggests an exit from NFL would seriously disrupt the construction sector, particularly as it relates to new homes[32] or would simply transfer environmental destruction to overseas forests. We find that the evidence does not support this assertion.

Evidence from the past two decades suggests that the majority of substitute products for NFL are likely to be derived from plantations. The domestic native forest sector has two main markets: domestic solid wood products (sawn wood and wood-based panels); and woodchips for the production of pulp and paper by domestic and international manufacturers. We consider each in turn.

Solid wood products – hardwood is being substituted for plantation softwood

The majority of saw logs from native forestry have traditionally been used for the production of sawn wood (dressed and rough sawn) for structural and some appearance-grade purposes.

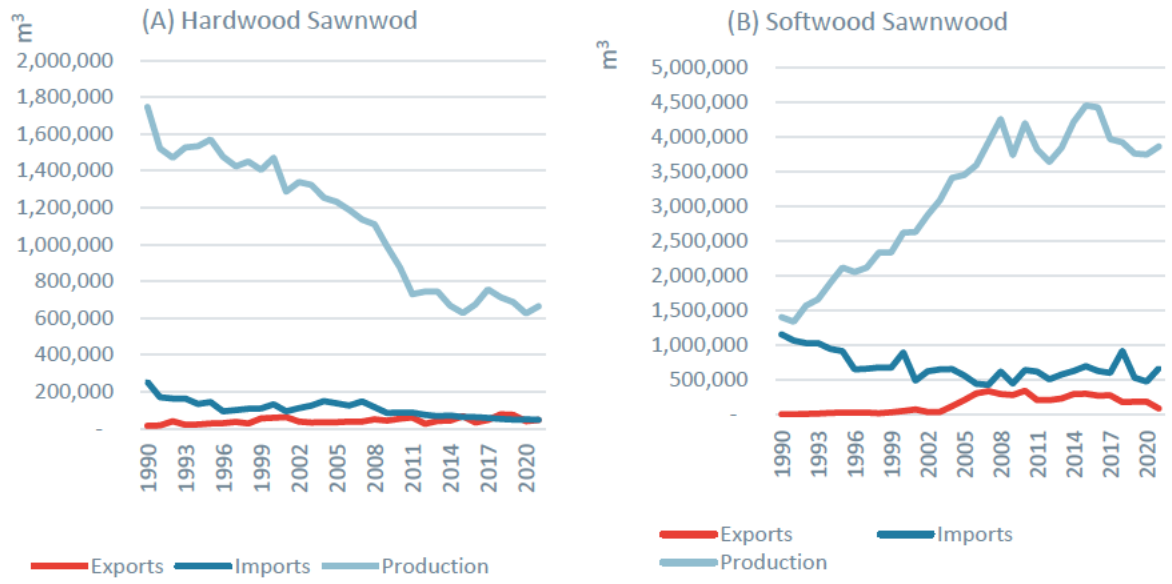
Trend declines in native roundwood production has largely been filled by domestic plantation softwood products. This can be seen in the marked decline in domestic production of hardwood sawn wood – 56% from 1997 to 2021 (**Figure 5(A)**) – and an increased in domestically produced softwood sawn wood (**Figure 5(B)**) sourced from domestic softwood plantations established largely over the period 1960-1990.

[30] Tasmanian Budget 2023-24, Budget Paper 2, pp 179-180,https://www.treasury.tas.gov.au/Documents/2023-24-Budget-Paper-No-2-Volume-1.pdf

[31] https://www.abc.net.au/news/2023-05-27/tasmanian-timber-industry-greater-access-native-forests/102386256

[32] McCubbing, G 2023, 'Victoria faces timber supply crises after logging exit, industry warns', *Australian Financial Review*, 25 May. https://www.afr.com/policy/energy-and-climate/victoria-to-face-supply-crisis-after-logging-exit-industry-warns-20230525-p5db8z

Figure 5: The domestic sawn wood market is substituting softwood for native hardwood



Source: Food and Agriculture Organization of the United Nations (2023) 'FAOSTAT Forestry Production and Trade'. Available at: https://www.fao.org/faostat/en/#data/FO.

