



# 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.

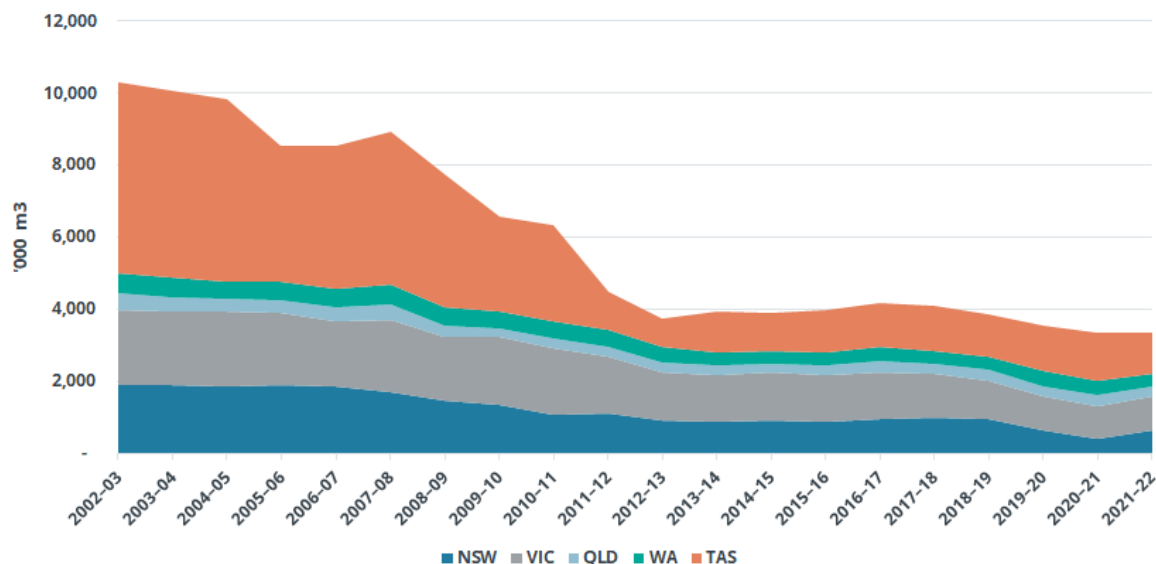
It is crucial that governments develop and implement effective programs to support the communities affected by the transition out of NFL.

## 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<sup>3</sup>) per year to less than 4 million m<sup>3</sup> 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.

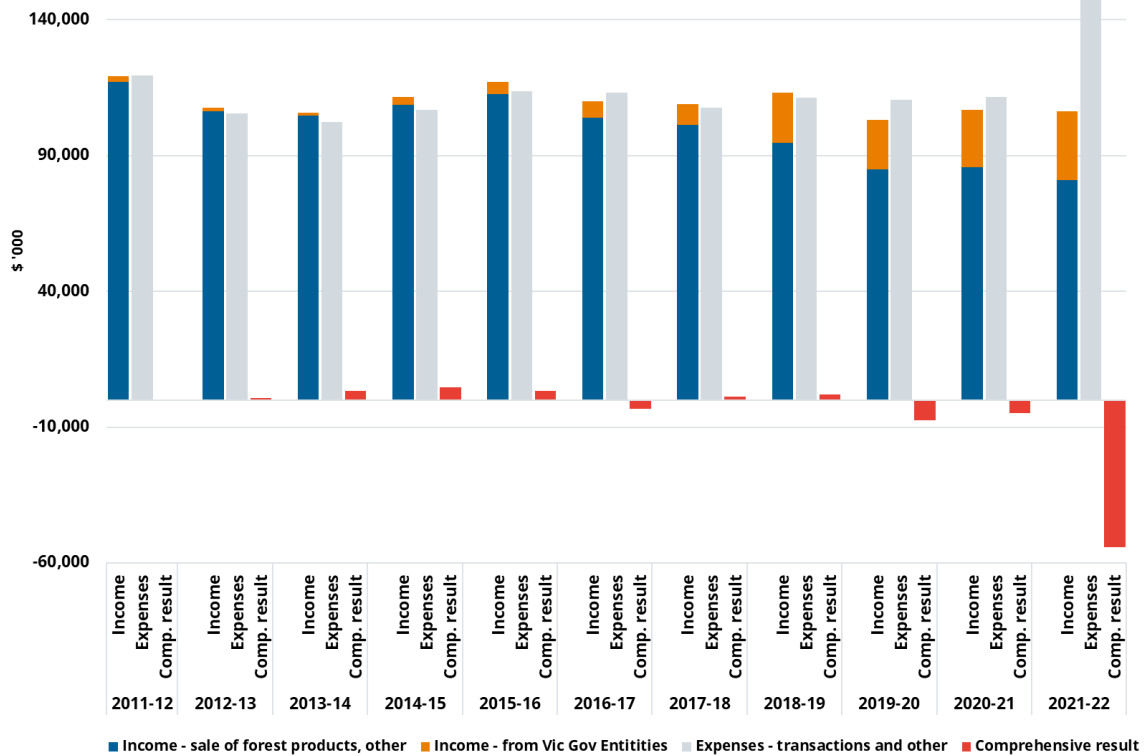
## Victorian experience provides lessons for others

