



9th March 2011

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Committee Secretary
Senate Rural Affairs and Transport References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

**SUBMISSION
INQUIRY INTO THE SALE OF TIMBER ASSETS BY THE SOUTH AUSTRALIAN
GOVERNMENT**

I am writing in response to your letter dated 24 February inviting submissions on the above matter.

Gunns Limited is a publicly listed company with a long history in timber manufacturing in Australia, commencing its first timber milling operations in Australia in 1890. Gunns Timber Products (GTP) as the specialised milling division of Gunns Limited was formed in 2008 following the acquisition of former softwood timber company Auspine Limited and the consequent consolidation of the existing Gunns hardwood business.

Today GTP is a diverse timber business with interest in softwood and hardwood resource management, softwood woodchip export, timber processing and value adding. Its assets range from plantation and resource management through to sawmilling, wholesale distribution facilities and some minor downstream retailing.

Gunns has significant interests and investments in the region known as the Green Triangle which includes both the South East of South Australia and South Western Victoria.

In South Australia Gunns operates one softwood radiata pine sawmill in Tarpeena, (located 22 kms north of Mount Gambier) and one further processing facility in Kalangadoo (located a further 20 kms north west of Tarpeena).

The current combined log in for the Green Triangle Business Unit is 520,000m³ per annum of radiata pine. GTP saws and processes logs sourced from a wide range of company owned, private, contracted and investor owned forests. Up to 25% of the sawlog volume GTP processes comes from the South Australian Government forests.

The Tarpeena operation supplies timber primarily for the domestic home building market in Australia. Tarpeena also provides product for pallet manufacturers and its Kalangadoo operations to further value add through a preservative treatment process.

The Kalangadoo operation is focused on preservative treatment products for the Australian market. Kalangadoo capacities are 70,000 m³ of CCA product, 25,000 m³ of Creosote product, 30,000 m³ of T2 product and 25,000m³ of dry after treated product. It supplies a full range of CCA and Creosote agricultural products in fencing, stockyards and shed products. The facility also has kiln drying and destacking capability to supply dry after treated products to the Australian outdoor leisure market. The site also produces landscaping and domestic fencing products plus a full range of termite protection structural framing products.

Gunns directly employs 295 people in the Green Triangle region and contributes \$115 million annually into the local economy in terms of raw material purchases and operational costs. Over 80% of this spend is directly into the Green Triangle region. Gunns is of the view that it is a significant contributor into the economic and environmental well being of the Green Triangle region.

In relation to the proposed forward sale of timber assets by the South Australian Government we put forward the following comments.

- The decision to forward sell forestry rotations appeared to be made by the South Australian Department of Treasury and Finance with little to no consultation with any stakeholders. As a representative of Gunns Limited I was invited on the 20th October 2010 to a Forestry Forum held in Mount Gambier with local stakeholders on the issue of the proposed forward sale of forestry rotations by the South Australian Government. The key invited guests were, amongst others, the Hon Michael O'Brien, South Australian Minister for Forests, Julian Robertson, Director, Market Projects Unit, Department of Treasury and Finance and Brian Farmer ,CEO Forestry SA (Brian has since resigned from this role). The audience was also by invitation and was made up of people directly involved in the timber industry, local business leaders, timber industry bodies, local and State government.
- The Minister had five questions on notice to respond to and the following excerpt of some of the dialogue is worth noting as the Minister's responses explain why the local community felt, and still feel, very strongly aggrieved at the process the South Australian Government has undertaken over this issue. Question 1 to the Minister was:
 - *Why is the Government considering options for forward selling harvesting rights of Forestry SA plantations for up to three harvesting cycles considering \$43 million is put into general revenue annually?*

Minister O'Brien: "The Treasurer initially announced this in December 2008 during the global financial crisis when all possible means to retire debt were being considered and we still need to retire debt to help retain the AAA credit rating".

The response by the Minister indicates that the forward sale is not part of an overriding broader strategic plan by the South Australian Government where all factors of a decision of this magnitude are very carefully considered but rather a "knee jerk" reaction to a debt position that needs rectification to retain its AAA credit rating. It also explains why no Regional Impact Study was carried out prior to a decision being made.

Question 5 to the Minister was:

- *As the Government is still reviewing the proposal who else is revising and reviewing the proposal and are you aware that local stakeholders haven't been consulted to date?*

Minister O'Brien: "There is a feeling that there has been an enormous amount of work occurring that I've been involved in, that Brian's been involved in. It is a process that's been run by Treasury and Finance, Julian has been involved. I had no involvement in it. A few other people were called in just for a bit of advice on various issues of forestry management, but this process has been run by the Bank of Scotland and by Treasury and Finance. We didn't consult widely. My views weren't sought. I don't think Brian's were in any depth...".

The Minister's response indicated to the assembled stakeholders that as Minister of Forests he was not consulted or invited for his views, nor was the CEO of Forestry SA asked for any input into the process adopted by the Department of Treasury and Finance in the decision to forward sell forestry rotations.

