



South East Region Conservation Alliance Inc.

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<http://www.serca.org.au>

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Dear Treasurer

Firstly, congratulations on your appointment to the position of Treasurer of NSW.

As you have probably already realised, one of the responsibilities of the Treasurer's job is to serve as one of the two shareholders of the Forestry Corporation of NSW.

We believe that you may face a fundamental conflict of interest between your wider obligations to NSW taxpayers as Treasurer and pressures to represent sectional interests that your role as a shareholder in the Forestry Corporation may impose on you.

Background to native forest logging subsidisation

In recent years, the Forestry Corporation has made losses on native forest logging averaging \$14 million per year. This is an amount that NSW taxpayers have been forced to find from somewhere else.

The State owned forestry body was the subject of an inquiry by the Auditor General in 2009, but it has failed to address the problems raised by the Auditor General such as underpricing trees from public forests and not even recovering its costs of production.

The Auditor General also recommended simplifying and improving timber pricing by introducing a new transparent pricing system by December 2009 to ensure log production costs are recovered.

This did not happen and still has not happened; in fact we have probably less transparency now than we had then and the losses have still not stopped.

Profits from its plantation softwood division have continued to subsidise native forest logging with funds that NSW taxpayers would reasonably have expected to flow to consolidated revenue or investment to lift plantation productivity.

The Forestry Corporation now appears to be aiming to reduce costs in such areas as environmental management, staffing and disguising its true financial position by including more and more of its costs within its Community Service Obligation, which means that it can be reimbursed for them separately by the State Government.

Cost shifting

Cost shifting in previous years from the native forest to the plantation sector and the recent changes to Community Service Obligation cost arrangements between the Forestry Corporation and the Treasury have disguised the extent of the losses. But they cannot cover up the fundamentally unprofitable nature of the native forest logging, and this situation cannot be redeemed. Past over-logging has severely reduced yields per hectare which means much increased costs in logging much larger areas and/or difficult steep slopes in order to maintain wood volumes.

Other subsidies

Forestry Corporation losses on native forest logging are just one of the subsidies¹ that the industry receives. Some come from other areas of the State Government budget. Some are from the federal Government. A major subsidy for the Forestry Corporation is its exemption from paying local government rates. It has been estimated that for the Bega Valley Shire alone, this amounts to approximately \$1 million each year.

Even with all of these public subsidies the industry still manages to make losses, with the Eden chipmill owner, South East Fibre Exports Pty Ltd making multi-million dollar losses in each of the past 3 years.

Transparency of Forestry Corporation Management

Until the Auditor General's report in 2009, State Forests of NSW presented its accounts in a way that lumped together profitable plantation activity with the loss making native forest logging, in order to conceal the losses. It was following the Auditor General's exposure of multi-million dollar losses in 2009 that the public was able to see the annual cost of propping up woodchipping and unprofitable native forest logging via separate financial Forestry Corporation for the Hardwood (mostly native forest) Forest Division and the Softwood (Plantation) Divisions.

However, in 2013/14 Forestry Corporation reverted to its former practice of amalgamating all the figures for the Hardwood and Softwood Divisions.

The need for change

SERCA has put to the previous Government the need to make major changes in the management of State Forests, for sound economic as well as environmental reasons. The current review of logging rules being conducted by the Environment Protection Authority is primarily motivated by cost cutting and does not take adequate account of the inherent unsustainability and unprofitability of the native forest sector, and the EPA has been set irreconcilable environment protection/wood production goals by the previous government.

There are also moves to sell native forest logs/pellets/chips into the international wood fuel for electricity market. The industry lobby, Australian Forest Products Association, is campaigning hard for this, and for development of a market in Australia through changes to the Commonwealth Renewable Energy Target (RET) legislation. If NSW allows this new use of native forests to take off on an industrial

¹ <http://www.chipstop.savetheforests.org.au/subsidies.htm>

scale the State Government faces a future of serious environmental damage to the forests and a public backlash, especially in light of the ongoing and growing subsidies that will be necessary. I attach a briefing prepared for Commonwealth Senators and Members on the RET issue.

We seek a meeting with you to discuss an overhaul of Forestry Corporation accounting and new management arrangements for the State forests.

Yours sincerely

A handwritten signature in black ink, appearing to read "Harriett Swift", is enclosed in a light grey rectangular box.

Harriett Swift

Deputy Convener
South East Conservation Alliance Inc.

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The Hon. Gladys Berejiklian, MP
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Attachment

Native forest biomass should not be included as an eligible renewable energy fuel for electricity generation: it is dirty energy and not genuinely renewable

- The purpose of the Renewable Energy Target is to encourage the reduction of greenhouse gas emissions. Burning native forest biomass for electricity generation is contrary to this purpose. It involves major depletion of forest carbon stocks.
- Native forest biomass should not be included as an eligible fuel to earn Renewable Energy Certificates because both the logging and the burning result in large CO2 emissions. RECs would give perverse incentives for both, on top of the large subsidies already required for logging.
- The Australian Forest Products Association slips and slides on defining what it would treat as waste. Sometimes it is the forest floor residues from logging and offcuts and sawdust from milling and processing. Sometimes, as when it calls for more use of biomass in electricity generation following Europe's example, it is whole trees. The industry agrees that retrieving residues from the forest floor is uneconomic.
- This proposal is clearly aimed at maintaining access to native forests for a new industry to replace out of favour export woodchipping for Japanese papermakers, and being paid to do so. Power companies would demand on-going and increasing access to public forests that are already severely degraded from over-logging.
- Logging native forests causes immediate emissions (around 60% of forest carbon in SE NSW forests is lost in logging) that cannot be recovered except over centuries (an estimated 53 years to recover 75%, 152 years to recover 90%).
- On top of those emissions, burning native forest biomass for electricity produces more emissions than coal (estimates vary from 1.5 times to 6 times).
- AFPA claims the logging is sustainable - it isn't; over-logging of public native forests by State forestry agencies for decades has led to inability to supply contracted volumes, increasing areas needing to be logged, and increasing encroachments on private forests; as well as general environmental degradation of vast tracts for native forest, loss of wildlife, water yields from catchments and rain-making capacity. Australia now faces a wildlife crisis in many regions, and loss of habitat from logging is a major cause.
- AFPA says Australia should follow Europe in burning more forest biomass. Most European forests are plantations, not natural forest. AFPA ignores this fundamental difference, and the different geographies, climates, water supplies, and industry

economics involved; and ignores also the growing backlash from the US about European imports of logs and pellets for its electricity generation, deforesting large swathes of US forests.

- There are strong arguments for reducing or ending native forest logging and maintaining the ban on burning native forest biomass for electricity generation.

Native forests are more valuable for their contribution to climate change mitigation, carbon stocks, protecting soil from erosion, and water supplies than they are as suppliers of wood. Their biodiversity makes them more resilient to climate shocks than plantations. The Australian forestry industry is largely dependent on the plantation sectors, both hardwood and softwood, for domestic and export wood needs. Plantations supply around 80% of all wood products, and the percentage is increasing. The plantation sector is also profitable; native forest logging is not profitable for either