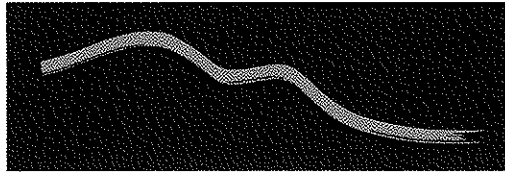


B L U E R I D G E



H A R D W O O D S

A PAPER CONSIDERING THE FUTURE OF THE EDEN TIMBER RESOURCE.

**AND SUBMITTED TO THE NSW FOREST INDUSTRIES TASKFORCE FOR
CONSIDERATION** by Blue Ridge Hardwoods, (Eden), P/L. 18.8.2016.

As you are aware, I am Allan Richards and lucky enough to be the Managing Director of Blue Ridge Hardwoods, Eden, as well as a part owner, along with my 4 sisters. Before I get into the official part of the presentation, I would just like to mention a few things about our company and the Eden region.

Since 1948 we have owned at least 25 sawmills, some of which were only used to increase volume for a larger mill of ours in the region. For example, in order to strengthen our Bombala and Nimmitabel mills, we bought another 2 sawmills in Bombala, and another 1 in Nimmitabel, Pambula and Bega. It panned out that we eventually consolidated 9 sawmills, 5 in Victoria and 4 in NSW.

At one stage we had 400 employees and many contractors. We were the 2nd largest milk producers in the Southern Hemisphere, operated quarries, heavy construction, subdivisions, wholesale / retail timber yards, glue-lam plant, veneer factory and commercial joinery. We also had regional contracts with the Vic Government for management and operation of harvest and haul operations.

Today, things have changed; no trucks, no milk and just 1 sawmill. But that sawmill is currently scheduled for closure in 2018, unless we can develop some sort of strategy in the meantime. Another significant regional employer could be about to bite the dust.

BRH Eden was established as a 50:50 joint venture between the State Govt and the company, with each contributing \$6 million towards the redevelopment of the former Boral site, which had been closed in 1996. Behind it all was a new 20 year supply agreement, that back in 1999 was touted by Govt as obviously being renewed and expanded when the time came. We commenced operations at Eden in April 2000.

We employ 55 staff, apparently making us the largest employer in Eden, annually we exceed \$12 million in sales, contribute \$6 million in wages and contractor

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payments to the local economy, pay \$1 -2 million in royalties etc to Govt and probably are the biggest sponsors of youth sport in Eden.

If we have a look to the back of your paper you will see a socio-economic graph that puts Eden in perspective with the rest of the state. It is based on 2011 figures and things have got worse since. Eden is essentially a forestry and fishing town that has suffered massively from the regulation of those 2 industries in the last 2 decades. 150 fishing boats that regularly used to visit the port, to 10; at least 150 govt forestry jobs; 20 contracting crews, to 4; 140 jobs at the fish cannery, SEFE, 120 to 60; loss of a school; retail sector halved, etc. etc. Fighting against that was Blue Ridge Hardwoods with 50+.

You may be aware that a report dated 9th December 2013, was prepared for Forest Corp by URS Australia P/L and was called "Marketing Plan for the Eden Hardwood Resource". I believe it was presented to the Taskforce.

Blue Ridge Hardwoods, being the only sawmiller in the region and a sizeable part of the industry, studied that report. Initially our interest was as a source of fresh ideas and possible solutions to some of the looming issues, but as we got into it, we found that we were developing a position of variance with the fundamental concepts surrounding much of the URS marketing plan. This grew to a point where we decided to formally respond and this document was completed by November 2014 and submitted to the Taskforce for consideration. The authors are Norm Walker, Russ Ainley and myself.

The real questions I ask myself, surrounding the URS Report and the BRH Response is that, is it possible to sustain a viable sawmilling operation into the future and can it also sustain the whole forest based industry? The other issue of course is that, do these documents in some way, encourage or discourage investment in the future resource and potential sawmill technology, and does the required return equal or exceed the risk? What is the risk? I would like to promote the BRH view on these matters and others that we believe are integral to the discussion.

Knowing the Eden resource as we do and many of its nuances, we understand and sympathise with URS on how difficult a task it must have been, when you have an apparent lack of future economic resource to develop a plan around, that by default, they might have felt some compulsion to try and create one anyway. In our view, what was presented is unsatisfactory, from an investment perspective. We believe that view would not surprise URS.

