TASMANIAN FOREST INDUSTRY: AN OVERVIEW♦

Key points

- Tasmania's major forest product is export woodchips, with an fob value of $362 million in 2008-09.
- By comparison, ABARE estimated the value of output for Tasmania's sawntimber and veneer sectors at $313.4 million for 2008-09, noting that most of these products are consumed in Australia. These industry sectors are focussed on appearance grade products which was the industry sector most strongly affected by the global financial crisis. Global demand for the appearance-grade hardwood products started to improve in early 2010.
- The majority of woodchip exports from Tasmania are destined for Japan, followed by China.
    - In the first 10 months of 2009-10, 74.3% of woodchip exports (in value terms) were supplied to Japan and 14.9% to China.
- In 2008-09, Japanese demand for woodchips declined along with paper production in that country, which fell from 18.5 million tonnes in 2008 to 15.6 million tonnes in 2009. A further complication is woodchip buyers in Japan seeking Forest Stewardship Council (FSC) certification of hardwood chips from Tasmania.
- Tasmania competes with other states (and other countries) in the Japanese woodchip market.
    - In the first four months of 2010, Tasmania supplied 32.1% of the value of Australian hardwood chips exports, compared to 45% in 2007 and 2008.
- Three of Tasmania's five woodchip mills (all owned by Gunns Ltd) announced temporary closures this year due to the current weak demand for Tasmanian woodchips from Japan.
- The Tasmanian forest industry has also suffered from the collapse of Managed Investment Scheme (MIS) companies.
    - Forest Enterprises Australia (FEA) went into voluntary administration in April 2010.
- Contractors are reported to be suffering significant hardship at present, which may be a consequence of the total wood harvest for the State falling below 6 million cubic metres per annum in 2009.
- There are approximately 6,300 people employed in the Tasmanian forest industry. The forest contractors are concerned that around 1,000 workers may lose their jobs in the industry as a consequence of the downturn during 2009 and continuing into 2010.

Overview of the Tasmanian Forest Industry

Log harvest and production

- In 2008-09, Tasmania's total log harvest was 5.8 million cubic metres (Figure 1d), with 3.7 million cubic metres harvested from native forests (64% of the State's total log harvest). This is the lowest total wood harvest volume for Tasmania since 1998-99.
- Of the 4.1 million cubic metres of pulplogs harvested in Tasmania during 2008-09 to supply the export woodchip market:
    - 2.9 million cubic metres of logs were supplied from native forests (Figure 1a),
    - 1.1 million cubic metres from hardwood plantations (Figure 1b), and
    - 35 000 cubic metres from softwood plantations.
- The total harvest of pulplogs for woodchip exports in Tasmania declined from 4.5 million cubic metres in 1999-00 to 4.1 million cubic metres in 2008-09 (Figure 1d). Underlying this change was the increase in hardwood plantation pulplogs (from 0.2 to 1.2 million cubic metres over that period) and a decline in native forest pulplogs (from 4.2 million cubic metres in 1999-00 to 2.9 million cubic metres in 2008-09).

