

The Australian forestry industry's financial crisis and the proposal from South East Fibre Exports (SEFE) to build a wood fired power station at its Eden woodchip mill Heather Kenway 16th June 2010

A. The Australian forestry industry's financial crisis; collapse in global market

- Australia has surplus production in total: glut of unsaleable plantation wood, NF logging continuing
- No large increase in global demand foreseen; China has a clever strategy to contain its demand for woodchips.

See Judith Ajani's seminar presentation to the Fenner School at ANU, on U-tube: <http://www.youtube.com/watch?v=1Qa7awZ0tHY> and her associated graphs and notes on this website. <http://www.serca.org.au/research/Ajani2.pdf>

Two options are being considered for dealing with the crisis:

1. The environmental solution: Commonwealth and States agree to cease logging native forest for woodchipping, and complete the transition that has been promised and in train for some years, i.e. to use plantation supplies for most Australian domestic and export needs. Forests protected and regenerated for climate, water, biodiversity benefits.
2. The industry solution: Reduce over production of Australian NF hardwood supplies by burning native forest wood for electricity/biofuels.

SERCA strongly supports the first option. It believes the second option is not only highly damaging to the environment, but also that the justifications given for these plants are based on price and supply assumptions that are unsound, and on climate arguments that are so inadequate as to be dishonest.

B. The SEFE proposal to build a wood-based power plant at the Eden chipmill

SERCA's views:

1. It is financially unsound, dependent on continuing log supply under-pricing and on being determined to be eligible to earn Renewable Energy Certificates (RECs) that can be traded.
2. It is supply uncertain: There can be no certainty that Regional Forest Agreements (RFAs) will be extended; woodchip volumes are dependent on over-logging, but FNSW's supplies will run out long before the new power plant wears out; There is very little plantation supply to substitute for native forest supply.
3. It is climate dishonest, because it fails to account fully for emissions, ignores the importance of retaining mixed age forest, water catchments, biodiversity
4. The electricity retailers won't buy the RECs

SERCA suggests two policy options:

1. The proposal should be rejected outright and the Commonwealth approached for an industry restructuring assistance package to facilitate an early transition out of native forests to plantations. The industry economics and the ecological imperatives support such a transition. This is the international year of biodiversity. The native forest logging and woodchipping industry has a shocking record of habitat destruction, and should be halted now.
2. Alternatively, market measures should be applied to correct the failures of the current non-commercial regime. That means increasing the prices of pulplogs to fully cover FNSW administrative costs and a value for the logs that reflects their value as carbon, water, biodiversity stores. It is possible to put a carbon price on the wood, work has been done on water losses and degradation from logging in the catchments and prices can be put on that. But note that this will achieve the same result, but with a lot more dispute and dragged out confrontation from industry.

SERCA's views

1. **It is financially unsound, dependent on continuation of grossly under-priced log supplies at the expense of NSW taxpayers, and on being approved as eligible to earn Renewable Energy Certificates (RECs) that can be traded.**
 - Logs supplied to the Eden chipmill from the Eden and South Coast/Southern RFA regions attract a royalty payment of around \$16 and \$6.90 a tonne respectively. Victorian prices are around \$9 a tonne. The further the forest from the mill the lower the price. These royalties plus the royalties from sawlogs do not cover ForestsNSW's costs of managing the native forests under its control, much less any return for the value of the logs. Taxpayers get no return for the loss of value of public forests, and have to pick up ForestsNSW's losses, currently about \$15 million a year and rising, according to the NSW Auditor-General.
 - By comparison, plantation logs in other areas attract prices over \$30. The ultra low prices for native forest logs is what makes them saleable; plantation wood is preferred for its uniformity and quality.
 - It is highly doubtful that SEFE would be viable if it had to pay comparable prices, even allowing a discount for quality.
 - Currently wood cannot compete economically with coal for electricity generation. But it could compete with solar and wind generation, because of underpricing of logs for woodchipping.
 - The attraction for the woodchip industry of getting into electricity generation is its expectation that it would be eligible to earn Renewable Energy Certificates under the Commonwealth's renewable energy legislation (REN). This could be expected to greatly increase SEFE's profits – see Harriett Swift's paper *Subsidies on subsidies* on this website.
http://www.serca.org.au/research/woodchip_power.pdf

- It would also put native forest wood based electricity in unfair competition with clean, green, and genuinely renewable power from solar and wind.