Our impressions of the URS Report are these, but please remember that this is essentially about the Eden MA itself and in isolation, things may appear to be quite negative in regards to the future, as they stood then and now, but if URS had been asked to look at the same subject on a broader basis, then the Marketing Plan may have taken on a different outlook, and therefore, so would have our response.

- During the information gathering for their Report, they failed to physically meet with the only sawmiller in the Eden MA, BRH. Their time of inquiry was limited to a 10 minute phone call, with a couple of questions thrown in. What makes that more unusual is that they did carry out "Processor Interviews" with other parts of industry around Australia, we presume, because in the copy we were supplied with, there is nearly 5 pages with that heading that has been blacked out. In addition, Appendix E, titled "Sawmill Capacity to Pay Modelled Outputs", comprising 4 pages, was blacked out also.
- We guess that URS understood the frailty of their proposal, because they constantly reference the inadequacy of the Eden resource information and that substantial work is required to find out if the resource actually exists. That's appropriate, but the resource that they then identify as being of the required volume is smalls and ultra-smalls, in species and size, that have never been tested operationally at any scale, so as to ascertain the economics of such a venture. That is, it has no accepted and proven viability.
- URS recommend that Forest Corp consider understanding the wood properties of the Eden resource and test the suitability of small diameter logs for key species, where data is limited or non-existent. We believe that is a well-founded request, because most suppliers that are promoting a product for sale out in the marketplace, have a responsibility to justify that it is fit for purpose, but then URS persist with a wood flow model that includes unknown resource information and timber characteristics, unknown production criteria and processing costs, uncertain market potential, unknown mill design and types of processing technology and unknown return.
- URS have advocated this small and ultra-small resource, presumably on the basis of the European and North American experience with small logs, where heartwood and sapwood are structurally sound and there is minimal or no spring contained within the log. They may also have considered it because of highly productive, hybrid, Eucalypt plantations overseas, that don't have the taper, straightness, quality and defect issues involved with regrowth forests in the native Eden landscape. To prove a point, I have looked upwards at 8 – 10 year old Eucalypt plantations in Brazil, Chile and Argentina until I have fallen over backwards, yet in my office I have a cross-section of a 75 year old Silver-Top Ash log that measures 27 cm in diameter and carries a large gum vein growth.
- URS did touch on, but may not have adequately considered the impact of the conversion of this resource from pulpwood to sawlogs and the resultant loss of income to ANWE and the Govt, as pulp in these species and size range is more valuable as a revenue source. In the opinion of BRH, there is a belief that this resource in the form of sawlogs, could attract a zero or negative royalty, in order to try and capture processing viability, but that currently Govt may receive, say \$20/Tonne for the same product, in the form of pulpwood.
- The issue of making more resource available in the Eden MA, in order to achieve the required economies of scale, by reducing rotation age, has an

adverse effect on the recovery of sawlogs, into the future. From 60 to 50 years reduces yield by 38% and to 40 years, 63% and say going to 40 years, would also reduce the resource base, as the poor quality and suppressed regrowth sites, would have to be counted out. Please also be aware that dropping the average diameter from 41 cm to 36 cm on log sales, by harvesting earlier rather than later, would halve the revenue outcome for Forest Corp.

- The URS Report did not consider the issue of wildfire. BRH, in forming an investment strategy that would reasonably manage risk, see this as the single biggest issue holding back the retooling of a sawmilling operation post 2018. In the 90's Eden was rated number 3 hot-spot in the world, following The Otway's and Southern California and unfortunately regrowth, because of the density and compactness of those stands, can be annihilated in a hot fire, like we experienced in 80 and 83. Trust me, wildfire in Eden is inevitable.
- BRH started in 2000 with a lot of new plant and equipment. Effectively much of this is close to worn out and could not be considered suitable for a further 20 year term.
- If BRH closes in 2018 and is scrapped, it is in our view extremely unlikely that a Greenfields operation could be established at some point in the future, that would embrace the depth of value adding that is carried out at the current site. The economics of Greenfields mills are frightening.
- Any outcome after 2018, has to involve "Integrated Harvesting", as it is the only way that the sawlog deficient resource in Eden can be economically harvested.
- To operate beyond 2018 will require a legislative fix.