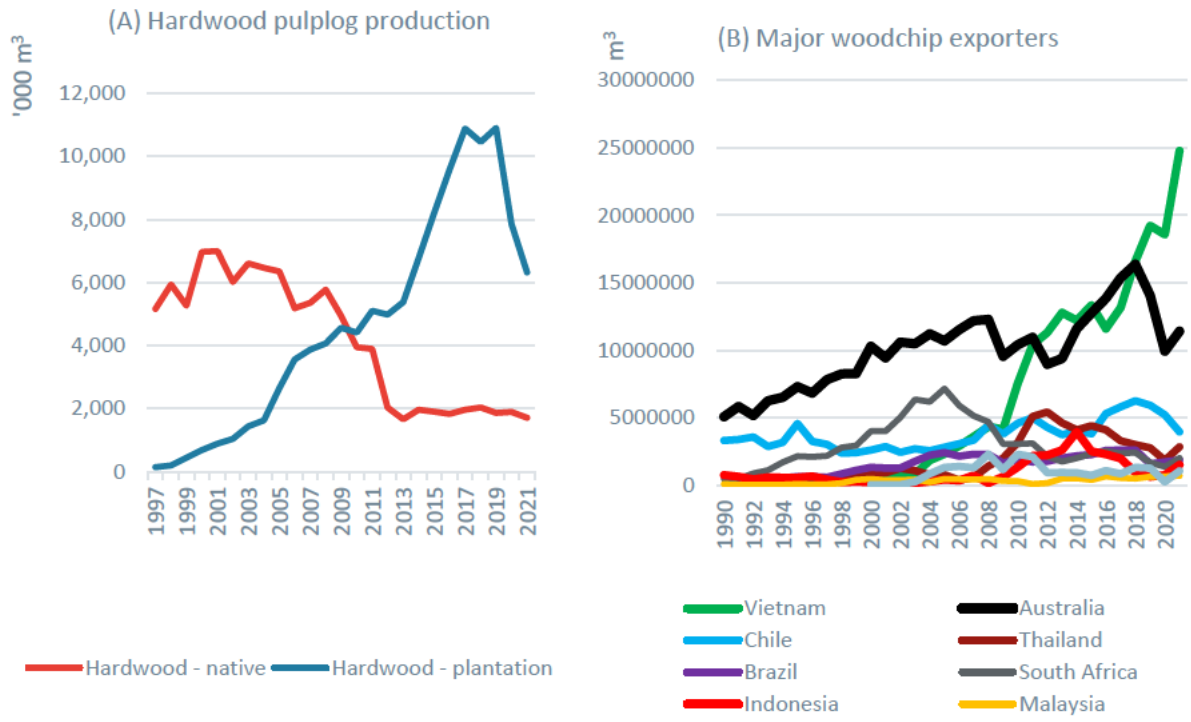
Compounding these substitution trends, over the past 20-30 years, wood-based panels like particle board, medium-density fibreboard (MDF) and plywood have made inroads into domestic markets – consumption of these products almost doubled between 1997 and 2020, with consumption dominated by MDF, particle board and plywood.[33]

Woodchips – Australian native hardwood is substituted for overseas plantation hardwood

Since the mid-1990s, pulp logs have historically been sent to the Opal Australian Paper Mill in Maryvale in Victoria (which is no longer using native wood supply) or exported to Asian pulp and paper producers. The decline in Australian native woodchip supply has largely been filled with plantation woodchips, either from Australian or Southeast Asia, particularly Vietnam **(Figure 6)**.

[33] Food and Agriculture Organization of the United Nations (2023) 'FAOSTAT Forestry Production and Trade'. Available at: https://www.fao.org/faostat/en/#data/FO (16 January 2023).

Figure 6: Decline in Australian native woodchip exports, growth in overseas plantation woodchips



Source: ABARES (2022) Australian Forest and Wood Product Statistics: March and June Quarters 2022. Commonwealth of Australia, Canberra; Food and Agriculture Organization of the United Nations (2023) 'FAOSTAT Forestry Production and Trade'. Available at: https://www.fao.org/faostat/en/#data/FO

These data suggest the reduction in woodchip exports from Australia's native forests has not prompted large-scale substitution with native forest woodchips from Indonesia or other southeast Asian countries. There has been substitution, but it has been primarily from plantation hardwood chips produced in Australia and elsewhere.

It is time to plan for an orderly exit from NFL

While not fully transparent, there is strong evidence that the budgetary burden of subsidising NFL operations in NSW and Tasmania is significant. At the same time, there is far less community acceptance of the widely reported environmental damage associated with NFL, including loss of remnant forest and native animal populations.

The Victorian Government's decision to bring forward the planned the cessation of NFL provides an example for New South Wales and Tasmania – these governments need to get ahead of the inevitable shift away from NFL and begin the implementation of transition plans now.

A proactive and well-timed package of support for employees and firms will help ensure that communities are able to transition to a more sustainable and prosperous footing.[34] This would also support governments in their objectives of achieving net zero emissions.

[34] Frontier Economics 2022, *Transition support for the NSW native forest sector*, 8 August.

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