### 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.<sup>1</sup> VicForests' 2021-22 Annual Report acknowledged that VicForests was no longer able to operate as a going concern without ongoing further taxpayer support.<sup>2</sup>

<sup>1</sup> 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>

<sup>2</sup> 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 Geebung. 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<sup>3</sup> 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<sup>4</sup>.

## 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.<sup>5</sup>

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,

<sup>3</sup> 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.

<sup>4</sup> See <https://www.premier.vic.gov.au/support-maryvale-mill-workers>.

<sup>5</sup> Frontier Economics 2022, *Transition support for the NSW native forest sector*, <https://www.frontier-economics.com.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.<sup>6</sup> 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.<sup>7</sup> In September 2023, the NSW Government announced that logging in

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

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

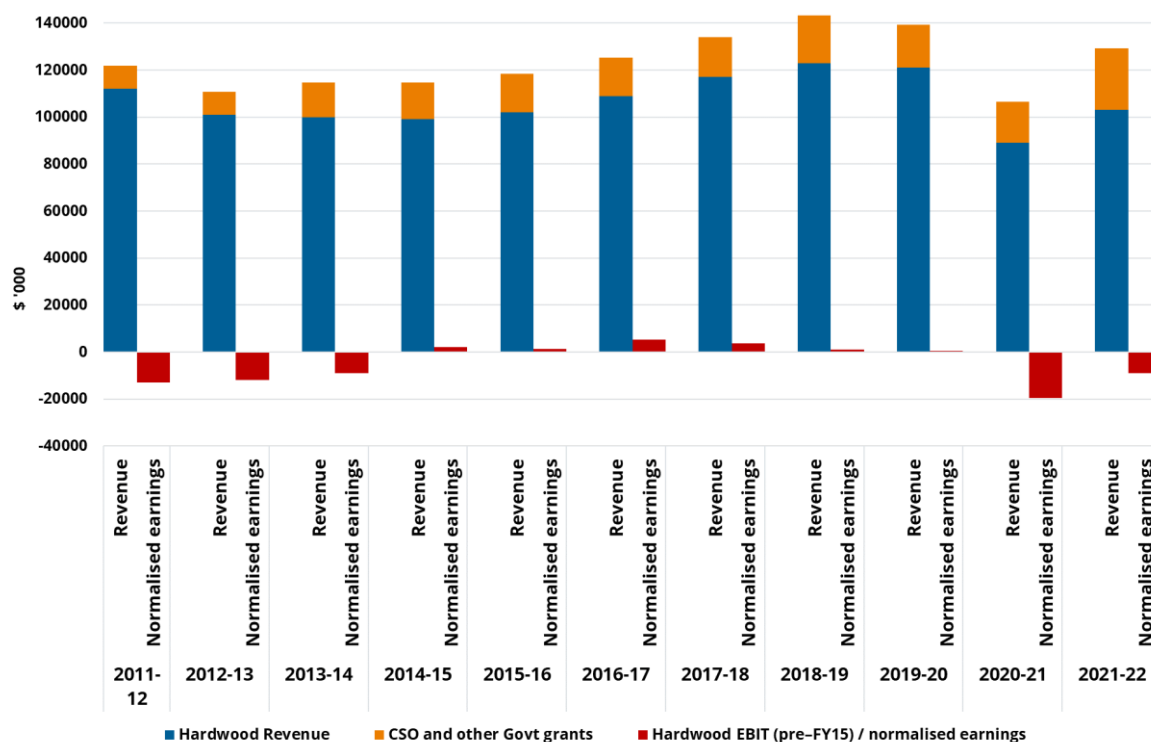


high value koala habitat within the area being assessed for the national park will cease immediately, reserving over 8,400 hectares of state forest.<sup>8</sup>

## 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.<sup>9</sup>

*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*

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

<sup>9</sup> 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. <sup>10</sup>   |
| \$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. <sup>11</sup> |
| \$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. <sup>12</sup>  |
| \$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. <sup>13</sup>  |

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

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

<sup>12</sup> <https://www.agriculture.gov.au/agriculture-land/forestry/bushfirerecovery>

<sup>13</sup> <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. <sup>14</sup> |
| \$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 <sup>15</sup> .                             |

## 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.<sup>16</sup>

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.<sup>17 18</sup>
- 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.<sup>19</sup>
- 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

<sup>14</sup> <https://www.agriculture.gov.au/agriculture-land/forestry/bushfirerecovery>

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

<sup>16</sup> IPART 2017, Review of Forestry Corporation of NSW's native timber harvesting and haulage costs, Final Report, December.

<sup>17</sup> FCNSW Annual Report 2021-22, p. 6.

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

<sup>19</sup> 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.<sup>20</sup>

## 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 plantation (each around 6.5%).<sup>21</sup>

### 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.*<sup>22</sup>

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.<sup>23</sup>

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.<sup>24</sup> 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.'<sup>25 26</sup>

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

<sup>21</sup> Sustainable Timber Tasmania 2022, Annual Report 2022, p. 80. [https://sttwebdata.blob.core.windows.net/stt-prod/assets/Sustainable\\_Timber\\_Tasmania\\_Annual\\_Report\\_2022\\_3fa0addde.pdf](https://sttwebdata.blob.core.windows.net/stt-prod/assets/Sustainable_Timber_Tasmania_Annual_Report_2022_3fa0addde.pdf)

