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***STRIKING THE RIGHT ECONOMIC BALANCE***

***In The Management Of The Otway  
Native Forest***

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***February 2000***

## **The RFA Process Is Supposed to Strike An Appropriate Balance Of Values.**

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### **Economic Values**

- Tourism
- Water
- Timber
- Other (eg, Bee-keeping)

### **Other Values**

- Bio-diversity
- Recreation

## **The RFA Process To Date Has Been Definitive Only With Respect To Timber Values.**

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### **Tourism**

- No comprehensive research on hinterland
- Constraints and threats resulting from logging not acknowledged

### **Water**

- No attempt to value yield and quality losses

## **The Steering Committee's 'Consultation Paper' Acknowledges The Many Unaddressed Issues.**

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- 8 pages of fundamental issues listed but not addressed
- The two governments simply have not done the work needed to get the right answer
- But good data on water, in particular, is available

## Timber Values In The Otway FMA ..... (1)

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- 350-400 hectares logged p.a.
- ‘Sustainable yield’ 44,000 m<sup>3</sup>. Actual cut c. 31,000 m<sup>3</sup>
- Log volumes (1997/98 m<sup>3</sup>)
  - woodchips 83,527
  - sawlogs 30,049 (only 6,438 B+)
- Revenue
  - catchments \$7.6 million
  - other \$10.3 million
  - Total \$17.9 million

## Timber Values In The Otway FMA ..... (2)

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- Revenue per hectare \$51,000
- Employment :
  - less than 200 F.T.E.s
  - approximately 1.5% of regional workforce
  - \$5 million p.a. total labour costs
  - declining

## Timber Values In The Otway FMA ..... (3)

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- Viability
  - sawlog operations in the Western Region lose approximately \$2.5 million p.a.
  - industry is 'viable' only because of woodchip revenue, and government subsidies
  
- Subsidies
  - royalties well below commercial levels
    - KPMG Report (1998) - sawlog royalties 30%-60% too low
    - woodchip royalties \$3.60 (ave.), when commercial cost is >\$20 per m<sup>3</sup>
  - DNRE expenses exceed revenue
  - non-payment of Royalty debts

## Timber Values In The Otway FMA ..... (4)

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- Downstream Effects
  - almost no value-adding activities in the region
  
- Future Prospects
  - appearance grade timber forecast to increase only marginally in next 10 years.  
9.2%  $\Rightarrow$  10.6%
  - unseasoned timber forecast still >60% in 2008
    - 1997/98 = 77.2%
    - 2007/08 = 61.7%
  - greater competition offshore and locally
  - royalties must rise under National Competition Policy
  - Otway sawmills have already announced possibility of merger

## Water Values In The Otway FMA ..... (1)

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- Forested catchments are a wonderful natural reservoir
- They enable us to avoid the need to invest in man-made reservoirs
- Water supply in the region is clearly an issue now
- Demand for water is likely to grow at around 5% p.a.

## Water Values In The Otway FMA ..... (2)

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- All available scientific evidence supports the conclusion that clearfell logging significantly reduces water yields
  - original CRC analysis - Mountain Ash forests
  - CRC conclusions extended to Mixed Species forests
- Yield loss in range 15% - 40%
- Hydrology research in the Otways needs to be completed

## Water Values In The Otway FMA ..... (3)

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- Water is more valuable than woodchips and timber under any reasonable assumptions

### Otway Water Catchments Value of Water Lost Through Logging - Per Hectare

#### Price of Water Per Megalitre:

		\$700	\$1,000	\$1,500
<b>Water Yield Loss</b>	-10%	\$42,000	\$60,000	\$90,000
	-20%	\$84,000	\$120,000	\$180,000
	-30%	\$126,000	\$180,000	\$270,000
	-40%	\$168,000	\$240,000	\$360,000
	-50%	\$210,000	\$300,000	\$450,000

Timber value  
is \$51,000

## Water Values In The Otway FMA ..... (4)

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- Logging in catchments may prevent the expansion of major industries - Dairy Processing, Tourism, Meat Processing
  
- Dairy Processing
  - 6 major processors. 2,500 employees
  - doubling of output mooted, following industry deregulation
  - additional water critical to expansion plans
  - Gellibrand catchment yields being reduced through logging
  - South West Water concerned about effect of logging on the integrity of the Gellibrand system
  
