



GREAT SOUTHERN
LIMITED



Inquiry into forestry and mining operations
on the Tiwi Islands

Submission from
Great Southern Limited

16 March 2009

EXECUTIVE SUMMARY

Over the past four years, Great Southern Limited has been working in partnership with the Tiwi Land Council to establish a sustainable hardwood plantation industry on Melville Island, N.T.

Great Southern's involvement stems from its acquisition in 2005 of Sylvatech Limited, which had been developing plantations on the Melville Island since 1997.

At the heart of the Tiwi Islands Forestry Project is a true partnership between the traditional owners of the land and Great Southern Limited.

The project is delivering benefits to the Tiwi people on a number of fronts. The most tangible of these is employment, with approximately 25 – 35% of Great Southern's island workforce being Tiwi Islanders. Great Southern is committed to increasing participation by Tiwi in the forestry project via both direct employment within the company and through increasing capacity of Tiwi companies to perform contract work and employ Tiwis in the course of those activities.

Central to the project is the training of Tiwi Islanders, giving them the skills required to develop long-term careers in forestry. All Tiwi employed within the forestry project receive training, with the majority progressing through a formalised apprenticeship program which leads to a nationally-recognised industry qualification.

The forestry project is also delivering improved infrastructure including roads and a port facility for the Tiwi Islands, providing further benefits which are expected to aid in the development of other industries over time.

The rent payable by Great Southern for the land used in plantation development is determined on a commercial basis by the Australian Valuer General, and is subject to regular review.

To date over \$150 million has been spent on direct forestry investment to establish the plantation estate on the Tiwi Islands. With some 29,000 hectares of *Acacia mangium* plantations now established, harvesting of the trees is expected to commence in 2012 or 2013. Current estimates are that harvesting this extensive plantation estate should deliver \$320 million of export income annually over a single harvest cycle (approximately eight years), up to \$30 million of expenditure annually on harvest, establishment and plantation maintenance operations and will provide over 100 full time jobs. The trees grown on Melville Island will be processed into woodchips locally and then exported to the Asia-Pacific region for use in the pulp & paper industry.

In the spirit of the partnership that has been built to date, Great Southern is striving to increase Tiwi participation in every aspect of the operations, encourage Tiwi entrepreneurship and help the Tiwi people reach their goal of a more sound economic future.

The Tiwi Islands Forestry Project has the potential to be one of the best examples of plantation forestry development on traditional Aboriginal land in Australia. Delivering on the vision of a forestry project managed by skilled indigenous people for the long-term benefit of the indigenous island community is too important an opportunity to lose.

Great Southern is committed to the success of the Tiwi Islands Forestry Project, and is therefore pleased to be able to provide this submission to the Senate Environment, Communications, Information Technology and the Arts Committee. Should the Committee require any further information, please contact Cameron Rhodes, Great Southern's Chief Executive Officer, on 08 9320 9700 or via email crhodes@great-southern.com.au.

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1. BRIEF HISTORY OF GREAT SOUTHERN'S INVOLVEMENT

1.1 Recent Tiwi Plantations

Great Southern commenced management of the Tiwi Island Forestry Project ("TIFP" or "Project") in 2005, following the acquisition of Sylvatech Limited. While the acquisition was being transacted, Cyclone Ingrid struck the Tiwi Islands, destroying all but Sylvatech's 2003 and 2004 plantings. Those 2003 and 2004 plantings amounted to approximately 5,500 hectares.

All current plantations belong to investors in Managed Investment Schemes (MIS) projects. MIS projects are well-established and recognised forestry investment vehicles allowing investors to take direct interests in plantation development by appointing managers such as Great Southern to establish, maintain, harvest and sell their trees over the economic life of the trees, which is typically about 10 years for pulpwood.

In the four years since its acquisition of Sylvatech, Great Southern has added – also through an MIS project structure – a further 23,500 hectares (approx.) of plantations on Melville Island, including the conversion of over 2,700 hectares of former Caribbean pine and cypress plantations that were harvested between 2005 and 2008.

Most of the plantations added by Great Southern were established in 2005 (8,102 hectares) and 2006 (9,592 hectares), which were years of record growth for MIS forestry projects around Australia. For the TIFP, this required a rapid mobilisation of human resources and infrastructure to ensure that the strict planting and documentation deadlines required for MIS compliance purposes were adhered to.

The rate of plantings in 2007 and 2008 slowed to 2,734 and 3,024 hectares respectively. Currently, a total of 28,908 hectares has been established. The following table summarises the current position:

Year area cleared	Cleared Native	Harvested / cleared Pine/ Cypress	Current plantings (incl research)
1997	241	-	
1998	287	98	
1999	389	110	
2000	1,187	109	
2001	724	-	
2002	143	-	188
2003	1,079	-	1,115
2004	4,606	-	4,153
2005	6,569	107	8,102
2006	9,613	640	9,592
2007	2,163	755	2,734
2008	1,859	875	3,024
Total end 2008	28,860	2,694	28,908

Approximately 1,500 additional hectares have been approved for development, which when combined with the nearly 29,000 hectares already developed, will take the Project to within 700 hectares of the existing federal government approvals for development of 31,200 hectares of native vegetation. The company has no plans to develop these approved areas at present, as they are

located at the outer limits of an economic access distance to Port Melville, which will be the point from which woodchips are exported from the island once harvesting commences.