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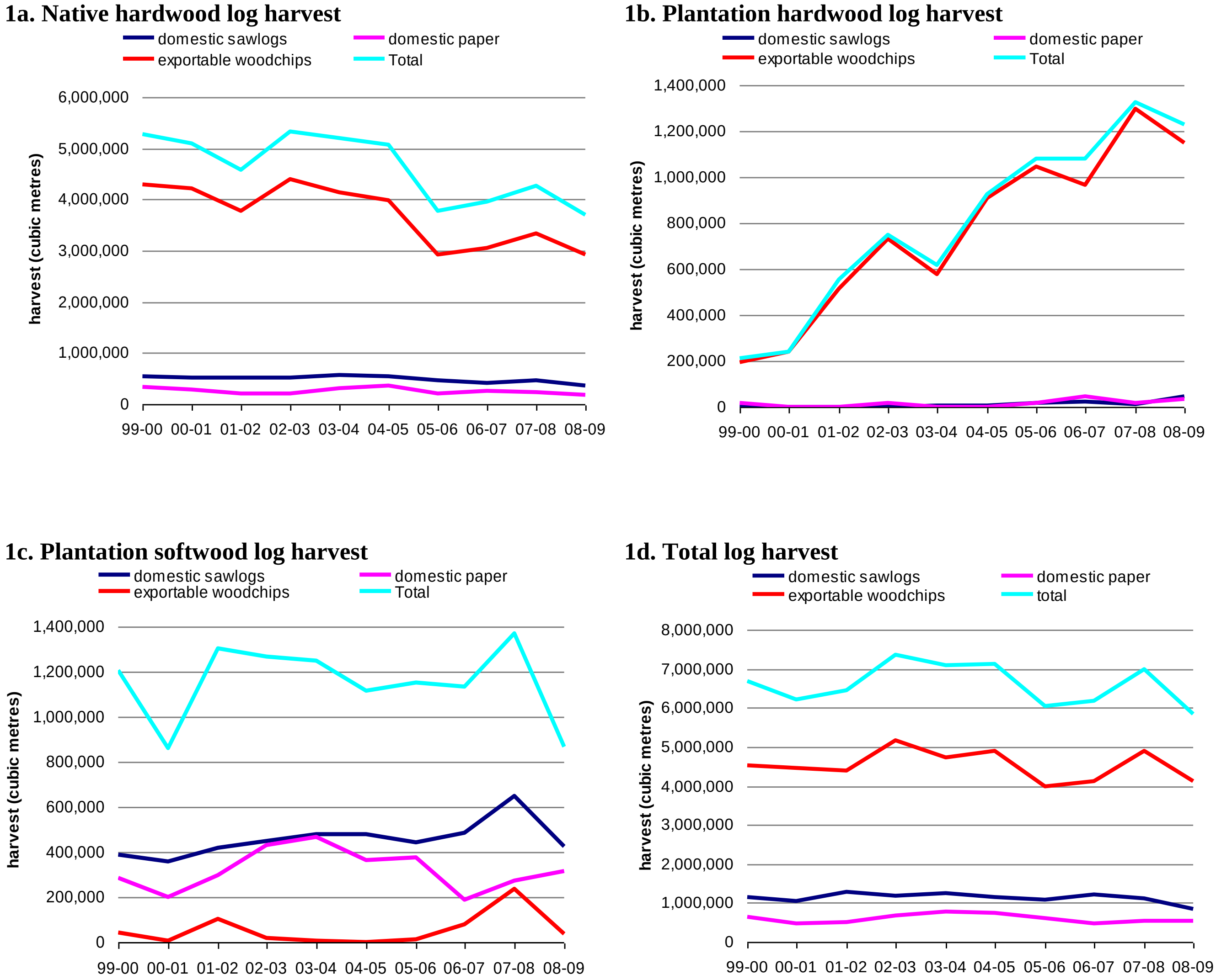
- Over the past decade, the total log harvest fluctuated between 6 and 7 million cubic metres per annum. Tasmanian harvest and haulage contractors appear to be feeling a significant degree of financial hardship with the total harvest below 6 million cubic metres in 2008-09, and possibly even lower in 2009-10 given the decline in woodchip export volumes.

Figure 1: Tasmanian log harvest, 1999-00 to 2008-09



Source: ABARE (These figures do not contain curves for logs used in other sectors of the industry.)

