

Project 2023 - North Coast Resources Review

June 2014

In May 2012 the Government established a Steering Committee to investigate the issues associated with timber supply on the north coast including sustainability of supply to the end of the term of current wood supply agreements in 2023 and over the long term.

The Project 2023 Steering Committee consisted of members from Department of Premier and Cabinet, NSW Treasury, the Department of Trade, Investment, Regional Infrastructure and Services, the Environment Protection Authority, the Office of Environment and Heritage, Forestry Corporation of NSW and was independently chaired by Dr John Keniry.

The Steering Committee engaged URS Australia Pty Ltd to conduct a review of timber resources on the north coast including availability of hardwood timber in the period to 2023 and long term as well as industry's position and market potential for hardwood timber products. The company was also tasked with developing options for ensuring long term sustainability of supply.

URS presented its findings in two stages in October 2012 and February 2013. The Stage 1 report described an industry that is under considerable pressure and strain at the time and facing substantial restructuring in the next decade due to changes in resource availability.

The Stage 2 report presented an assessment of alternative policy options relating to the wood supply from the Forestry Corporation of NSW and long-term resource sustainability considerations.

Review of forest resources

URS reviewed Forestry Corporation resource modelling systems, data and processes including North East and Central region LiDAR data (used to update available harvest area and assess forest productivity), product recovery factors, harvesting assumptions, and growth and yield modelling.

A safety margin of 10% for native forests and pre-94 plantations and 15% for post-94 plantations was applied in the modelled wood flows to account for unanticipated constraints. The key conclusion was that under the current scenario high quality (HQ) sawlog volumes can be maintained in the short term but not into the medium term as described below:

- Updated modelling of the status quo indicates the volume of total HQ logs could be maintained at the level of existing Wood Supply Agreement (WSA) supply commitments, of around 275,000 m³ per year until 2023. Beyond 2023, HQ sawlog volumes are predicted to decline markedly.
- The majority of HQ sawlog volume will continue to be supplied by native forests, but over time there is an increasing reliance on supply from plantations to meet this supply. The reduction in supply from native forests occurs primarily in the Blackbutt forest types.
- Blackbutt remains the predominant commercial species up to 2023; however, the current harvest levels for HQ Blackbutt cannot be maintained at a stable yield and, as shown in Figure 1, this is forecast to result in a significant decline in the availability beyond 2023. Figure 2 shows the major sources of Blackbutt and the role of plantations in meeting supply commitments to 2023 and beyond.

Figure 1. HQ log supply by species

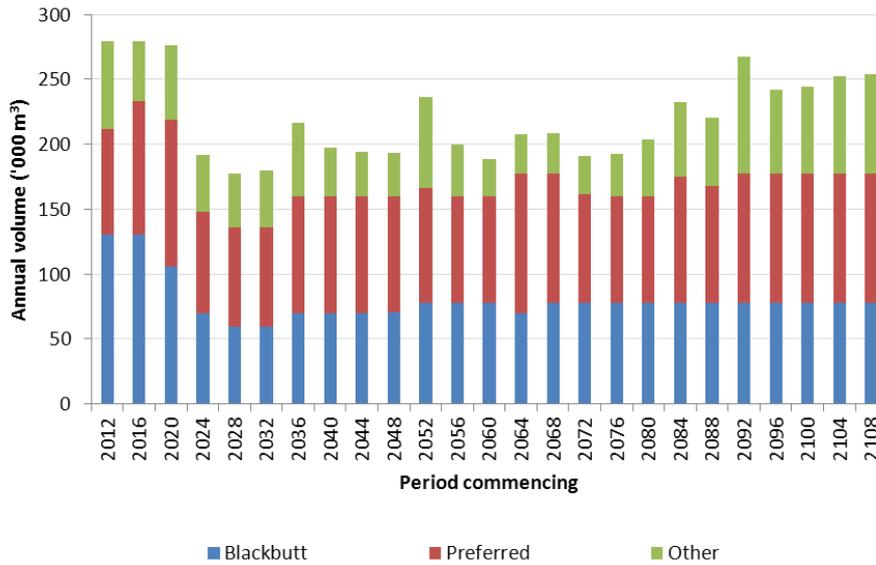
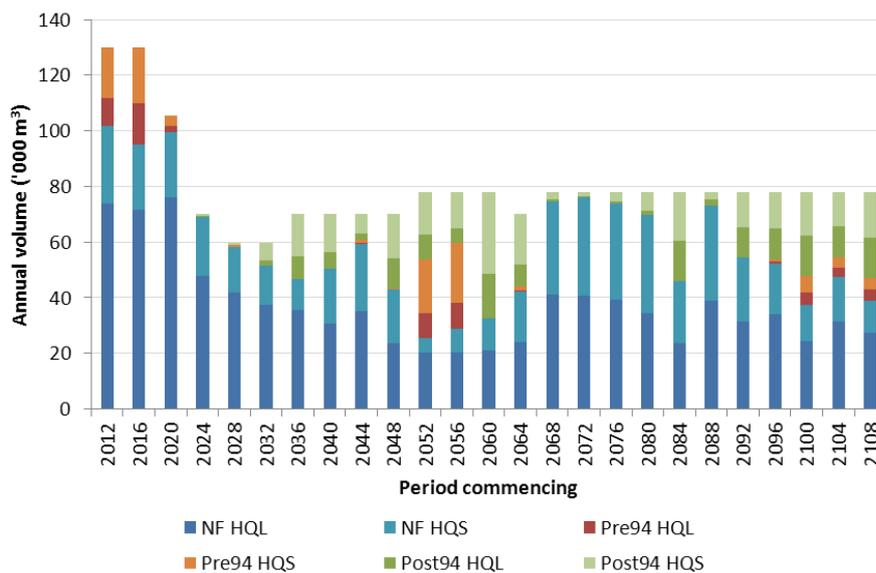


