

PERFORMANCE AUDIT IN BRIEF

Sustaining Native Forest Operations

Forests NSW

April 2009



About the audit

Forests NSW is a public trading enterprise within the NSW Department of Primary Industries. Its key role is to sustainably manage state forests and maintain timber supply.

Since 1997 around a third of state forest area in NSW has been converted to national parks or reserves. From 1999 onwards the Government entered into wood supply agreements with industry for up to 20 years to provide certainty of supply and encourage long term investment.

This reduction in capacity to supply timber and the long-term obligations to supply have led to concerns about whether there is enough timber to meet contractual commitments.

This audit aimed to assess whether Forests NSW manages the supply of hardwood to meet wood supply commitments and sustain our native forests.

Audit opinion

Forests NSW has adequate estimates of how much timber is available from native forests, now and into the future. It uses an industry accepted process to develop estimates, but more could be done to improve reliability. For instance, yield estimates for the South coast, Eden and Tumut are well overdue for review.

Forests NSW should have sufficient timber to meet its wood supply commitments which are fixed for periods up to 2023 using both native and plantation hardwood. However, the cost and difficulty of harvesting and hauling this timber is likely to increase over time.

Sawlog production over the last five years indicates that contractual commitments for sawlog products in some regions have not been met. This gap cannot be readily explained by information collected by Forests NSW. It argues that part of the gap is due to downturns in demand, and we have evidence to support this.

Forests NSW have also advised that there have been some supply issues with lags in production. And in some cases, substitutions have been made with mill owners

receiving smaller logs rather than the premium large sawlogs which is allowable under a number of the contracts.

These issues indicate that Forests NSW faces difficulties managing supply especially for large, high quality sawlogs.

This is due in part to the actions of Government in negotiating a new wood supply agreement for the north coast in 2003 and the loss of forest estate.

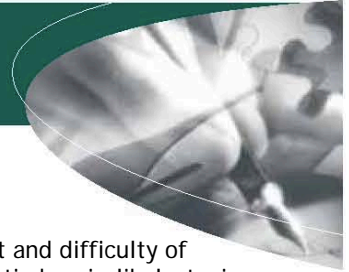
In this new agreement, the Government waived its rights to reduce commitments without compensating industry for any loss. This removed Forests NSW's ability to better manage supply risks by adjusting commitments. In addition, timber volumes were more or less maintained despite the loss of forest estate to national park and reserves.

To meet wood supply commitments, the native forest managed by Forests NSW on the north coast is being cut faster than it is growing back. This is especially the case for the blackbutt species. This does not mean that the forest will not regrow but there will be a reduction in yield in the future.

After the current agreements cease, Forests NSW plans to fill the shortfall on the north coast with plantation hardwood. However, we found it is currently sourcing significantly more from plantations than anticipated to meet its commitments, which may place this strategy at risk.

Forests NSW continue to look for new sources of hardwood timber to meet existing commitments including private property and leasehold land. As timber haulage distances increase and yields decrease, the overall cost of production will rise. These additional costs will have to be borne by both Forest NSW and the industry.

Given that native forest operations ran at loss of \$14.4 million in 2007-08, this raises concerns about how much worse this financial burden may get.



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Internet site: www.audit.nsw.gov.au

Key findings

Does Forests NSW know how much native forest and plantation hardwood is available for harvesting, presently and in the future?

We found that Forests NSW has adequate estimates of how much timber is available from native forests. It uses an industry accepted process to develop estimates, but more could be done to improve reliability.

Forests NSW has developed and implemented inventory procedures to estimate yield of high quality large sawlogs from native forests. It has produced yield estimates for three of its four regions, with estimates for western region still to be finalised. Forests NSW advises that it also has yield estimates for high quality small sawlogs, low quality sawlogs and pulpwood however it has not made these estimates public for all regions and products.

In addition reviews of yield estimates for the southern region, due in 2004 for Eden and 2006 for Tumut and the south coast, have not been completed. Yield estimates for hardwood plantations on the north coast also need to be reviewed to improve their reliability.

Forests NSW appears to use an adequate number of sample plots to estimate the number, species and size of trees in the forest. Recent internal audits indicate that plot measurements are reasonable. However it needs to do more to ensure all plots are regularly remeasured to capture changes in the forest. It also needs to review the parameters it uses to adjust harvest areas for unknowns such as threatened species.

Forests NSW does not routinely compare harvesting results to its yield estimates. It advises that this is because these cannot be used at an operational level given yield variability across harvest areas. However we consider these reviews necessary to test the validity of its estimates.

Has Forests NSW promised to sell more native forest and plantation hardwood than it can sustainably supply?

We found that Forests NSW should have sufficient timber to meet its wood supply commitments which are fixed for periods up to 2023 using both native and plantation

hardwood. However, the cost and difficulty of harvesting and hauling this timber is likely to increase over time. This presents a significant challenge for Forests NSW to manage.

Forests NSW has comprehensive information on its wood supply commitments, and it regularly monitors performance against allocations.

Over the last five years, not all contractual commitments for sawlogs have been met, although the results vary by product and region. Forests NSW advise that the gap exists due to production lags and downturns in the industry, rather than insufficient timber resources. In some cases, demand has been met through the substitution of smaller logs instead of the premium large sawlogs which is allowable under a number of contracts.

Forests NSW identifies risks which may affect its ability to supply hardwood, both at a corporate and regional level.

It has strategies in place to address its key supply risks, but has had mixed success. It manages bushfires and salvages timber after major fires. However, it has not met its targets for sourcing timber from private property.

Summary of recommendations

To improve its knowledge of timber availability, we recommend that Forests NSW review its yield estimates for southern region and its hardwood plantations and compare actual harvest results with yield estimates.

To address business risks, we recommend that Forests NSW simplify and improve timber pricing and develop a better way of meeting its private property targets.

We recommend that the Minister responsible for native forest operations include yield review requirements that allow for a non-compensable reduction in allocation, in all future wood supply agreements.