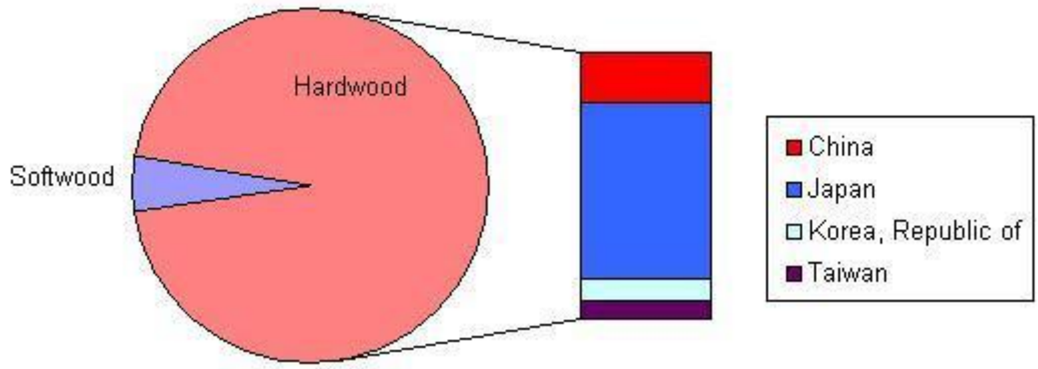
- Harvest of plantation hardwood for domestic sawlogs increased more than five-fold from 8,900 cubic metres in 2007-08 to 47,500 cubic metres in 2008-09. This is largely due to the demand from the FEA sawmill at Bell Bay. However, with FEA recently going into receivership, there is some uncertainty over the potential future uses for these plantation sawlogs.
  - FEA receivers were attempting to sell the Bell Bay sawmill on a stand alone basis (FEA 2010).
- The opening of the two Ta Ann veneer mills in Huon and at Smithton has provided further value-adding opportunities for native pulplogs (formerly used for woodchips); these mills operated at 70-100% of capacity during 2009 and first half of 2010. These mills utilise native forest regrowth logs as the plantation resources are currently unsuitable for peeling for veneer.
- ABARE estimated the total value of output for Tasmania's sawntimber sector at $264.1 million for 2008-09, with $155.1 million of that output derived from hardwood resources. Additionally, output from Tasmania's veneer sector was estimated at $49.3 million.

- 45% of the output from Tasmania's hardwood sawmills is appearance grade product (compared to around 16% of sawmill output in New South Wales and Victoria). Appearance grade products appear to be more sensitive to changes in income than other forest products. The Tasmanian sawmilling sector's significant dependence on appearance grade products therefore leaves it exposed to sharp downturns in demand, as occurred for all appearance-grade hardwood producers during the global financial crisis. Global and domestic demand for these products started to improve in the first half of 2010.

Trade

- In 2008-09, Tasmanian forest exports were worth around $443 million, accounting for about 13% of all Tasmanian exports in value terms (ABS 2010b).
- In 2008-09, total woodchip exports (softwood and hardwood, worth $362 million) accounted for 82% of Tasmania's total forestry exports.
- The biggest Australian (and global) market for woodchips is Japan (figure 2).
  - In 2008/9, 67% of Tasmania's woodchip exports, in value terms, went to Japan. China was the second largest market, accounting for 19% of Tasmania's woodchip exports. For the first 10 months of 2009-10, 74.3% of exports went to Japan and 14.9% to China.
  - The Japanese woodchip market is highly dependent on paper consumption in Japan with 97% of Japan's paper production consumed in their domestic market. Japan's paper output varies with their GDP. Paper production in Japan has fallen from 19.2 million tons in 2007 to 18.8 million tons in 2008 and 15.8 million tons in 2009 (Japan Paper Association). Japanese paper production started to increase again in early 2010.
  - In the Japanese hardwood chip market, Tasmania faces competition from other Australian states as well as Chile, South Africa, Thailand and Viet Nam.

Figure 2: Market for Tasmanian woodchip exports, value shares in 2008-09



Source: ABARE

- In 2008-09, Australia's woodchip exports fell by 14.8% in volume terms and by 7% in value. For those exports, 4.3 million bone dry tonnes (bdt) (or 81.1%) were from hardwood sources and 1 million bdt (18.9%) from softwood sources.
- The total volume of Tasmania's woodchip exports fell 18% from 2.41 million bone dry tonnes (bdt) in 2007-08 to 1.98 million bdt in 2008-09.
  - Over the same period, the corresponding value of Tasmania's total woodchip exports fell by 13%, from $417 million to $362 million (ABS 2010b).
- Out of the total woodchip exports from Australia, Western Australia, Tasmania, Victoria and New South Wales supply approximately 98% of the hardwood chip exports.
- A comparison of hardwood chip exports for the first four months of recent years shows a significant decline in exports for all states between 2008 and 2009.
- While hardwood chip exports from NSW, Victoria and Western Australia all increased again in the first four months of 2010, the export volumes for Tasmania fell even further (from 421,000

bdt in 2009 to 406,000 cubic bdt in 2010, and down from 720,000 bdt for the same period in 2008).