Figure 2. HQ blackbutt supply by forest type



- Allocation modelling indicates that delivery costs for HQ sawlogs remain relatively steady up to 2023 in real terms. However, this excludes any variation in contractor rates over this time, which would be more likely to lead to a real increase in unit rates for harvest and haulage.

Markets for NSW hardwoods

The overall conclusion of the review was that markets for hardwood timber products will remain highly competitive. Key findings of the review include:

- National production and consumption of hardwood sawn timber declined by around 45% over the decade up to 2010/11. This trend has been driven by factors that include the replacement of hardwood timber with softwood timber products in structural applications, including softwood in engineered wood products such as laminated veneer lumber (LVL), as well as the declining availability of native forest resources.
- While overall hardwood sawn timber production and consumption has declined, there has been a shift in hardwood production from structural timber products to a greater proportion of higher value, appearance grade and durability based products such as flooring, decking and furniture.

- Appearance grade products are estimated to represent more than one third of total hardwood sawn timber consumption in Australia, and are a key focus for the largest sawmillers on the north coast of NSW.
- Flooring represents one of the most significant markets for appearance grade hardwood products, and NSW is the largest producer of hardwood flooring in Australia. Blackbutt and spotted gum in particular are highly valued flooring species and have attracted price premiums.
- The market for appearance grade products is expected to recover over the next few years, assuming the housing market recovers, particularly in NSW. However, consumption growth will be tempered by competition from substitute products, including alternative flooring systems that use less timber and compete with solid timber flooring on price.
- Structural grade products are also important component. The intermediate strength F11 and F17 timber grades have faced increasing competition over the last decade from structural softwood timber and LVL, sourced from domestic and imported producers. The outlook for these timber products is for ongoing competition which has the potential to lead to an overall decline in consumption of hardwood structural timber. However, consumption of the higher strength F27 timber grade, which is also produced by NSW sawmills, is expected to remain relatively stable, on account of its higher strength characteristics and the expectation of recovery in NSW housing markets.
- The implications of this are that markets for NSW hardwood timber products are highly competitive. This leads to the imperative for efficient supply chains that are flexible and responsive to shifts. In this context, selected hardwood timber products – notably flooring products and higher strength F27 timber - have some competitive advantages that provide for a positive outlook.

Options

Given the available forest resources and the expected market demands for products, URS identified a number of options for consideration by the Project 2023 Steering Committee.