So there you have it, I've given you some of the issues involved, with each one being vital to the satisfactory resolution of this matter, but if Govt and/or the Taskforce, is interested in retaining a vital, regional business and employer beyond 2018 in Eden, then I encourage you to read the BRH response to the Eden Marketing Plan as a first step.

I have only promoted the problems thus far; so what about the solutions ?

Straight up, the easiest way to deal with this is to create and/or buy sawmill technology that can process this emerging resource. But will there actually be enough economic resource, on an annual basis, to justify the investment and to create the required sawn output, so that the existing infrastructure, like kilns and dry mill can operate efficiently and to its maximum ? Is the machinery out there ?

In the opinion of BRH, if we do indeed need more "sensible" wood, then one would think, we will have to develop a regional strategy.

Of course, if the Carr Govt had have stuck to its original intention, as announced, of a 97,000 Hectare addition to the South-East Forests National Park, instead of the resulting 134,000 Hectare, then I wouldn't be here today.

The Eden RFA's principal task was the setting of conservation outcomes for the 56 Forest Ecosystems contained within the region, with a target of 15% of year 1750 extent. These were met in comprehensive fashion, often far beyond the scientific target settings. If we could roll those areas back to the targets, we would have the wood required to allow the current regrowth resource the time required to mature. Given that both State and Federal Govt's are now considering the Eden RFA extension or renewal, we are in the best time slot to consider that.

The BRH opinion is that in a less constrained environment, we do need to let the resource in Eden grow for another 10-15 years, so if we could find a volume of mostly quota sawlogs for that period, then we could move forward in a functional and efficient manner and actually right now is a good time to make that adjustment, as there is increasing evidence that National Parks are not performing to expectations and that State Forests are exceeding expectations. For instance, there is a realisation that wildlife, (reptiles, birds and mammals), are generally decreasing Australia wide in both number and range, but this is occurring as the National Park Estate has been increasing dramatically. Surely that should not happen and could be considered a contradiction of what was actually intended.

Let's look at the "4 Forests" scenario. 250 square kilometres of State Forest was declared as a Flora Reserve, supposedly to protect the habitat of the last colony of koalas in the South-East. Why then wasn't the surrounding National Parks, some of which were established in the 70's, providing the habitat protection the animals required? Why had they located themselves in one of the last pieces of State Forest in that area?

Why does wildlife appear to reject sterile and stagnant National Parks and seek out more dynamic environments, that is, working forests?

Why are we now involved at Eden in the relocation of threatened species, from State Forests, back into National Parks, as a further attempt at re-establishing those animals?

When 259 new colonies of Ledbeaters Possum were recently found in Central Gippsland, why were 200 of them located in State Forest? This region has huge areas of well-established Parks, some 8,000 square Kilometres in total, so why then are these delightful little creatures making working forests as their last stronghold and why is the Victorian Premier hell-bent on eliminating all the growing, scientific evidence, by considering proclaiming an enormous National Park? It would appear that the possums have already voted on what they want.

Just the other day at Powelltown, they found 2 Ledbeaters in 10 year old logging regrowth.

Why have nearly all recent sightings of the endangered Long Footed Potoroo, been found in logging regrowth?

Professor Hugh Possingham, a conservation scientist at the University of Queensland said, "there are too many Parks of little value in Australia" and that "no-one has done any research to prove that National Parks are the best way of protecting an area"

Why can wildfire, the biggest killer by far, of Flora and Fauna, be better controlled and managed in a State Forest, compared to a National Park ?

Someone once said: "the only countries that should create National Parks, are those that can afford to look after them".

Australia needs jobs, Australia needs business. It is our view that in Eden, we do not need the current size of the National Park estate. It's ability to enhance the quality and quantity of Flora and Fauna over time, has to be questioned and should not be a subject considered "taboo". In Eden, apart from the obvious icons, the majority of Park land rarely attracts any sort of tourism and promotes very few jobs. We need to protect more of our forests, flora and fauna with a more science based, expansive, working management style, as compared to the "lock-up and leave" nature of the Parks system, that sits there, quietly awaiting its appointment with a fire-storm.

We ask the question, is it possible that the residents of the Eden region are having their "quality of life" controlled, for at least the last 20 years, by residents that live in the leafy suburbs of Sydney and who enjoy and expect a much higher "quality of life" themselves ?

Why should Blue Ridge Hardwoods close, particularly when it is producing the most environmentally positive, mainstream building and furniture products on the planet and all with a tiny carbon foot-print ?