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

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

<sup>24</sup> 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>

<sup>25</sup> 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>

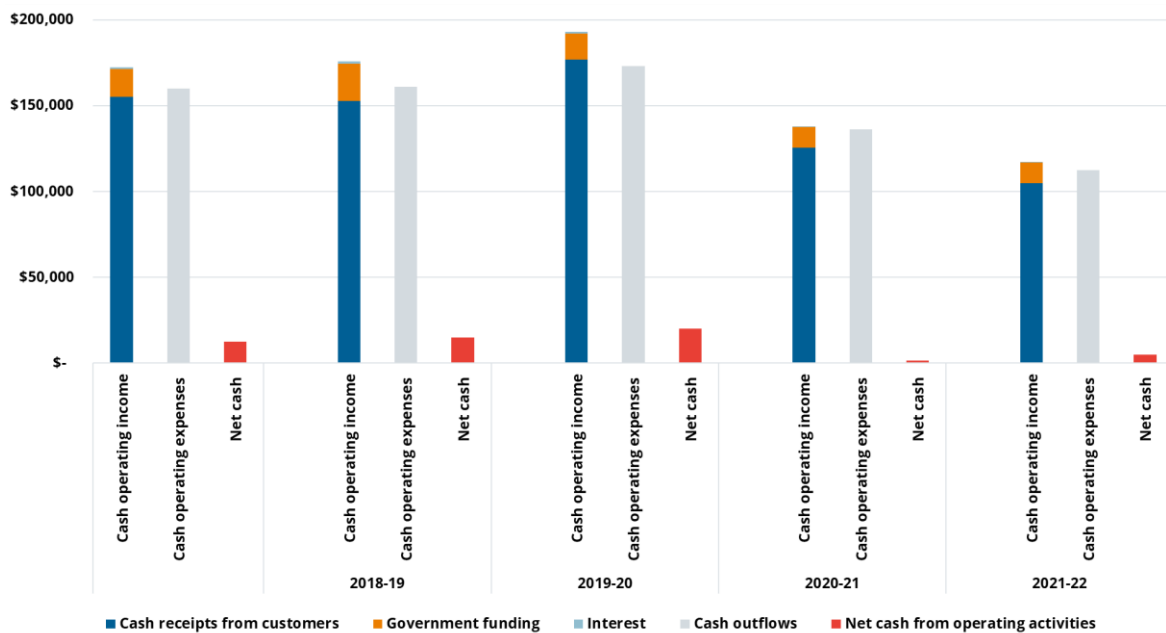
<sup>26</sup> Sustainable Timber Tasmania, *Fact Sheet No. 2 Forest Certification*, accessed 4 September 2023,



## 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.*<sup>27</sup>

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.<sup>28</sup>

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.<sup>29</sup> 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*

<sup>27</sup> Section 7, *Government Business Enterprises Act 1995*.