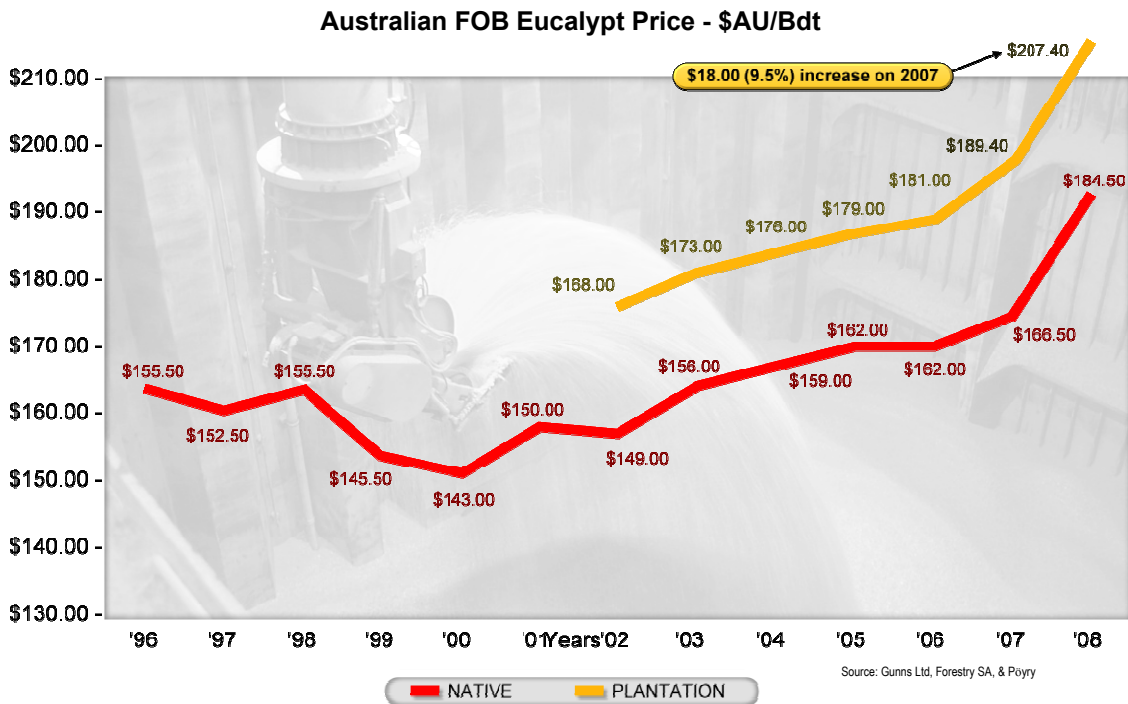
The TIFP represents over 15% by area of Great Southern's total national hardwood plantation estate. However, because of the shorter growing period and a lower average wood production per year of the species (*Acacia mangium*) grown in the Project, it is anticipated the total volume of TIFP wood production will be closer to 10% of Great Southern's total wood production.

1.2 Great Southern

Over the past 21 years, Great Southern Limited has grown to become Australia's leading forestry and agricultural fund manager. Great Southern provides a means for Australians to participate in large-scale forestry and agricultural projects focused on growing commodities that are in demand globally, particularly from expanding markets in the Asia-Pacific region. In the Australian agricultural market, Great Southern is a leading plantation forestry management company and in the top five commodity managers of beef cattle, wine grapes, olives, almonds and poultry production. Great Southern Limited has its corporate head office in Perth, Western Australia. It has eight corporate and sales offices located across Western Australia, Northern Territory, New South Wales, Victoria, South Australia, ACT and Queensland. The company has more than 430 employees and currently manages funds on behalf of more than 40,000 investors in forestry, horticultural and until recently, cattle managed investment scheme projects.

Great Southern owns or manages in excess of 250,000 hectares of plantation land in every state and the Northern Territory. The company has marketed and sold in excess of 1.6 million tonnes of woodchips. The woodchips sold are exported under long term contracts to wood pulp and paper manufacturers in Asia, primarily Japan. Woodchips sold in to the Asian market compete with woodchips from South Africa, South America and Asia.

The drivers of Great Southern's forestry business, apart from the free on board (FOB) price received for woodchip ex-Australian ports, are the amount of wood produced per hectare, the cost of access to land for growing the trees, the costs of establishing and maintaining the plantations for the length of the rotation and the costs of harvesting, hauling and processing the trees. All operational costs, but particularly establishment costs, on the Tiwi Islands are currently significantly higher than those elsewhere in the Great Southern plantation estate, while wood production levels are somewhat lower. However, it is worth noting that this is a first rotation crop using this species in Australia on a large scale and improved growth performance through time is expected.



1.3 TIFP is a Partnership between the Tiwi People and Great Southern Limited

Great Southern regards the Tiwi people, the traditional owners of the land, as more than just stakeholders in the forestry operations on the Islands. The Tiwi people's commitment and determination to make real and practical use of their land on a sustainable basis, their aspirations to become the predominant workforce in the forestry business on the Tiwi islands, and their desire for a better and more secure economic future through the development of a large industry on the islands, are integral and vital to the very substance and success of the TIFP. The Tiwis are effectively partners in, and the long-term inheritors and managers of, the project.

Great Southern believes strongly that the impact of its operations and those of the broader plantation industry, on communities in plantation forestry areas around Australia has been demonstrably positive. A recent Federal Government study¹ in the Great Southern region of Western Australia showed plantation forestry increased population, economic output, employment rates and civil expenditure in the region over a nine year period.

Great Southern believes it has particular competitive advantages in the development and management of large scale commercial plantations in Australia. These include:

- Its ability to raise funds on a large scale for investment in land, and for the cash required to establish, maintain and harvest commercial plantations over a long period to first cash flows;
- Its extensive knowledge of markets for plantation timber and wood products;
- Its ability to identify, assess and select land suitable to grow the species in demand in commercial plantation forestry;

¹ Australian Government Bureau of Rural Sciences, "Socioeconomic Impacts of Plantation Forestry" November 2005

- Its platform of plantation management systems, covering particularly operations, contracting, health, safety, environment and community;
- Its experience and know how in the woodchip marketing, development of port and shipping infrastructure for export of plantation wood product;
- Its ability to apply best scientific knowledge and practice of genetic, silvicultural and management techniques to achieve an optimal balance between production, cost and environmental sustainability;
- The diverse locations of its plantations, which smooth and reduce exposure to agricultural and operational risk;
- Its ability to select and manage contractors in the communities in which it operates to carry out forestry work.

These capabilities complement the aspirations of local communities and local businesses in regional areas around Australia by increasing employment, bringing diversification to local economies and helping to build strong and viable businesses in their regions.

As a result, most of Great Southern's operations in areas like the Great Southern region (WA), the Green Triangle (SA/Vic) and Kangaroo Island (SA) are performed with a high level of input from independent local contractors, local businesses and the community. Great Southern's investments in plantation forestry generate multiple benefits for rural communities, enabling local businesses to grow, and more employment and prosperity to be created.

Great Southern, the Tiwi Land Council and Tiwi Enterprises (as the key local contractor) have a vision that this model will be replicated on the Tiwi Islands. It is greatly enriched by the fact that the Tiwis are the landowners (whereas in most of Great Southern's operations, the company owns the land). As the ultimate owners and operators of the plantation forestry project which Great Southern and the Tiwi have created, the role of the Tiwi people is one of **partner and long term manager** – not merely landlord.

An important point which differentiates the Tiwi Islands from other Australian communities where Great Southern operates is that the Tiwi people have not had the full benefits of economic development, integration and institutional support that has been enjoyed by those other communities. The vast gap between the capacity of human and other resources that the Tiwis have started with, and those in other Australian communities, including those engaged in forestry, is well known. The standards of the institutions that support the education, training, health, welfare and economic development of Tiwis are significantly inferior to those enjoyed by other Australians. The same applies to Tiwi infrastructure such as the roads and inter-island transport vital to the business and those wanting to work in it.