The options considered included:

Status quo option

Under this option existing contract commitments can be met; however, there will be adverse impacts on forest structure and on the industry in the medium term:

- Analysis of wood flows indicates that the harvest volume for total HQ sawlog should be able to be maintained at the level of existing WSA supply commitments until 2023; however, the current rate of harvesting of HQ Blackbutt and preferred species is not aligned with a sustainable yield.
- Therefore, it is expected there will be adverse impacts on the native forest structure of the resource in the medium term and a major dislocation to the industry – and regional communities - post 2023 when expected harvest levels of preferred species would be markedly reduced.

Supply side options

The URS report presented a range of options for adjustments in the supply of HQ logs. These included:

- The option of only allocating HQ Blackbutt to Boral Timber (Boral) which has the only WSA with a species-specific commitment for supply of HQ logs; to the extent there is any additional Blackbutt available beyond the commitment to Boral, it would be effectively 'banked' and carried forward to future periods.
 - This option was not considered viable by the Steering Committee as it denies access to Blackbutt sawlogs for all other industry participants until 2023, and in this way, surrenders the competitive framework for allocating Blackbutt sawlogs, and blocks the pathway for other participants to invest in capacity for improved supply chain efficiency outcomes.
 - Furthermore, enterprise modelling for hardwood sawmilling operations on the north coast indicates that denying some industry participants access to locally available HQ Blackbutt can be expected to have a negative impact on operating profitability and investment returns in the short term, as well as constrain capacity to develop competitive processing systems for preferred species in the future.
- Access to Blackbutt forests on steeper slopes of State forests. This could provide a considerable supplementary resource, but regulations need to be changed and operational procedures tested.

- The largest contiguous area of State forests containing steep slopes is concentrated south east of Coffs Harbour. Based on available data, the total volume of HQ logs available in this area on slopes that would require some form of cable harvesting system is estimated to be approximately 340,000 m³ – and the majority of this would be Blackbutt. This volume could provide a supplementary (or alternative) source of approximately 50,000 m³ per year of HQ logs for around 6-7 years, thus assisting to increase long term supply levels.
- This supply would contribute directly to maintaining current harvest levels; however, the Integrated Forestry Operation Approvals (IFOA) currently prohibit harvesting on slopes greater than 30 degrees and the risks of damage to retained forest and the economic viability of selective harvesting on steep slopes are not yet tested at an operational level. It is also expected that the costs of cable harvesting to be significantly higher than conventional ground based harvesting.
- Supplementation of resource by providing access to timber resources on other Crown land to address a discreet gap in wood flow projections before 2023 was considered but found to be impractical on grounds of forest management zoning and a range of conservation requirements.

Demand side options

Two demand side options were presented:

- An option to buyback resource allocations based on the premise of reducing the total level of supply commitment for sawlogs, to establish a more stable harvest level, based on an 'even flow' yield or similar principle.
 - A key factor underpinning this approach is that the sooner harvest levels are stepped down towards a long term even flow, the greater the volume that will be available from the long term harvest level.
 - This analysis indicates that a buyback of approximately 50,000 m³ per year of total HQ, including at least 40,000 m³ per year of HQ Blackbutt, would be required to establish an even flow yield.
 - The buyback option is aligned with a range of evaluation criteria and indicators, notably its capacity to provide a basis for sustainable yield volumes; providing transparent information for industry on the forecast supply; and establishing a pathway to a commercially sustainable industry.
 - A key challenge relates to the cost to Government of undertaking a buyback process for native forest resource allocations, and the impact that a rapid change would have on the industry and regional communities.
- Alignment of prices with an expression of willingness to pay. Under a competitive market-based framework, the pricing mechanism for forest resources should direct the logs to the processors who value them most. However, this is constrained in the short term and delivery costs are expected to impact on industry profitability in the medium term.

Steering Committee recommendation

After considering the detailed information and analysis presented by URS, the Steering Committee determined that the option of buyback of 50,000 m³ per year of HQ logs including 40,000 m³ per year of Blackbutt is the most effective way of bringing harvest levels to an even flow, sustainable yield.

This option also provides for enhanced forest environment and long term sustainability of forest yield and hence assurance of supply to the industry up to and beyond 2023.

However, to reduce the impact of the buyback on the broader industry, the Steering Committee recommended that the required volume be bought back only from Boral which had the largest contracted volume and the only specific provision for the supply of Blackbutt.

The Government accepted this recommendation of the Steering Committee.

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