The audience became well aware that the decision to forward sell forestry rotations was a decision made by the Department of Treasury and Finance using the Bank of Scotland as their choice of consultants to provide advice. The fact that the State Government's own Minister for Forests had not been involved in this process portrayed a certain level of arrogant behaviour by the Department of Treasury and Finance. It also sent a strong message to the audience on what little value the Department of Treasury and Finance placed on consulting with the local community and in the preparation of a detailed Regional Impact Study on a very important issue.

One of the refreshing issues that came from this information session with the Minister however, was that the audience actually felt the Minister was being honest and straight forward with his comments to us and that was appreciated.

- There has been no detail accompanying the announcement of the proposed sale. There is total void on what conditions will be placed on the new owners of the forests going forward.
- The main conditions that Gunns would need to see attached to a sale of forestry rotations to give the company confidence to grow its investments in the Green Triangle area are:
 - The clear fell age of the State Government plantations as determined by the current Managers, Forestry SA be maintained. This ensures that the new owners do not increase their cash flow in the early years to satisfy investor requirements at the expense of a reduction in wood quality from the plantation estate which will have a significant impact on the ability of wood processors to value add their products.
 - The new owners, as a minimum, maintain the existing radiata pine plantation of at least 70,000 ha's.
 - The new owners continue to invest in growing the radiata pine plantation estate.
 - The offering of wood products from the plantation estate takes into account that the purchaser will contribute to the growth of the forestry industry within the Green Triangle region.

- Long term supply agreements entered into with processors within the Green Triangle region prior to the sale.
- The State Government consider alternative sale options such as the sale of smaller parcels of standing timber to local processors as an alternative to the current mill door price sale process managed by ForestrySA. This will maximise efficiencies for both local processors and ForestrySA, provide long term resource security to local processors and have the added benefit of avoiding the creation of monopoly private forest owner in the region.

Without any of these conditions attached to the proposed sale Gunns would be in a position where it would not have the confidence to invest in its processing facilities in the Green Triangle region. Without investment its existing processing facilities become out dated and uncompetitive in its key markets. Gunns has made a commitment to its shareholders that it will expand its radiata pine softwood processing facilities in Australia and it will achieve that commitment in an environment conducive to capital investment. The Green Triangle region is currently not considered to be a region that provides confidence in capital investment in processing facilities.

- The South Australian Government has also created a high level of uncertainty with its apparent abandonment of the National Water Initiative water reform process in relation to general water risk sharing and land use change. There is massive confusion around the application of punitive and retrospective water licencing agreements for forests that will be managed and monitored by irrigator dominated local NRM boards. At the same time the NRM Boards are presiding over massive and unsubstantiated increases in irrigator water use rights at a time when the water resource has shown signs of stress due to the unregulated over use of water irrigators during drought years. It appears that the local plantation industry will in the long run bear the cost of these unsubstantiated increases to irrigator entitlements by forced deforestation. Given that a full crop rotation of radiata pine can be anywhere between 30 to 38 years the adoption of policy that can significantly change throughout the rotation age greatly increases the risk profile of the investment by a potential new owner into the purchase of future forestry rotations. The new owners will subsequently discount the value of their purchase to pass the risk back to the original owner which in this case is the South Australian taxpayer. The question needs to be asked why the proposed sale of forestry rotations is proceeding when the State Government's has ,through its proposed water policy, greatly increased the risk profile for a potential purchaser and as such lowered the price a potential purchaser would be prepared to pay. The South Australian taxpayer would have a strong case that the State Government has orchestrated an environment that actually diminishes the value of the forestry asset that it wants to sell.

In summary if Gunns is unable to determine that the right environment exists in the Green Triangle region to grow its investment in softwood processing facilities it will select a radiata pine region that will support the investment of a modern high technology sawmill. As a major employer and economic contributor to the Green Triangle region it will have a devastating impact to local communities if Gunns exits the region.

The decision by the State Government to forward sell its rotations lacks any comprehensive review of the decision both from the local timber industry, social and environmental impact in the Green Triangle region.

It has created an uncertain investment environment in the region that is already impacting the confidence of the local communities, depressing housing prices and undermining investments by all businesses operating in the local community. The approach adopted to date by the State

Government on this issue has been unprofessional and has created a lot of unnecessary angst that could have been avoided with a transparent and consultative process.

As a result of the action taken by the local Mt Gambier community over the proposed sale the State Government has engaged the services of consultants (ACIL Tasman) to undertake a Regional Impact Statement. The State Government has undertaken that no final decision will be made until State Cabinet fully considered the consultant's Regional Impact Statement.

It cannot be over emphasized that without providing an environment that encourages investment in processing facilities in the Green Triangle region, the local processors will become uncompetitive in the Australian market as they compete with processors who have already invested in new technology and increased scale of operations. This will result in significant job losses in the value add solid timber processing businesses in the Green Triangle which in turn will have a devastating impact to the social fabric of the Green Triangle region.

Yours faithfully,

David S Ford
General Manager
Green Triangle Business Group
Gunns Limited