However, this disadvantage in no sense undermines the partnership between the Tiwis and Great Southern. The practical manifestations of this include:

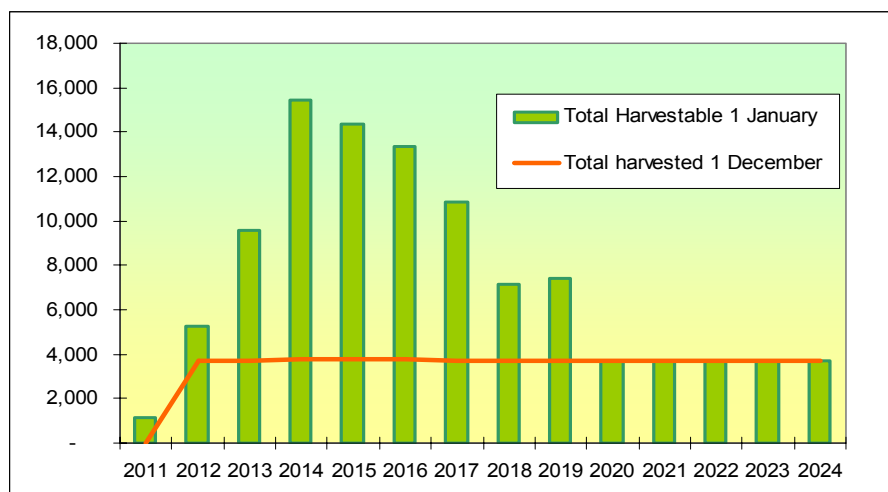
- Close and regular dialogue and cooperation on all environmental matters relating to forestry through the Tiwi Island Natural Resource Management Committee of the Land Council;
- Attendance by standing invitation at all meetings of the Tiwi Land Council and Land Council Managers;²

² Except where matters of a confidential, conflict of interest or sensitive nature are discussed

- Combined management of the process of accessing, surveying, assessing, mapping, consulting communities on, and using land for forestry;
- A joint approach to planning for, and the management of, planned and unintended fire events which pose equal threats to biodiversity and environmental integrity as they do to the commercial forestry plantations;
- Working closely to establish and provide scheduled contract work to the first Tiwi-owned contracting company, Tiwi Enterprises Pty Ltd, to perform plantation establishment and maintenance work, and providing Tiwi Enterprises with management resources to help it complete its contracted commitments;
- Jointly conceiving and setting up a Tiwi Forestry Training and Development Trust with contributions of up to \$130,000 per annum over the next 5 years to further the education, training and development of present and potential Tiwi forestry workers;
- Joint pursuit with Tiwi Islands Training and Education Board (TITEB), Tiwi Enterprises Pty Ltd as well as the Land Council of improved training approaches and outcomes for Tiwis;
- The re-construction of public roads which as well as making the establishment of plantations possible, has increased the area of safe, all-weather roads on Melville island by 200%. Working closely with the Tiwi Islands Shire Council, Great Southern has to date spent over \$4 million improving more than 80 km of public roads between 3 Ways and Cache Point. Between 2005 and 2008, a further \$1.9 million was contributed by Great Southern to main road maintenance;
- A significant contribution to the Tiwi Islands by Great Southern corporately and through its individual staff in areas of technical support (e.g., mechanical services, transport, visitor accommodation at Maxwell Creek, environmental and forestry knowledge, quarantine, training), and community life (e.g., charitable donations, cash and in kind support for sporting and social events and clubs); and
- Support for educational initiatives, especially in conjunction with the Tiwi College and the Tiwi Rangers, a Great Southern-funded program to provide land and sea rangers for the Islands. (Further details of the Tiwi Rangers program is provided below in Section 3).

1.4 Future Harvest

With a rotation of 8 – 10 years (depending on plantation productivity), it is anticipated that the *A. mangium* plantations on the Tiwi Islands will be ready to harvest from 2012 /2013. While no detailed harvest planning has yet been carried out, a harvest profile based on a total plantation area of around 28,000 hectares commencing in 2012 could see the regular harvest of around 3,500 hectares annually.



The Tiwis have already witnessed the high levels of activity associated with the establishment of the plantations. The harvest of the current first rotation of plantings, and the re-establishment of the second rotation, combined with on-going maintenance of existing plantations is estimated to result in:

- Over \$40 million in revenue per annum from the export of woodchips (over \$320 million over the harvest cycle);
- Expenditure of \$20 million per annum on harvesting and processing (\$160 million over the harvest cycle);
- Expenditure of \$10 million on re-establishment and maintenance per annum (\$80 million over the harvest cycle); and,
- The creation of over 100 full time permanent jobs for:
 - Highly skilled harvesting operators;
 - Haulage and land preparation operators;
 - Forestry field workers engaged in a wide range of establishment and maintenance tasks;
 - Port operators and maintenance staff;
 - Staff required to provide and maintain accommodation and catering for off-island forestry workers;
 - Mechanical and other maintenance staff to service and repair heavy harvest, earth moving, fire and haul equipment and light vehicles;
 - Foresters, forest health crews, research support crews; and
 - Staff to work in nurseries growing 4 million seedlings per year for planting.

None of the above includes the positions created should the Tiwis be permitted to expand the existing area of plantations in a possible future Stage 2 development program.

1.5 The Port

One of the key achievements arising out of the presence of a cornerstone export industry on the Tiwi Islands is the creation of a new port. Established in two stages between 2003 and 2005, Port Melville has given the Tiwis a significant strategic position. Work required in the development of the port included:

- Design of a deep water loading facility in Apsley Strait, a waterway renowned for fast currents, exposure to cyclone and large tidal movements;
- Management of two construction contracts worth over \$5 million for Stage 1 and 2 of the wharf;
- Exploration and definition of extremely challenging port approaches involving sounding, charting and submission of a navigation channel for national and international recognition by the Department of Infrastructure, Transport, Regional Development and Local Government ;
- Obtaining acceptance in international shipping circles of Port Melville as a safe, navigable and efficient port; and
- Since completion of construction over 100,000 m³ of logs and more than 60,000 tonnes of mineral sand were shipped through the port to South East Asia.

In 2007, Great Southern was awarded a Northern Territory Chief Minister's Exporter of the Year award, based on the above achievements.

As a result of damage sustained to the port in September 2007, the facility is not currently available for use by large vessels. However, it will be returned to full operational condition in advance of the commencement of harvesting of the plantations. By 2012/2013, the construction of a new loading facility will also be required. This facility will be built on the same site as the current landfill general cargo wharf. More detail of this is provided in Section 6.