- The decline in woodchip exports from Tasmania to Japan is not due to the woodchips being largely derived from native forests.
  - New South Wales and Victoria are also heavily reliant on native forests for woodchip production, yet their exports increased in early 2010 to be close to the export volumes at the start of 2007. The native forest woodchips from those States are not Forest Stewardship Council (FSC)-certified.
  - In contrast, Western Australia sources woodchips predominately from plantation forests. Although that State's exports increased in the first four months of 2010 relative to 2009, they were still well below the export volumes recorded for the start of 2007.
- The request by the Japanese buyers for Tasmania's native forest woodchips to be FSC-certified indicates the market perceives Tasmania's native forest management as being somewhat controversial and that Australian Forestry Standard certification of the resource does not address their concerns.
- The potential future availability of Australian hardwood plantation woodchips, estimated to increase from 4.5 million cubic metres in 2009 to over 13 million cubic metres from 2010 (Parsons et al, 2007), are expected to place further pressure on Tasmania's woodchip exports. The increased availability of these additional plantation resources may further reduce the demand for Tasmania's native forest woodchips it is perceived that they are a controversial supply source.
- In considering the market opportunities for Australian woodchips, particularly hardwood chips, it should be noted that two-thirds of Japan's mills are ranked among the least competitive producers of pulp in the world (Wood Resources Quarterly, August 2009; based on Fisher International pulp mill Viability Index). While Japanese demand for woodchips may return in future, it is highly unlikely that the industry output will grow much beyond the levels of 2007 and 2008.
- In recent years, Tasmania's woodchip exports to China have increased from 0.28 million bdt in 2007-08 to 0.44 bdt in 2008-09, and, in value terms, from about $49 million to about $69 million, before falling during the first 10 months of 2009-10 (ABARE).
  - The woodchip prices paid by China in 2008-09 (A$156/bdt) were lower than those paid by Japanese customers (A$192/bdt).
  - China's pulpwood market remains relatively small. Total woodchip imports in 2007 were less than 3 million cubic metres. By comparison, China's pulp deficit was equivalent to approximately 35 million cubic metres of wood in the same year (Flynn, 2008). Countries such as Brazil have recently increased their pulp supplies to China and potential growth in China's paper market indicates some potential for supplying market pulp to China rather than woodchips.
- Forestry Tasmania is exploring new export markets in China for lower-quality peeler logs to produce LVL (laminated veneer lumber) (Forestry Tasmania, 2010).
  - The aim is to diversify the market opportunities for low-grade logs.
  - The quality of these logs is lower than what is required for processing at the Ta Ann group's rotary peeler veneer mills.
- The capacity of the global chip market to purchase Australia's additional hardwood chips is limited at present. However, the growing demand for wood pellets in Europe is leading to increased global demand for milling residues and low-grade wood that might otherwise be used for paper production (Wood Resources Quarterly, June 2009). Further diversions of pulpwood into the wood pellet markets may open up new opportunities for Australian woodchip exports.

Global woodchip prices

- Table 1 shows estimated prices (accounting for cost, insurance and freight (CIF)) for woodchips imported into Japan.
- Japanese woodchip importers are paying a higher price for woodchips sourced from Australia in comparison to its major competitors.
    - It is likely that Australian woodchips command a higher price in Japan due to the quality, consistency and scale of the woodchip supplies available from Australia relative to those from other potential suppliers.
    - Australian growers in general would receive a higher proportion of the CIF prices than suppliers from Chile and South Africa due to the shorter sailing time from Australian ports to Asia.

Table 1: Price paid by Japan for imported woodchips (CIF), from various countries (AUD$/bdt)

	January 2010	February 2010	March 2010
Australia	264.48	265.73	256.96
Chile	240.42	238.35	237.71
South Africa	227.46	219.47	226.78
Vietnam	194.07	189.77	194.96
Thailand	174.68	176.64	173.78

Source: Trade statistics of Japanese Ministry of Finance
Note: Prices have been converted from Japanese Yen to AUD using assumed exchange rate of 80Yen/AUD.