SEFE has claimed that the Office of the Renewable Energy Regulator (ORER) has told SEFE that it will be eligible to earn RECs.

Our understanding is that this is unlikely and that there will be legal challenges if there is a determination that the mill proposal is approved. Moreover, the logging cannot be proven to meet requirements in the REN Regulations for ecologically sustainability in the absence of monitoring of outcomes; and we have ForestsNSW's own damaging statistics about yields and areas logged.

- The forestry industry, through its National Association of Forest Industries is now campaigning to broaden the access of the industry to native forests. It wants electricity generated from any wood from any forest managed under State or Commonwealth regulations, to be eligible as renewable energy – i.e. not just “wastes” from woodchipping operations (see Attachment)

2. It is supply uncertain: Supply under the RFAs runs out in 2019; even if the RFAs are extended, woodchip volumes are dependent on over-logging, and FNSW's supplies will run out long before the proposed power plant wears out. There is very little regional plantation supply to substitute for native forest supply to the mill. SEFE's proposal appears to ignore these problems.

- SEFE cannot demonstrate any long-term certainty of fuel supplies for the mill: The Regional Forest Agreement sponsored logging regime ends in 2018. The environment movement is working to have it ended much sooner. The financial crisis in the industry makes an early end desirable.
- Forests NSW has been over-logging (at faster than replacement rate) – see Auditor-General's report of April 2009, so even if the RFA regimes continue beyond 2019 there won't be enough wood available from FNSW for the life of the plant. Most of the older, larger trees have already been logged out in the Eden RFA.
- While immediately before the global financial crisis, the Eden chipmill was exporting over one million tonnes of hardwood chips a year, supplies to the chipmill were possible only because larger and larger areas were logged, the increase in the last decade in NSW was close to 80%. Yields were down on average 30%. Eden RFA region was unable to meet minimum quotas, resulting in more and more being taken from South Coast/Southern and Tumut areas (see info pack item on RFAs). The mill is also dependent on Victoria for 45% of its supplies. Logging by Forests Victoria of old growth areas with endangered species is currently the subject of a court case in Victoria. Neither State is managing its forests sustainably or charging realistic prices.
- ForestsNSW has very little hardwood plantation wood. It is unlikely that it would be financially viable for the Eden chipmill to bring in plantation supplies from Victoria. Nippon Paper, the majority owner of the mill, has interests in plantations in Victoria and elsewhere and in other mills that process plantation logs. It would likely close the mill and simply walk away from wrecked forests.