<sup>28</sup> Calculated from STT annual reports from 2017-18 to 2021-22.

<sup>29</sup> 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.”<sup>30</sup>*

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.<sup>31</sup>

## 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<sup>32</sup> 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.

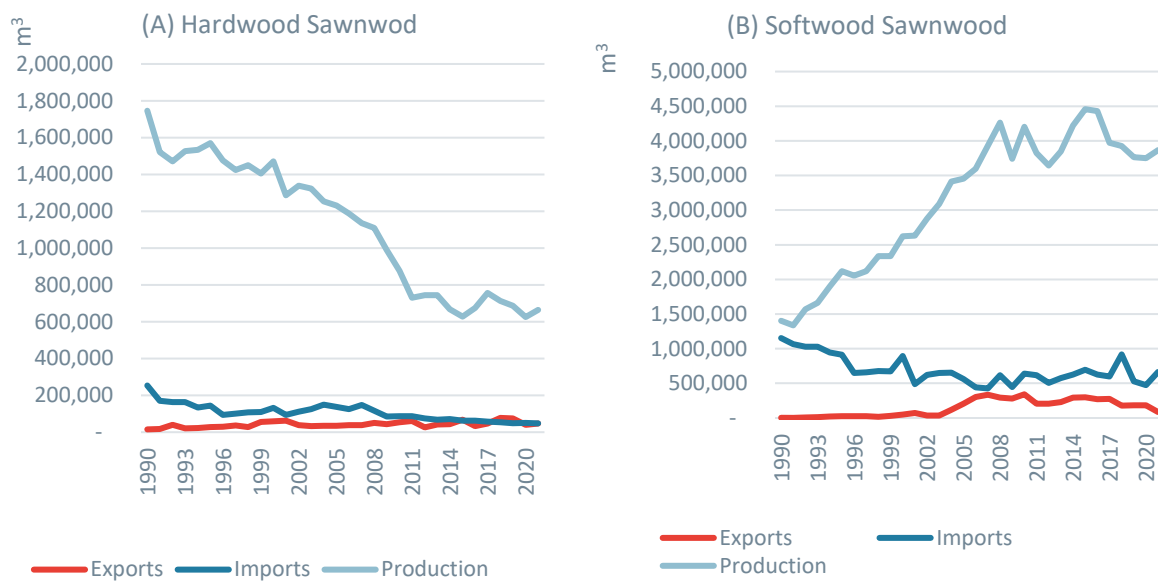
Trend declines in native roundwood production has largely been filled by domestic plantation softwood products. This can be seen in the marked decline in domestic production of hardwood sawn wood – 56% from 1997 to 2021 (**Figure 5(A)**) – and an increased in domestically produced softwood sawn wood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