1.6 Strategy to Harvest

The next four to five years until harvest commences represents an opportunity to consolidate, and focus on factors vital for the viability of the project, and the realisation of Tiwi aims for direct and indirect participation in the benefits of the project. The key areas of focus that will be pursued by Great Southern in full consultation with the Tiwi Land Council will be:

- Tiwi employment and participation
- Environmental Compliance
- Cost management
- Productivity improvement
- Port and new facilities

These are dealt with under Sections 2 to 6 below. The company's approach to Stage 2 is set out in Section 7.

1.7 Other Opportunities

Several other sale / processing opportunities are emerging in key plantation forestry regions around Australia as significant volumes of hardwood timber reaches maturity. These include:

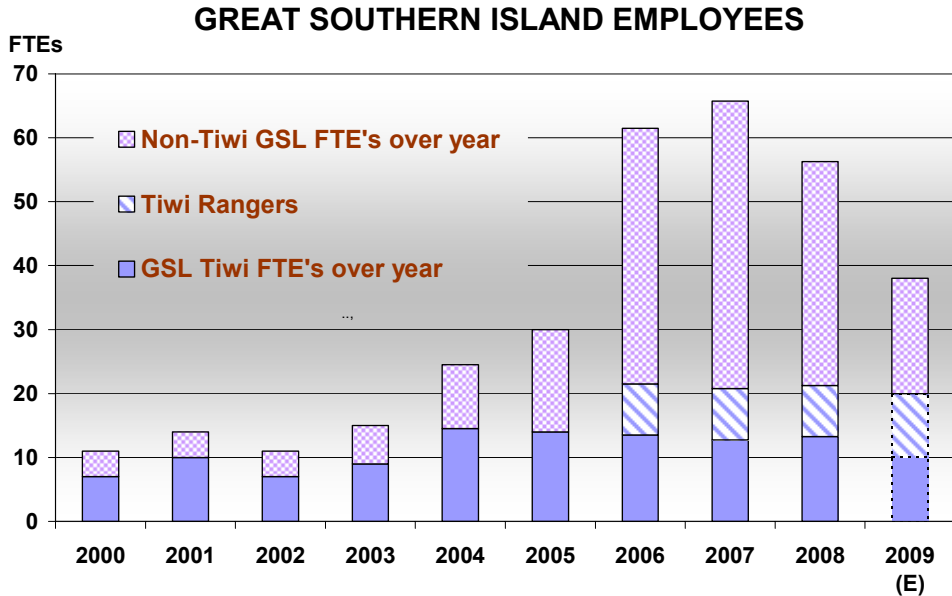
Biomass – development of small scale renewable carbon neutral energy generation capacity on the Island utilising residues from harvesting operations. Great Southern has existing arrangements with developers of biomass energy plants in Western Australia.

Pellet production – development of wood pellet processing plants to utilise harvest residues to supply expanding export markets. Global pellet production was over 10 million tonnes in 2008 with 25% of this production exported with the major export markets being in Europe. Great Southern has recently entered into a residue supply agreement for a \$25 million biomass fuel pellet processing and export project in Albany, Western Australia.

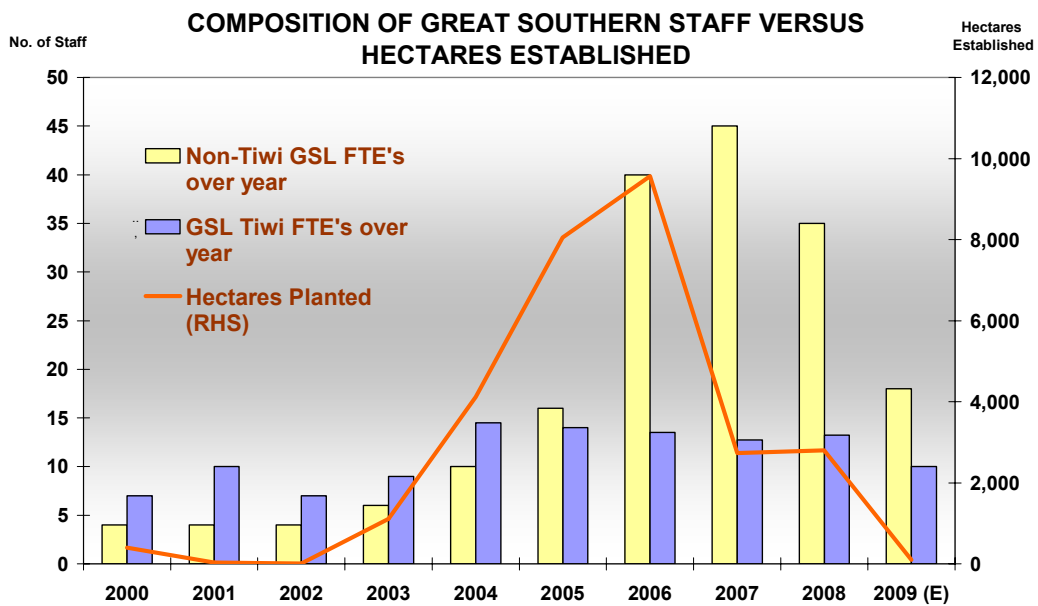
2. TIWI EMPLOYMENT AND PARTICIPATION

2.1 Historic performance

Compared to other large projects, Great Southern has had considerable success in employing Tiwi workers on the project. As the graph below shows, until 2005, Tiwi workers comprised 50% or more of those employed on the Project.

