Tasmanian tree plantations

OPINION

Talking Point: Billion-dollar loss shows forestry finances need overhaul

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A SURVEY of the wreckage left behind by Forestry Tasmania reveals that since its peak in 2004 it has lost more than $1 billion from forestry activities.

During that time cash outlays were $440 million more than trading revenue and the value of the forest estate fell by more than $600 million.

Adding the two figures gives the aggregate loss over the last 13 years of $1 billion, equal to $40 for each tonne harvested.

Spending on plantations ($106 million), property and plant ($33 million) and roads ($105 million) added nothing to FT's asset base. Together with the continual losses from forest harvesting it meant FT's cash losses totalled $440 million over the last 13 years.

Then there are non-cash losses, often called book losses, principally the fall in the value of the forest estate. This has occurred because a lot of trees have been chopped down and sold and because as maintenance and harvest costs rise faster than prices for forest products the value of remaining forests falls. Over the last 13 years the value of FT's forests has fallen by more than $600 million. Trees entrusted to FT are now worth a fraction of their former value.

So how did FT cover its cash losses? Governments have provided cash of $331 million since 2004. Asset sales totalled a further $165 million, notably $78 million for the remaining 50 per cent interest in the state's softwood plantations and $60 million from the recent plantation hardwood sale.

Total cash received, other than from ordinary trading, has therefore been $496 million. That's a lot of money.

The state "contributed" a further $113 million by taking over the unfunded superannuation liabilities of past employees. FT was unable to set aside super for existing employees let alone the growing number of ex-employees drawing pensions.

Without government backing FT was hopelessly insolvent. But being government-backed meant we missed the golden opportunity of Schumpeter's creative destruction whereby companies go broke and from the ashes a more viable industry may emerge.

For a government which said it would end public subsidies to FT, the Hodgman Government has provided $161 million in three years.

Will the cash from the recent plantation sale be sufficient to launch FT on a new journey? Half will be needed to pay off debt from trading for the past two years whilst the plantations were being sold. A further $21 million received as a specific purpose grant but spent elsewhere will need to be found when the time comes to spend the amount as intended, for thinning plantations. There won't be much cash left to fund the future.

Recognising spending on roads and new plantations as immediate expenses is what the Auditor-General recommended in a draft report on

FT's performance issued April 2009: " … without stronger financial performance, investment in roads and plantations over the past 15 years will not yield future benefits to Forestry and arguably should be expensed rather than capitalised. On that basis, it can be argued that ordinary operations from 1994 to 2008 have yielded little profit." Things went further downhill after then.

Yet FT kept saying spending on roads and plantations was helping to make its asset base more sustainable. The rationale was to establish plantations to gradually replace timber from native forests before the ever increasing costs of roads to harvest the increasingly remote native forests became obvious even to Blind Freddie.

FT and its political supporters responded to the impending train wreck with typical torpor. They did little more than blame others.

Forest revenue may have risen slightly in 2016-17 but increased harvesting and cartage costs quickly wiped out any gain. Revenue only rose because of woodchip exports which won't be sustained because over half the plantations have been sold.

The State Government now pretends selling plantation assets will form the basis for a sustainable future. It may not be a portend but in 2016-17 FT clearfelled 476ha of plantations but only 64ha proceeded to a second rotation and this was as a result of coppicing where stumps start sending out new shoots. Hope springs eternal.

FT has struggled to simultaneously assess the financial and ecological sustainability of native forest operations. Spending on roads to harvest native forests should be expensed. Treating post-harvest make-good expenses as capital is misleading as they too should be expensed. Balance sheet losses which occur when trees are harvested or otherwise lose value are glossed over. Future harvest proceeds and hence forest values are overstated because the costs of roads to harvest the trees are excluded. And when forests are valued as a whole to be then split between land, roads and trees, land is arbitrarily allocated a zero value. Few others regard native forest land as being worthless.

The crux of disagreement over native forestry relates to loss of value when forests are clearfelled. FT doesn't assign any value to its native forest land and hardly acknowledges the almost universal belief land loses value with clearfelling. FT's financials implicitly assume all value is with the trees. They grow again, so what's the problem?

If one was unsure whether trees still grow in a skyward direction one may consult a forester. But if one was trying to run a forest business, one wouldn't bother based on FT's past performance. Their reporting of profits is wrong. Their measures of financial sustainability are wrong. Their business models are wrong. In FT's case it was made even worse by imprudent long-term timber supply contracts.

There's no evidence the newly branded Sustainable Timbers Tasmania is any more sustainable than its predecessor FT. With reduced assets, its few remaining plantations are years away from positive cash flows and the inherent problems with native forest activities are far from being resolved.

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