



BRIEFING NOTE

AN OPTION FOR STIMULATING EXPANSION OF THE SOFTWOOD PLANTATION ESTATE IN NSW

Why is the need for plantation expansion an issue?

- There has been a long-term decline in establishment of new plantations.
- Current fibre supply deficit – forecast to get worse, while demand for wood-based products is increasing strongly.
- Impact of 2020 fires has exacerbated the supply problem significantly.

Why does this issue present a problem?

- The softwood plantation-based industry is the primary driver of the SW Slopes regional economy.
- Contraction (almost certain after fires) will adversely impact the regional community.
- Confidence in future resource availability is essential to minimise contraction of this industry, and to encourage future processing investment.

An Option for Government to stimulate plantation expansion.

In 2017, the Softwoods Working Group (SWG) undertook a detailed analysis of the issues facing softwood plantation expansion in NSW, which included the examination of various models of land ownership and plantation operation. The 'Business Case' developed as a result of this work recommended the adoption of an option **involving public ownership of land and subsequent leasing to private growers**, as offering the best support for the expansion of softwood plantations in NSW. The Business Case set out details of the preferred option in relation to the rationale for Government intervention, cash flow implications, and possible mechanisms for implementation.

The 'Business Case' Option can be summarised as:

- Government buys land, on an opportunistic basis, within a defined 'suitable' area
- The land is leased to private growers at a commercial rate linked to capital value (say 4%)
- Growers can then access the ERF (via sale of ACCU's from growing trees which they own)
- The carbon revenue, combined with the avoidance of high up-front capital expenditure on land purchase, will deliver sufficient IRR returns to meet investment hurdle rates.
- Government receives 100% cash refund (30 years of 4% = 120% of land cost)
- Government retains ownership of land (as an asset on the public balance sheet)
- Greater resource security is offered to processors via confirmation of subsequent rotations

a) Rationale for Intervention

The Business Case supported consideration of public sector assistance in the establishment of additional softwood plantations in the SW slopes region of NSW. **It should be noted at the outset that the nature of Government intervention proposed was not to involve any sort of grant or subsidy being made to the private sector.** Instead, the 'Business Case' option proposed requires NSW Government investment in a land bank, which is then leased (at commercial rates) to private or public forest growers/managers.

In order to justify public sector intervention, it is necessary to demonstrate that a situation of "market failure" exists. Market failure is a situation in which the allocation of goods and services is not efficient. That is, there exists another conceivable outcome where at least one individual may be made better-off without making someone else worse-off. In summary, market failure can be seen to occur in the SW Slopes plantation area because processors have no incentive to expand the plantation area privately, as they will not derive sole utility (benefit) from any such investment. A plantation is a "multi-product" production unit – no single processor can derive all the benefits from the investment required to establish a plantation.

The recommended option will overcome this market failure by encouraging the expansion of the plantation estate. **The Government will own the land, and then lease it to private forest operators at a commercial rate.** This will overcome the high capital barrier (the cost of land) associated with plantation establishment, which (when combined with the long period before revenue is derived) results in poor returns to plantation operators. It will also deliver wood fibre to all classes of processors, and so act to support the existing strong contribution made by the processing industry to the regional economy.

It should also be noted that some additional "public good" benefits can be delivered as a result of expanding the plantation estate, as public access can be gained to the forested areas for recreational and commercial purposes.

b) Cash flow forecasts

The recommended option involves the purchase of around 30,000 ha over a 10 year period, which can then be leased to private forest growers. A model has been developed to assess cash flows resulting for the land owner (the State) and for forest growers (the lessee), with the following characteristics:

- An average of 3,000 ha (net) to be established per annum.
- The ability to accrue benefit via the sale of ACCU's under the Australian Government Carbon Farming Initiative has been included as an option for analysis.
- Sensitivities to key variables, such as the price of land, carbon values, and lease fees charged, have been tested.
- Cash flows are modelled for both the land-owner (the Government) and the forest grower (the private partner).

This modelling has indicated that attractive returns can be delivered for a private forest grower from this "staged" development. The ability to sell ACCU's would also improve the returns. The relevant IRR figures are :

3,000 ha per year for 10 years	6.42%
3,000 ha per year plus ACCU sale	7.26%

c) Mechanism for Implementation

The Softwoods Working Group recommends that the following approach be considered for the establishment of a Plantation Expansion Fund (PEXF) for NSW. This fund would be established with the express purpose of purchasing land for the establishment of softwood plantations to provide timber resources for local manufacturers and processors and would include land within a radius of approximately 100km from Tumut and in NSW (ie. the Tumut Supply Zone). Implementation of this process would involve:

- i. The full amount of the allocated funding to be set aside within a suitable trust fund administered by the NSW Government.
- ii. The funding will remain within that trust for a period of 10 years or until the targeted area of 30,000 ha (net) is achieved.
- iii. Oversight of that fund will be undertaken by either Treasury or the Dept of Primary Industries.
- iv. A small advisory group (AG) should be established to co-ordinate the purchasing program and ensure appropriate land is acquired that is consistent with the fund's objectives.
- v. An experienced rural property real estate agency to be appointed
- vi. The recommended participants within this group could include representatives from:
 - a. The SWG
 - b. The Department of Primary Industries and/or the Department of Regional NSW
 - c. A community representative
 - d. Senior principle of appointed real estate agency

This group needs to be independent of any organisations likely to be involved in the subsequent planting and management of the new plantation areas. Suggested functions of the AG could include:

- a) Establish the criteria for land suitability (access, soil type, rainfall, environmental/conservation, fire protection, catchment protection, neighbour issues, adjacent land use, weed and feral animal issues)
- b) Undertake Community Engagement activities
- c) Determine any 'no-go' areas
- d) Liaise with NSW Valuer General
- e) Engage other professional advise as required
- f) Contribute to the development of a strategy to undertake the planting of purchased properties. (ie. Process for determining the most appropriate 'grower' of a particular land parcel)

The governance and rules associated with the proposed advisory committee and the fund would need to be determined, to ensure the highest standards of probity and due process are observed.

Potential Outcomes

- Expansion of plantation estate by 30,000 ha (net) over 10 years.
- Resource security for local processing industry, leading to potential for future expansion of operations.
- Support for the strong socio-economic role played by the industry within this region.

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