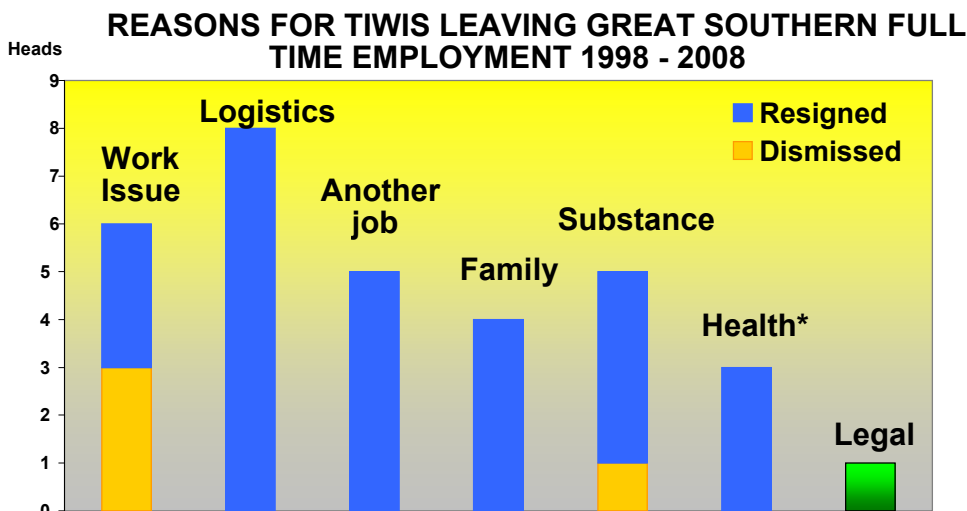
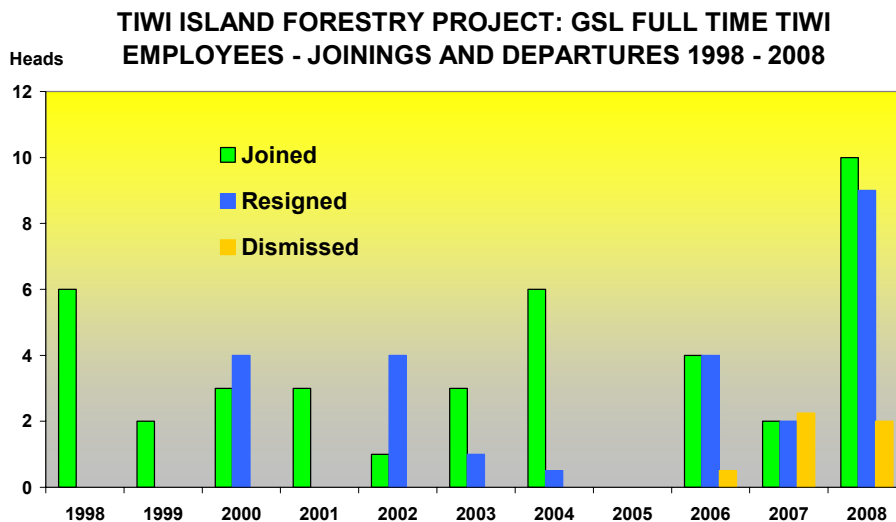


Inevitably, the large expansion in area planted in 2006 and 2007 required a rapid deployment of large numbers of GSL staff skilled in the environmental assessment work, logistics and plantation establishment. These personnel could not be found amongst Tiwis on the Islands. Moreover, there was a requirement to retain skilled staff in the years following planting to perform the intensive post-establishment work in the early years of plantation life, and additional land assessment and environmental staff were needed as well, because of the greater distance from Maxwell Creek of the land developed in 2007 and 2008.



Whilst the challenges associated with overcoming the considerable difficulties in recruiting, training, retaining and developing suitable Tiwi staff were appreciated when Great

Southern took over from Sylvatech, the extent of the gap that had to be bridged in terms of readiness to work and building essential skills and capabilities was underestimated. The following charts show the extent of movements of Tiwi staff in and out of the project and the reasons for exiting over the past 10 years.



Nevertheless in the time shown, Great Southern trained 14 apprentices and at the end of 2007 recruited eight more. Of the 14 apprentices, 12 graduated with a Cert III in Forestry, and of the eight recruited in 2007, three are currently with the Project.

In 2007, with Great Southern's encouragement, Tiwi Enterprises – a company owned by Tiwi landowners – was formed to perform forestry contracting work available on a seasonal basis. The company was awarded \$500,000 worth of work involving planting, weed spraying, fire prevention, pruning and fire response. Considerable effort was put in by the Tiwi owners in encouraging Tiwi workers to perform this work at the same rates paid to other off-island contractors. However, by the end of the year, only \$110,000 of the

contract had been performed, and Great Southern had to hire labour and equipment from off-island contractors to achieve its schedules. The reasons were discussed in workshops between the company and Great Southern, and a key additional shortcoming identified was a lack of management skill and experience within Tiwi Enterprises.

As a result, a further limited contract was awarded to Tiwi Enterprises for planting in 2008 with Great Southern supplying full field management resources together with support for maintenance of Tiwi Enterprises equipment at no charge. This time, the work was performed more satisfactorily, and the decision was made to maximise the use of Tiwi Enterprises staff on a contract basis for seasonal work while continuing to employ full time Tiwi staff as Great Southern employees. Increased use of Tiwi Enterprises employing Tiwi casuals better matches the seasonality of work, and often suits the Tiwi workers who are not always ready to move to a full time working life.

2.2 Current Strategy

In anticipation of the challenges of exposing larger numbers of Tiwis to the forestry business, Great Southern has developed an Indigenous Participation Policy and an Indigenous Employment Strategy. Both documents are part of the Project's ISO 14001-certified Health, Safety, Environment and Community Management System. (Copy of certificate attached).

The key points of the Strategy are

- **Workplace Environment**
 - Roll out Tiwi employment and participation policy
 - Include a clear accountability for Tiwi development in all GS employee Great Southern employee Position Descriptions with performance measurement;
 - Through better communication, improve consistency of approach to managing Tiwi issues;
 - Increase and repeat cross-cultural training amongst non-Tiwis, including respect for traditional owners and their land;
 - Ensure resources are provided; and
 - Publicise policies through events in communities, newsletters, and the like, and represent Great Southern's policy publicly in Tiwi forums.

- **Attracting and recruiting Tiwi forestry workers**
 - Identify functions within job roles that Tiwis can currently perform;
 - Assess areas of deficiency and identify training and experience pathways to ready Tiwis for performance;
 - Tap into networks, schools and agencies to identify potential Tiwi recruits;
 - Ensure that job pre-requisites and work requirements are absolutely clear;
 - Continue to adhere to normal Australian workplace standards on health and substance expectations; and,
 - Expand induction processes to reinforce expectations and take in "life skill" components.

- **Retention and Progression**

- Tap into external agencies, TITEB and other education and training organisations for support to reinforce life skills expectations and training;
- Work individually with staff to build leadership skills;
- Identify natural work teams for Tiwi staff;
- Measure performance on key life skills; and,
- Develop technical and operational skills through apprentice and vocational training (including Forestry and Environment management Certificates II and III).

The Policy and further strategies for participation are still in the process of being developed. Participation is intended to go beyond just employment, and identify and encourage ways in which Tiwis can more directly gain a share in the benefits that the Project is bringing to the islands.

