

Speech notes by Michael Bleby

Forum on sale of ForestrySA harvesting rights

Millicent and District Community Club Monday December 13, 2010

I have been asked to comment on what some of the future effects might be - of the proposed sale of ForestrySA harvesting rights. My credentials are that I am currently a freelance Registered Professional Forester, a former employee of ForestrySA for 40 years in operations as a District Forester, and more recently as Harvesting and Sales manager in the Green Triangle.

What is it that the State Government wants to do?

As I understand it, it's about selling harvesting rights or what amounts to an income stream into the future for a period of time, for a big \$ figure up front. On average over recent years, ForestrySA has paid into the State Treasury, its profits which are about \$1million per trading week. What the State Government wants to do is sell that income stream to someone for up to 120 years, because they are looking for an injection of cash up front – for whatever reason.

Talking about rotations for the length of time involved, is somewhat misleading - as a rotation is just a number of years, and the forest estate is made up of plantations which are all at different stages of a rotation.

My assessment is that what is proposed does not make good sense from both an Industry perspective nor from an Economic point of view.

Firstly from an Industry perspective, there is one important reason why a forward sale of State Government forest harvesting rights could be very detrimental to the South East region. Irrespective of who might own those rights in the future or what any agreement with them might say, the critical factor in my opinion, concerns the mix of value adding industries that the region has, and the way that the integrated supply arrangements that currently exist have built up over many years.

The SE has companies that specialise in milling high quality sawlogs and others who have equipment and access to markets suited to lower quality logs. There are particle board plants, wood chip export outlets, and markets for by-products such as wood shavings, boiler fuel, and even bark for compost and landscape supplies. Of special importance (particularly for the Millicent region) is the existing KCA pulp mill. This, along with the roundwood preservation markets, is absolutely critical to the economics of thinning and the creation of the higher value forest products, later in rotations. One would hope that any forward sale provides for local pulpwood supplies into the future – but who knows?

How does this balanced system work?

All forest owners are constantly faced with decisions concerning the best way to turn trees from thinning and clear falling into the best profitable mix of products, to produce and sell, at any one time under their current supply agreements. When trees are felled and cut into products, a certain volume of higher value logs are produced, along with lower value logs and pulpwood.

The markets for these different products always have their ups and downs. There needs to be a mix of “top and bottom feeders” for all the products from the forest to be sold and for the system to work. This doesn’t just happen; it takes effort and vigilance to maintain these markets, their profitability, and to ensure that they are there over time.

This somewhat delicate balance and inter-reliance is the one critical thing that the SE region has going for it. It would be put at serious risk by a long term sale of harvest rights through potential loss of local control over the value- adding mix. The importance of this balance is very likely to go out the window, if a large corporate player, with no charter for local support, is in a position to call the shots.

In my years of working in the industry it is very apparent that this mix of markets for softwood has been the envy of other forest regions around the world.

A further question is - How might this affect ForestrySA itself?

The State Government has said it would be business as usual and ForestrySA would continue to manage the forest estate. To my knowledge, it has not been said who would manage the various Supply Agreements into the future. I’m sure that the income stream owner would want to have a say into the future about who wood is sold to, and what acceptable prices might look like.

On a different front, an organisation who pays \$1 million per week into State Treasury is in a better position than one that doesn’t, to seek capital for new land, or to replace fire trucks into the future. (Although still fairly new, the current fleet of Fire Kings will eventually need replacing in 30 or so years time)

Another likely casualty is local Research & Development. I can’t see a buyer wanting to contribute to R&D. They will just want their income stream. This is basically about a money deal. Up to now, it has been the State Government involvement, that has taken the lead in solving the many significant forest management problems over the years, and there will certainly be major questions that need answers into the future.

There is lots that hasn’t been said, and I fear there is much that is poorly understood by State Government officials.

Now to examining this proposal from a Forest Economics view point.

Selling something for up to 120 years clearly has significant unforeseeable risks, particularly if it is income associated with a product made of carbon, where there is soon to be a new price on carbon in Australia and the rest of the world. (A price on carbon is inevitable in order to change behaviour in the economy in relation to green house gasses). The question is, what is going to be the real value of forest products into the future - with these surrounding uncertainties?

Getting a good price for harvesting rights depends very much on where the associated risks might lie. If the Government wants to carry lots of the risk itself, or not spell out lots of conditions in any contract with a buyer, then they might get a better price for the sale. If on the other hand, it wants the buyer to take on some of the risk, then the buyer will offer a reduced price accordingly.

Let's take the risk of fire for example. What is the chance of a large fire disrupting the sale of logs from the forest over the next 120 years? Pretty good - I would say.

Who is going to carry that risk? To get the best price – the State Government could say that they will wear it, insure for it, or whatever.

I can foresee a situation where not only does the State get no income from the forest, but the people of the State may have to fork out, to prop up an income stream that has been sold to someone - because of losses at some future time.

There are additional unpredictable risks associated with losses, which could be due to drought, insect attack, wind throw or even hail damage in a changed climate - that could have the same sort of impact. (Significant hail storms in the past have resulted in major salvage clear falling of sizeable areas)

If the State Government says – “Don't be concerned about local job losses – we will write into the contract that the value adding must be done locally” -then two things come to mind.

One – What ultimate security is there in that?

Two – What would such contract clauses do to the price they might get – by reducing the value adding flexibility, from the buyer's point of view?

Again, to do that would be a recipe for a poor price, and a dumb economic result – so why would you do it?

As a State Government owned enterprise, ForestrySA's stated role - is about support for local economic activity. There is likely to always be some export element to what is produced in our region, such as softwood woodchips, along with spasmodic surplus lower grade roundwood, when local markets are down.

What does need to be retained is support for the mix of integrated industries that we have – in order to get the best result for the region as a whole. State Government involvement and support has not only played a key role in making it so, but I believe is an essential ingredient to maintain that mix into the future.

The politicians who in 1875 decided to set up the Woods & Forests Department because SA was facing a timber shortage compared to the other States who were endowed with more rainfall and native forest - showed great foresight.

Our present State Government could well do with a dose of foresight in regard to the matters being discussed here this evening.

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