<sup>30</sup> 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>

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

<sup>32</sup> 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.<sup>33</sup>

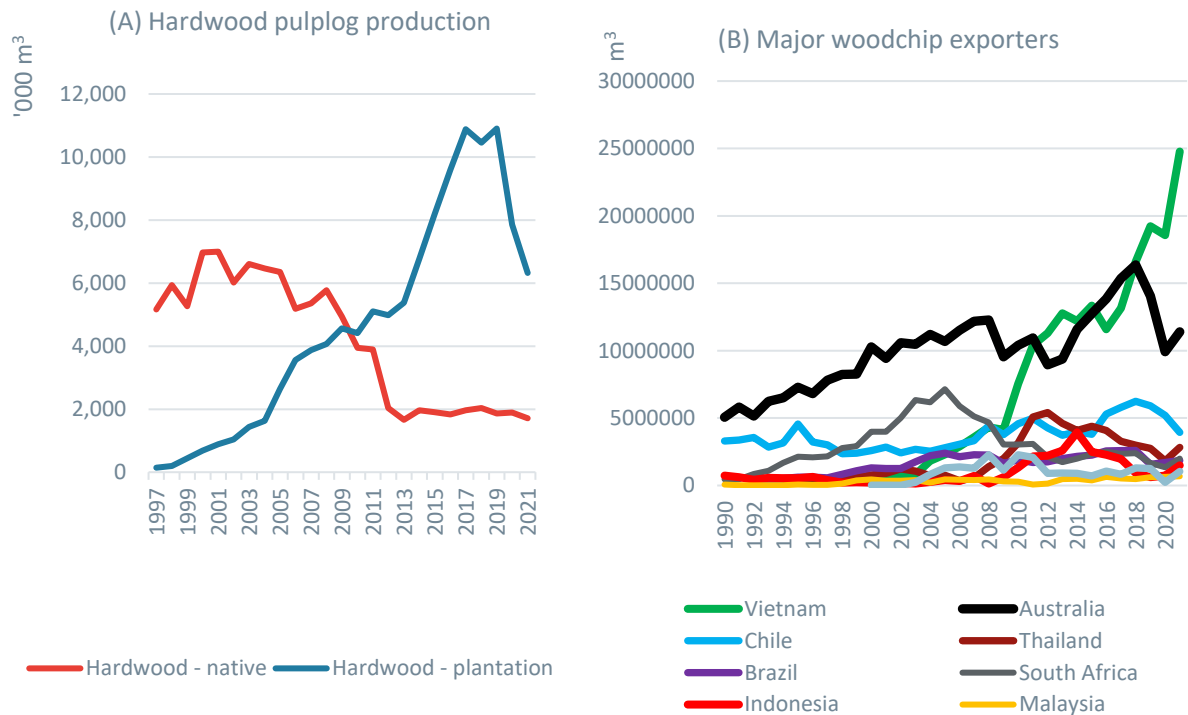
### Woodchips – Australian native hardwood is substituted for overseas plantation hardwood

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**).

<sup>33</sup> 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.<sup>34</sup> This would also support governments in their objectives of achieving net zero emissions.

<sup>34</sup> Frontier Economics 2022, *Transition support for the NSW native forest sector*, 8 August.

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