Some areas that have the potential to achieve this are:

- **Tiwi ownership of fixed assets.** Great Southern does not typically aspire to the funding or ownership of major infrastructure in carrying out its operations. This includes port infrastructure. Consistently with this, the Tiwis have the first right of refusal under the Port lease to own and construct an upgraded woodchip loading facility at Port Melville.
- **Accommodation.** Another, more modest, opportunity is to own and supply the infrastructure required to accommodate Great Southern and Tiwi staff at Maxwell Creek. The Tiwis have indicated their interest in obtaining financing for and providing single and married accommodation at Maxwell Creek in return for rental income. Great Southern, which has assets worth over \$1 million located at the Maxwell Creek camp would be favourably disposed to any such proposal.
- **Fire management.** The Project incurs costs of at least \$1 million per year in preventing and responding to intentionally-lit un-managed fires. (These fires are also potentially damaging to biodiversity and a source of greater greenhouse emissions than controlled programs early in the season would produce). Tiwi involvement in prevention and response to protect forest and other assets that are economically interconnected with their future, not only helps secure their future, but can be a way for Tiwi communities to derive additional revenue from the Project. Great Southern would welcome proposals in this regard.
- **Contractors.** The opportunities and problems encountered in the first attempt by Tiwi Enterprises to take on some of the extensive contracting work are discussed above. Much greater quantities of contract opportunities will be available when harvest commences. These contracts primarily relate to the ownership of equipment required for harvesting and establishment: harvesters, skidders, flailing mills, chipping mills, road haulage equipment, bulk moving machinery and tractors.
- **Supply functions.** One area of high potential is the establishment of a nursery. A small nursery already exists at Milikapiti growing native species for rehabilitation of Matilda's mining areas. When re-establishment of the second rotation starts, over 4 million seedlings will be required for planting. Great Southern would welcome approaches by Tiwis to build nursery capability.

These examples fit well with the overall philosophy Great Southern has towards doing business in local communities, as discussed in Section 1.2.

3. ENVIRONMENTAL COMPLIANCE

3.1 Current environmental planning and controls.

In close and on-going consultation with the Tiwi Land Council, Great Southern maintains and follows a comprehensive Environmental Management Plan (“EMP” or “Plan”). The Plan built on the Tiwi Islands Plantation Forestry project Strategic Plan (2000) produced by the Tiwi Land Council in 2000. It is administered in conjunction with the Tiwi Island Natural Resource Management Strategy (a Tiwi Land Council plan developed in 2004) and is focussed on the well-managed utilisation of natural resources on the Tiwi Islands.

The EMP addresses the following issues

- Policy and legislation (the most significant Act being the Environment Protection and Biodiversity Conservation [EPBC] Act 2000);
- Management Structure – including the Expert Biological Reference Group, which includes experts from NRETA, Charles Darwin University and the CSIRO
- Linkages to Great Southern’s Legal obligations under the EPBC Act
- Linkages to the TIFP’s ISO 14001 certified HSE Management System;
- Listed threatened flora and fauna species;
- Threatening processes including fire, weeds, feral animals, habitat loss and fragmentation, population viability analysis for threatened species, and adaptive management;
- Management Strategy with reference to planning, plantation site selection, groundtruthing, plantation design and monitoring; and
- Biodiversity surveys and monitoring, including monitoring of the 4 threatened fauna species as required by the EPBC Act Conditions – Red Goshawk, Masked Owl, Partridge pigeon and Butlers Dunnart – and Rainforest monitoring.
- Training, reporting and review.

An internal audit of plantation development identified possible incursions into demarcated buffer zones which exist around nominated protection areas. These possible incursions were advised to both Territory and Commonwealth Environment Departments, who together over the proceeding 12 months worked with GSL and the Tiwi to identify and map incursions, then jointly develop a management plan to address them.

The Project has since undergone its required triennial audit as required under the Conditions of the EPBC (2000) Act. As a result of the internal audit and the EPBC (2000) Act audit, new conditions have been added to the Project’s EPBC Act approval. The new conditions were developed in consultation with GSL and the Tiwi, both of whom agreed to the new conditions being included in the EPBC Act approval.

3.2 Environmental achievements

Since forestry work commenced on the Tiwi Islands, and more particularly since Great Southern took over the Project in 2005, a major increase in knowledge of all aspects of the ecology of the Tiwi islands has occurred. Additionally, income from the TIFP, the Tiwi

Ranger positions and further in-kind support to the Tiwi Ranger Program has enabled natural resource and land management activities to be carried out by the Land Council throughout both Melville and Bathurst Island that were previously limited by staff and operational resources.

Examples of the increase in knowledge of the Tiwi environment, improved protection of threatened species habitats, and Great Southern support for broader environmental management above and beyond the EPBC requirements include:

- Digital and ortho-rectified aerial imagery for both Bathurst and Melville Island;
- Data Access Agreement between the Land Council and Great Southern ensuring the all environmental data (spatial and other) and scientific reports generated by Great Southern are jointly owned;
- Spatial environmental data for use in Land Council land use decisions;
- Environmental and threatened species data that may be used for future post-graduate studies, for example Honours and PhD Projects by Tiwi students;
- The development, in consultation with Northern Territory government scientists and the Land Council, a set of definitions of Tiwi rainforests, wetlands and other protected environmental features;
- Rainfall data collection and soil mapping throughout the plantation estate and broad plantation regions of Melville Island;
- Involvement as a stakeholder in the Tiwi Fire and Weed Management Committees including providing in-kind mapping service of weed locations and fire risk mapping, implementation of weed and fire management activities outside the plantation estate;
- In-kind support (flights, accommodation, specialised equipment, staff and vehicles) to the Tiwi Ranger Work Program including scientific studies into the presence and distribution of Butler's Dunnart and threatened rainforest species, and the Tiwi Carbon Study;
- Supervision of Tiwi Ranger survey service for Red Goshawk provided to Telstra on Bathurst Island; and
- Realignment and upgrade of roads around sensitive environmental features, for example moving a camping track from a rainforest edge to the top of the ridge.

Great Southern incurs significant expenditure in order to fulfil its environmental obligations. Between October 2007 and September 2008, the estimated salary packages and benefits to Great Southern environmental staff was over \$750,000. In addition, there were payments to contractors and consultants, and other field expenses totalling over \$300,000. These contributions were made to achieve compliance with the EPBC Act conditions imposed in respect of the land development permit obtained in 2001. In total these salary and consulting amounts totalled over \$1 million for the year.

