

**PAC(5)–16–17 PTN2 5 June 2017**

**Public Accounts Committee**

**Inquiry into Natural Resources Wales Annual Report and Accounts 2015–16**

**Additional evidence from David Sulman – Executive Director, United Kingdom Forest Products Association**

Please find below my comments on the ‘market testing’ referred to by NRW in their evidence presented to the PAC on 22 May 2017.

Part of the evidence presented to the Public Accounts Committee by Dr Emyr Roberts, Chief Executive of Natural Resources Wales, on 22 May 2017 referred to ‘market testing’ carried out by NRW in 2012 and which was reported to have involved the offer of several small parcels of Larch to NRW sawmilling and wood processing customers. Dr Roberts reported that this exercise had not resulted in particular interest in the parcels being expressed by NRW’s customers.

When commenting on NRW’s subsequent marketing of Larch, an exercise that was unsuccessful and only resulted in the award of new Long Term Contracts for both Larch and Spruce to a sawmill operator, who had been an unsuccessful bidder, after separate negotiation in mid-2014, Dr Roberts stated that they had relied on the experience of the 2012 ‘market testing’ to inform their approach to the marketing of Larch in 2014.

As we now know, NRW offered very large volumes of Larch, to be sold in Long Term Contracts, to the market and that as a consequence of the very large volumes of Larch being offered, there was again little interest from the majority of NRW’s customers. This was because the volumes being offered were far too large for most of NRW’s customers to process. Dr Roberts claimed that as a consequence, NRW believed there was not only no market for Larch at the time, but that it would have been futile to test the market again following the 2012 exercise; they concluded that they therefore had no option but to award new Long Term Contracts to a single company. However, it must be noted that not only was the sawmill operator in question awarded new LTCs for Larch, but most contentiously, they were also awarded new LTCs for Spruce as well; it must be noted that Spruce had not been

offered to any other NRW customers. This is a very significant point, as there can be no doubt that if NRW had offered combinations of Larch with Spruce, there would have been considerable interest from many of their customers.

In 2012, the existence of Phytophthora ramorum disease in Larch crops in south-west England and the South Wales Valleys was common knowledge. However, at that time, those companies who had traditionally utilised Larch were continuing to do so, there was no incentive for other wood processors, most of whom utilised Spruce, Pine etc., to consider purchasing Larch. It is for this reason that the so-called 'market testing' referred to by NRW did not elicit particular interest from most of their customers; the size of the parcels offered at that time was immaterial, there simply was no interest by most buyers in purchasing Larch that time.

By 2014, circumstances had changed dramatically; the disease of Larch had spread beyond south-west England and South Wales to infect Larch crops in Derbyshire, Lancashire, Cumbria and Galloway. As a consequence, an extensive programme of felling of diseased Larch was being undertaken in England, Wales and Scotland. It is noteworthy that a different approach to the situation was taken by NRW, by comparison with the decisions taken by the Forestry Commission in England and Scotland. In Wales, NRW had chosen not only a different approach to disease control, which would over time result in the removal of all Larch, both infected and healthy trees, from the public forest estate in Wales, but also to the marketing of Larch. The disease control measures in England and Scotland focussed on the prompt identification, removal and marketing of infected trees; there was no objective of removing all Larch from the public forest estate. Furthermore, the marketing of diseased Larch by the Forestry Commission in England and Scotland was far more proportionate than in Wales and therefore better suited to the scale and capabilities of the wood processing sector to handle the material arising from the sanitation felling programme. Although the volume of diseased Larch harvested in Scotland and England was substantial, the material, which was sold in Larch-only contracts, was readily processed and successfully sold into various markets. No new saw lines were constructed in England or Scotland specifically to process this Larch.

By 2014 it was increasingly apparent to sawmills and other wood processing plants in Wales that there would be a glut of Larch on the market, as sanitation felling progressed. Accordingly, companies began to investigate the processing and marketing of this material, especially as production of Spruce was going to be reduced by NRW, as they tackled the Larch disease. This was a very significant development and in the period 2014 – 2016, very substantial volumes of Larch have been processed and successfully marketed.

The impact on the wood processing sector of the glut of Larch should not be underestimated; considerable efforts have been made by sawmills to encourage the use of Larch by their customers. This has not been easy, especially where Larch was to be substituted for other species, such as Spruce and Pine. If NRW had offered a combination of Larch and Spruce and in more manageable volumes in Long Term Contracts of five or ten years duration, then there is absolutely no doubt that there would have been considerable interest from most of their customers. It has been shown that NRW's attempt to market large volumes of Larch-only LTCs was unattractive to their customers; hence the very limited response to the offer. After subsequent negotiation with a sawmill operator, NRW controversially awarded new Long Term Contracts for not only Larch, but Spruce too, in 2014.

To suggest that the experience of 'market testing' of Larch carried out by NRW in 2012 would reliably inform the development of their later marketing strategy for Larch, is simply not credible. Conditions in 2014 were so significantly different to those that prevailed in 2012, that NRW's subsequent marketing decision was ill-advised, flawed and inappropriate.

Dr Roberts also stated that NRW had not been approached by any wood processors with a view to purchasing Larch. I am aware that representations were made by at least one company to NRW in this connection, but their interest was declined. I am also aware that other companies would have expressed an interest in smaller volumes and as stated above, many more companies would have expressed an interest had they known that NRW would have offered them both Larch and Spruce LTCs.

During the evidence presented by NRW on 22 May, the comment was made by Kevin Ingram that they felt that some of the Larch would not have sold because “it was too small”. It is important to appreciate that small diameter logs, known in the industry as small roundwood, is a very saleable commodity. Small roundwood provides a feedstock for the wood panel industry, where it is used in the manufacture of wood chipboard, MDF and OSB. In addition, small roundwood is keenly sought by the biomass sector. Also, in modern forest management, it is common practice to thin crops at an early age, which removes some small diameter trees, thereby encouraging stronger growth of the remaining trees. These thinnings are also marketable products. In view of these two points, it is clearly incorrect and misleading to say that much of the material was “of the wrong size” or “too small”.

During the evidence from Dr Roberts he mentioned that UKFPA had facilitated visits for him to UKFPA Member Company sawmills, during which Larch matters were discussed. It must be noted that UKFPA arranged only one visit for Dr Roberts. This was shortly after the formation of NRW, when Dr Roberts visited a sawmill near Carmarthen on 10 April 2013. The purpose of this visit was to provide Dr Roberts with an introduction to the sawmilling sector in Wales, not to discuss the marketing of diseased Larch by NRW.

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