- Current pricing arrangements make woodchipping at the Eden chipmill economically viable, but only so long as demand and export prices do not collapse further; and ForestsNSW is in a far weaker bargaining position than the chipmill's owners, as log prices clearly indicate.
 - If Chinese buyers were to emerge for Australian native forest chips, their record suggests they would screw the prices down even harder than the Japanese buyers have done, and NSW taxpayers would be even worse off.
- 3. It is climate dishonest, because it fails to account fully for emissions, and ignores the importance of retaining mixed age forest, water catchments, biodiversity. It is not clean, green and renewable energy, it is much more emissions intensive than coal-fired electricity.**
- The Commonwealth's Kyoto-based greenhouse accounting does not count emissions from logging native forest, though it does count carbon dioxide uptake by plantations (see Attachment D).
 - The Commonwealth has "deemed" electricity generation from native forest biomass to be carbon neutral, without doing the calculations.
 - Calculations by SERCA and independently by Greens MLC John Kaye suggest the emissions from the logging and woodchipping operations that are necessary to generate the electricity are significantly more emissions intensive than those from coal.
 - Independent experts are currently doing full life-cycle calculations of emissions from generation from coal, native forest biomass, and solar.
 - Native forests play an important role in the carbon and water cycles. "Forests make rain." In SE NSW around half of all the forest is in National Parks (much of which had previously been logged), and half available for logging. The logging drastically reduces the canopy, dries out the soils, encourages weeds, and results in soil loss after rain. The regrowth takes up to four times more water than old growth, thus competing with agriculture and other requirements for water.
 - The logging is also destroying habitat for species to the point where once common species like koalas are now on the edge of regional extinction. Many other mammals and birds are under threat.
 - As the climate warms, and CSIRO and other experts say it already is warming in southern Australia, species need to be able move into different areas if they are to survive. Scientists fear widespread extinctions. The loss of biodiversity will in turn make for unhealthier forests and close off options for scientific advance and human health. A downward spiral.
 - Australia is involved in international negotiations and assistance programs to stop the deforestation and degradation of forests in developing countries, most notably in Indonesia and PNG.
 - To ignore the unnecessary logging of Australia's native forests – the most carbon dense in the world, even more so than the tropical forests (see Mackey article) –

is extraordinarily short-sighted and foolish, and leaves us open to charges of hypocrisy.

4. The Energy Retailers won't buy the RECs

- Energy retailers have been contacted in New South Wales and Victoria. Nine retailers (the overwhelming majority) have written letters stating that they will not purchase power generated from native forest biomass.
- Currently, the others are being contacted for a statement of intent.
- This is an indication that retailers recognize that the energy produced from Native Forest biomass is not clean, and not renewable.
- The Energy Retailers Association of Australia is interested in having someone from our membership attend their policy committee meeting in a few weeks with a view to formulating an Australia wide policy on this issue.

Attachment: Extract from NAFI Submission to Department of Resources, Energy and Tourism on the *Strategic Directions Paper* for National Energy Policy – Framework 2030, June 2009

“The costs of wood-based bioenergy plants, compared with coal-fired plants have been a major limitation on investment to date. **Dedicated biomass facilities could generate renewable energy at lower cost than either solar or wind facilities – provided investment were forthcoming.** The most cost-effective bioenergy option is the co-firing of coal with biomass.

“Financial benefits from national policy measures, such as the expanded RET and greenhouse gas emissions trading under the CPRS, will be critical in improving the attractiveness, competitiveness and subsequent investment in bioenergy facilities based on woody biomass.

“However, existing regulations covering forestry biomass and not proposed to be amended in the expanded RET, and similar provisions in various State regimes, limit the eligibility of forestry biomass as a renewable energy source – and thereby restrict access to the financial benefits available to renewable energy under the expanded RET and the CPRS that could overcome the cost constraint¹⁹.

“In the Commonwealth RET regulations, two key provisions are designed to prevent the harvesting of trees from native forests for renewable energy certificates (REC), rather than for high value products (sawlogs), and to prevent native forest being cleared to grow biomass.

“These provisions interfere with the strict regulations under which native forests are logged and managed, especially in regional forest agreement (RFA) areas, and have produced perverse outcomes. These regulations should be amended to clarify eligibility of forestry sourced biomass for renewable energy and thereby facilitate the maximum use of the resource.

“Eligibility criteria should be based on the sustainability of forest management as determined through existing processes and frameworks (such as RFAs). That is: **wherever forests are managed under Commonwealth and/or State forest management regulations, the products of any harvesting operation should be eligible to produce renewable energy under the *Expanded National Renewable Energy Target Scheme*.** In that way greenhouse, energy and forestry policy would be harmonised.

“The application of independent third-party forest certification – such as the Australian Forestry Standard (AFS), Programme for the Endorsement of Forest Certification schemes (PEFC), or Forest Stewardship Council (FSC) – could also be used as an eligibility requirement.”