These expenditures were mainly incurred carrying out detailed land assessment and surveys to achieve the protection of sensitive environmental areas and species, and monitoring threatened animal and bird species as required by the EPBC Act approval. As a result of this expenditure, considerable information and knowledge about the natural resources of Melville Island was achieved. Major additions to knowledge about the Tiwis were:

- Identification and classification of rainforest patches that were previously unknown or recorded in vegetation mapping.
- The compilation of a Population Viability Analysis (PVA) by Charles Darwin University at Great Southern's expense for the Red Goshawk, concluding that plantation activities have not affected the viability of the population of Red Goshawks living on Melville Island
- The trapping and monitoring of over 50 Butler's Dunnarts, a species previously thought to be nearly extinct. The number trapped represents an increase of 600% over the 8 Butler's Dunnarts previously trapped in Australia. A full report of the program was submitted to the Northern Territory Government
- The identification, trapping, radio -tracking and monitoring nests of Tiwi Masked Owls and the recording and mapping of this information in preparation for a PVA to be finalised in 2009
- Surveys throughout proposed plantation areas and existing plantations for Partridge Pigeon
- Extensive additional information about the occurrence and location of other threatened species listed under Northern Territory legislation and other fauna and flora species collected in the course of these environmental survey activities.
- Great Southern's preventive burning program, conducted in close cooperation with the Tiwi community in the early part of the dry season each year, ensures that high levels of forest fuel are eliminated by cool burning. If not burned at this time, much of this material would be ignited by Tiwis later in the season. The early and highly controlled burning releases less CO₂ into the atmosphere, and allows new growth, which would be burned in hotter fires later, to survive. This assists in diversifying forest structure and sustaining biodiversity; and
- Engagement of key Northern Territory scientists and the Land Council, the Biological Reference Group, to review Great Southern's threatened species program, to review progress against the Environmental Management Plan, and to make recommendations to Great Southern regarding improvement and adaptive management as results come to light.

3.3 New EPBC conditions

Extensive negotiations were held in 2007 and 2008 between Great Southern (on behalf of Sylvatech Limited which is now a wholly owned subsidiary and is the holder of the EPBC Act approval for the Project) and the Department of the Environment, Water, Heritage and the Arts (DEWHA) over the reasons for and consequences of a number of potential incursions of plantations into buffer zones which exist around nominated protected sites on the Islands. These incursions into rainforest and possibly also into wetland buffers arose out of Sylvatech and early Great Southern developments between 2004 and 2006.

A negotiated settlement was reached in which Great Southern accepted that incursions had occurred, and agreed to rehabilitate areas as required by the Minister following further study and the preparation of comprehensive rehabilitation management plans.

Some key points to note are:

- The Minister acknowledged that:

- The contravention of the EPBC Act approval conditions was inadvertent and did not result in significant commercial benefits to Great Southern / Sylvatech or evidence of harm to matters of national environmental significance.
- The incursions occurred as a consequence of definitional issues, limited vegetation and digital mapping used at that time as well as procedural failures in planning and groundtruthing of plantation areas.
- These deficiencies have since been rectified.
- The relative insignificance of the intrusions compared with the extent of the total buffer zones around the plantations developed in those years, regardless of which of the mapping systems identifying areas to be protected were used³ ;

Intrusions of Plantations within Buffer Zones

Mapping System	Wet and dry rainforest communities identified		
	Veg 84	Gen Veg	DAP
Areas of Rainforest requiring buffers (ha)	5,264	5,876	4,919
Estimated buffer area (ha)	16,776	44,869	33,833
Intrusions into buffers (ha)	142	732	741
Intrusions as % total buffer	0.80%	1.60%	2.20%

- The precise determination of each incursion is the subject of studies and surveys currently being undertaken by Great Southern and the CSIRO as part of the preparation of Rehabilitation Management Plans;
- The impacts of buffer incursions on the protected features by plantation incursion into buffer zones are unknown;
- There is consensus amongst CSIRO, DEWHA and Great Southern that there is an inherent ambiguity of vegetation boundaries and limitations of GPS and GIS technologies.
- The negotiated settlement recognises that many of the incursions are in areas of low priority (a function of conservation value and size of incursion); and
- The objective of the rehabilitation program is to restore buffer zone functionality and that initial works will be focussed on identification of effective revegetation management protocols through the implementation of research and demonstration plots.

3.4 Future environmental compliance

Great Southern is resourced and structured to fulfil all its environmental commitments into the future. The key elements are:

- A senior Environment Manager accountable to the Regional Manager charged with responsibility for the Project, who has been with the Project for 4 years and

³ At the time the plantation boundaries were determined, maps which later turned out to be inaccurate were in use by both Great Southern and the Government as the basis for identifying the location of protected areas. The table shows the proportion by area of the total buffer zone areas of the incursions that are considered to have taken place, as measured by the 3 successive mapping systems. The DAP system is the most recent and most accurate.

works closely with the Tiwi Land Council on all aspects of Environmental performance;

- An ISO 14001-compliant Health, Safety, Environment and Community Management System, which forms part of a centrally-coordinated Great Southern HSE approach. ISO 14001 compliance involves a commitment to continuous improvement of systems and control measures, and being subject to on-going internal and external audits including audits by the independent certifying authority;
- A Systems Manager based on the Tiwi Islands, responsible to the Environment Manager, who ensures that all planning, implementation and control steps relating to environmental management are duly taken;
- An annual budget for the funding of the plans;
- A set of Operating Procedures and Competency Assessments that are applied to all staff involved in the TIFP environmental work program;
- An annual internal EPBC audit, using GIS, field inspections and document to review to report and demonstrate compliance to Great Southern Senior Management;
- An external triennial audit of the TIFP's compliance with the EPBC conditions as required in the conditions; and
- Close consultation with DEWHA (Assessment and Post Approvals Monitoring and Audit Sections) on all matters relating to threatened species management.

The TIFP HSE Management System applies the ISO approach which is based on an annual continuous improvement loop comprising:

- Policy
- Planning
- Implementation
- Measurement, and
- Management Review

In addition, an on-going program of consultation with the Tiwi Land Council and other stakeholders including the CSIRO and the Biological Reference Group is in place, with the following key features:

