Ein cyf/Our ref: NRW17-046

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Mr Nick Ramsay AM
Chair
National Assembly for Wales Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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26 May 2017

Dear Nick,

Response to PAC on UKFPA points 25th May 2017

NRW's decisions about the marketing of larch timber were informed by both the rapid spread of the disease and by the market response. The total area of larch in Wales in 2010 was around 24,000ha, of which 11,000ha was on the Welsh Government Woodland Estate, (WGWE). The table below shows the rapid increase in spread of the disease, nearly all of which was in the extensive areas of larch in the South Wales valley on the WGWE.

Year	Areas of new infection (hectares)	Cumulative area (hectares)
2010	876ha	876ha
2011	545ha	1,421ha
2012	1,280ha	2,701ha
2013a	264ha to end April	2,965ha
2013b	2,300ha to 12th June	**5,265ha**

By 2011 we had increased the amount of larch in the harvesting programme to c100,000m3 (equivalent to 80,000Tonnes or 400ha of mature larch). We tried to increase this further through open market sales. Between May 2012 and May 2013, we offered the market the following parcels of infected larch as standing timber:

18 Standing Sale Parcels with a total quantity of 64,670 tonnes. The parcels ranged in size from 725 tonnes to 7,593 tonnes.

- 9 of these parcels did not sell (26,216 tonnes).
- 9 parcels sold (38,454 tonnes), of which:
  - 5 achieved positive prices of between £1.00 and £12.20 per tonne.
  - 4 achieved negative prices of between -£1.52 and -£32.62

The total value of the 9 sales to NRW was -£133,482.27; an average price for the 9 sold coupes of -£2.06.

This demonstrates that the market had been tested with a range of parcels, of different sizes, in open market sales. If we had continued to adopt this policy, we would have only been able to clear around 500ha/year.

Following an additional Customer Liaison meeting in 2012, in which we indicated the need to increase the amount of larch in the harvesting programme, we proceeded to offer several Long-Term Contract opportunities in order to secure the investment required in the supply chain to harvest and process the increasing volumes of infected larch.

The main element of the LTCs were three Standing Sales contracts each of 65,000m3/year.

Only 3 companies submitted bids. We scored all the bids and allocated the contracts to 2 of the companies and were working through the process of awarding the contracts and negotiating the start-up phase when the surveys in the spring of 2013 showed a further major increase in the infection (2,300ha, in excess of 500,000m3 of timber).

It was concluded that re-tendering would add delay and was unlikely to result in a stronger market response. The decision was therefore made to offer the 3rd bidder a long-term contract of 65,000m3. The company agreed but only on the conditions that their existing spruce LTCs were extended by 10 years. They also negotiated with one of the successful companies to assign one of their larch LTCs over to them. The other of the original bidders failed to secure the finance to progress with their project and so their LTC was never taken forward. The end result was that most of the Standing Sales LTCs for larch were with the 3rd company who were contractually committed to undertaking some £10m of investments, including the installation of a new saw line for the shorter, small diameter logs that arise from the larch crops. The history demonstrates that it is misleading to suggest that NRW chose to directly award a single large LTC to one company without market testing.

The apparent contradiction in the comments from David Sulman and Kevin Ingram about the marketability of small diameter larch timber is explained by the following. There are indeed a number of markets for the “small roundwood.” The straightest material can make fencing stakes and attracts good prices. However, the majority of the larch small round wood is not suitable for this market and is used to make panel products such as chipboard or as wood fuel in the biomass market. However, these bulk markets offer low prices which are often insufficient to cover the cost of harvesting and haulage from many of the sites managed by NRW, due to the terrain and distance to markets.

Therefore, while there are markets for small diameter larch, this does not take into account the loss that woodland owners can incur when supplying such low value markets. It is therefore entirely correct to say that small diameter timber would not have sold, because the normal meaning of the word "sold" is that the buyer pays you for the product, not that you incur a loss in supplying that market.

The UKFPA's prime objection to the Long-Term Contracts was the decision by NRW to extend the spruce LTCs of the 3rd company. This position overlooks the extremely difficult position that NRW was in with respect to P ramorum, which the Auditor General recognises in his report, and the efforts that NRW made to secure markets for infected larch through a combination of methods as described above.

I hope that this answers the comments raised. Please let me know if you would like any further information.

Yours sincerely,

Emyr Roberts

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Prif Weithredwr, Cyfoeth Naturiol Cymru
Chief Executive, Natural Resources Wales