Recent international events

- Although the global woodchip trade fell 26% in 2009 relative to 2008, Japan remains the major destination receiving 53% of traded hardwood chips and 15 % of traded softwood chips (Wood Resources International, October 2009).
- China’s substantial demand for market pulp rather than woodchip imports indicates future potential opportunities for Australia (Flynn, 2008).
- Pulp sector restructuring and mill closures following the global financial crisis and the emerging global trend to establish pulp mills close to the pulpwood resources indicate the potential for trade in market pulp instead of woodchips (Wood Resources Quarterly, March 2009).
- A recent earthquake in Chile, Japan’s second largest source of woodchips, may have important implications.
    - One of Australia's main competitors in the Japanese woodchip market is Chile. The Chilean earthquake has devastated much of Chile's processing infrastructure, such as roads, bridges, and rail.
    - Dalton Paper suggests that exports from Chile to Japan will decline or even cease in the near future, and this shortfall could be met from Australian exports (Dalton Paper 2010).
- The growing demand for wood pellets, particularly for supplying the energy markets in Europe, has led to the prices for sawdust, woodchips and small hardwood logs converging and placing new pressures onto the global market for what was previously identified as pulpwood resources (Wood Resources Quarterly, June 2009 and December 2009).

Domestic infrastructure

- Tasmania has five woodchip mills, three of which are owned by Gunns Ltd, one by FEA Ltd and the other by ARTEC Pty Ltd.
    - Gunns has tended to close its woodchip mills temporarily when there is a significant decline in overseas demand. Gunns’s Triabunna mill was shut down for two weeks from

  - 10 May 2010, and its Long Reach and Burnie mills were expected to be closed for three and two weeks respectively from 31 May (Sprague, 2010).
  - Gunns may be planning to shut down its woodchip mills again in September, which may lead to further employment uncertainty in the industry (Kempton 2010).
- The move into receivership and voluntary administration of Forest Enterprises Australia (FEA) may also have a significant effect on Tasmanian forest industry. Besides their woodchip mill the company had a sawmill (which was reported to have 185 staff) operating in Tasmania (ABC Inside Business, 18 April 2010).
- There are 72 hardwood sawmills in the state. However, 64% of these mills process less than 3,000 cubic metres of logs each year (ABARE 2009). Tasmania has six softwood sawmills in the state, a panel mill and four veneer mills.

Infrastructure issues

- Expansion of the woodchip export capacity at Portland, Victoria, and the increased volumes of hardwood chip availability from Western Australia in particular, may place additional competitive pressures on Tasmanian woodchip exporters.
  - Portland will be supplied exclusively by plantation timber.
  - Portland has the potential to become the largest woodchip supplier in Australia.
- Gunns' Tasmanian chip mills also face competition from other Australian plantation companies such as Australian Bluegum Plantations, which bought Timbercorp's plantations for $345 million last year (Sprague, 2010).

Employment

- Schirmer (2008) estimated around 6,300 people were employed in some capacity in the Tasmanian forest industry in 2005-06, representing 5,870 full-time equivalents and accounting for about 3.1% of the state's total employed labour force in 2005-06.
- At a regional level, the contribution of the forestry sector is far more significant.
  - In the local government areas of the Derwent Valley and Dorset, about 32% and 23% of the local workforce are employed in forestry, respectively (Schirmer 2008).
- According to Schirmer (2008), approximately 40% of the workforce within the Tasmanian forest industry in 2005-06 was employed in the processing sector, 16% as harvest and haulage contractors, and a further 16% employed as silviculture and roading contractors;
- The native forest sector provides employment for approximately 68% of the State's forestry workers, 24% in the softwood plantation sector and 8% in the hardwood plantation sector (Schirmer, 2008).

Effects of the recent downturn on employment

- The Forest Contractors Association stated that in the past 9 months, about 1,000 timber workers have lost their jobs (ABC Online, 14 May 2010).
  - The Tasmanian Government has recently announced a $3.6 million assistance package to help affected forestry contractors.

Final remarks

- It is important to keep in mind that the current pressures faced by the industry (i.e. declining woodchip demand in Japan, difficulties in the appearance grade product sectors, loss of FEA) have resulted from the economic instability associated with the Global Financial Crisis.
  - As indicated in Figure 1, the total timber harvest has been fluctuating for the past ten years.
  - If the demand for woodchips in Japan picks up, the Tasmanian forest industry could rebound, building on the recent gains made in the appearance (furniture and flooring) markets, where prices and demand have started to improve.

- However, the effects of Australia's rapid increase in potential supplies of plantation hardwood chips and the limited capacity of the Japanese market to expand will be significant factors affecting the Tasmanian industry in the near future.

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