- Tourism
  - Hospitality industry is water intensive
  
- Meat Processing

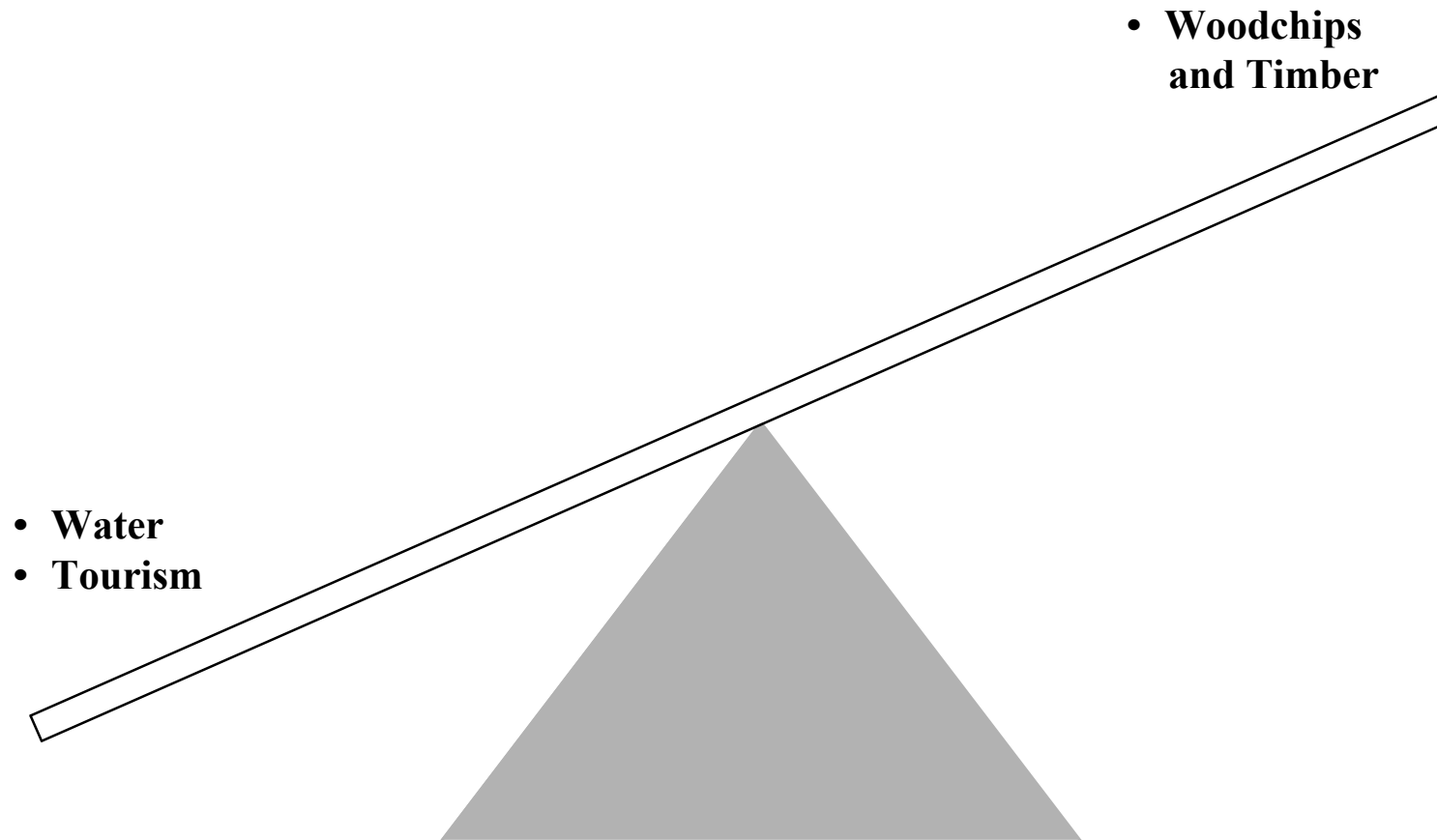
## **Tourism Values In The Otway FMA.**

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- Tourism generates \$500 million of revenue p.a. in the region
- One of the biggest drivers of employment growth
- Development to date mainly along coastal strip, as hinterland is a ‘logging province’
- Impact of clearfelling on scenic values is catastrophic
- Surf Coast Shire and Apollo Bay Chamber of Commerce opposed to logging

## Summary -Woodchips And Timber Are The Least Important Economic Values In The Otways.

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## **Recommendations.**

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- Water catchments must be protected
- No clearfelling
- Subsidies to be eliminated
- Active sponsorship of, and community support for, industry restructuring