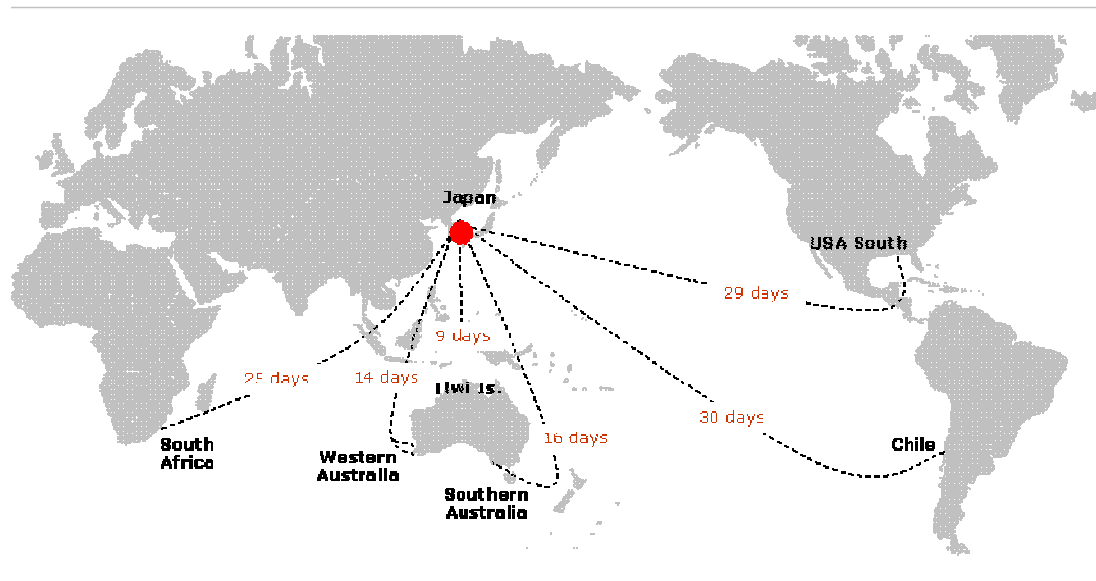
- Transparent reporting and discussion;
- Access to key experts within the Northern Territory scientific community and the Land Council;
- Raising awareness of environmental issues within the Tiwi communities; and
- Collaboration between industry, government and the Land Council where possible.

4. COST MANAGEMENT

It is essential for any primary producer, particularly one exporting base commodity products to international markets, to be competitive and to retain and improve its competitive advantages over other market participants.

The Tiwi Islands possess two important advantages – a high rainfall, which makes the potential for viable wood production a real and exciting prospect; and close proximity to export markets.

In the case of hardwood woodchips for paper production, obvious destinations are China and Japan, with Indonesia being a strong additional possibility in the future. The Tiwi Islands are much closer to these Asian markets in comparison to other major existing or proposed Australian woodchip export ports (Albany, Bunbury, Geelong, Portland and Triabunna) and the major international suppliers from South Africa, South America and the USA.



However, commercial forestry on the Tiwi Islands also has a number of competitive disadvantages. Two of these disadvantages comprise endemic risks, namely cyclones and wildfire.

Added to these challenges are significant cost disadvantages when compared with overseas and Australian plantation projects.

The main cost disadvantage is the high cost of labour on the Tiwi Islands. Great Southern estimates that in addition to the usual on-costs involved in employing staff, the need to attract and retain skilled labour from outside the Islands through the provision of accommodation, flights to and from Darwin, support and sustenance adds 50% to their gross salaries. At present, the company has to bear these costs, which therefore places their labour component (typically the largest proportion of total overhead costs) well above comparable costs elsewhere in Australia. Obviously, if a pool of skilled labour existed on the Islands much of this cost could be significantly reduced.

Similar issues arise with the supply and maintenance of equipment essential in the forestry operation. In most other forestry regions there is enough activity to support local contracting businesses, which can ensure sufficient and continuous utilisation of plant to keep contracting rates low. There are also maintenance skills to keep it running. On the Tiwi Islands, equipment must be mobilised and demobilised at high cost when it is required, and defrayed by employment in other works is often not possible. Maintenance can only be achieved presently by bringing in qualified staff at great expense. Once a local contracting capability exists and economic activity is sufficient to justify its permanent location there, and the permanent provision of maintenance skills, these costs should also be significantly reduced.

The remoteness of the islands generally adds extra cost to the provision of agricultural inputs and consumables such as fertiliser and fuel, while poor roads materially increase the wear and tear on vehicles.

It is important to note that the land rental payable by Great Southern is determined on the basis of an undeveloped site, given the lack of infrastructure in place on the islands. The rental is determined by the Australian Valuer General, and market reviews in accordance with the registered leases are undertaken every three years.

Finally, the scale and plantation design of the current 29,000 ha forestry operation is less than optimal and will result in higher unit costs of production (particularly in the context of significant port and stockpile development costs) than is desirable if the Project is going to maintain a position on the 'cost curve' that will maximise the opportunities for forestry to remain viable in the long term. This is explained further in Section 6.

Great Southern accepts that in choosing to operate on the Tiwi islands it effectively took on the reality of these disadvantages. However, in a competitive world, they cannot be ignored by the proponents and operators of the Project. Infrastructure and support from government – of the sort that is available from government to Australian communities elsewhere – will be required to ensure that the forestry business remains competitive in the long term.

The need to address these issues is entirely aligned to Great Southern's approach to Tiwi participation and employment discussed above. Great Southern's clear cost reduction strategy is therefore to work closely with the Tiwis to:

- Develop Tiwi skills and expertise so that they can perform an increasing number of tasks required in forestry operations;
- Encourage Tiwis to engage in businesses connected with the project;
- Encourage government to support the Tiwis in these endeavours through improved educational and development outcomes;
- Advocate and encourage government assistance in areas of infrastructure in a similar manner to which governments have assisted rural communities and export industries elsewhere; and
- Undertake to establish further plantations on additional land the Tiwis may wish to develop to gain sustainable resource scale.

5. PORT UPGRADE

New loading and stockpiling facilities at Port Melville will need to be in place by 2012 or 2013 to enable the export of woodchips to commence.

Schematic plans are expected to be prepared by late 2009 with detailed plans likely to be presented and discussed with Government departments in 2010. The main elements of the facility will include:

- A decision as to whether logs will be delivered to the Port for chipping or whether in-field chipping (processed in the plantation areas) will be employed. At this stage, the latter

- appears more likely, but a by-product of centralised chipping that needs consideration in making the final decision is the opportunity it creates to generate significant energy production from renewable bio-fuel (refer to Section 1.7 above);
- The construction of stockpiling facilities in the current port area; These will need to be able to accept incoming truckloads of chips (assuming in-field chipping);
 - A reclaim system allowing woodchips to be transported by conveyor belt to a ship loading facility;
 - The erection across the current general cargo wharf site of an elevated conveyor system to transport woodchips from a stockpile to shiploader;
 - An extended wharf allowing the loading mechanism to operate over the holds of ships of at least 45,000 tonnes (12 metres draft) which would be berthed in deep water. Fortunately the berthing area comprises a natural basin which shelves steeply off into deeper water. This ensures that the wharf extension will be relatively short, but the marine engineering required to secure permanent berthing apparatus (wharf and mooring dolphins) will need to be thoroughly planned and engineered to cope with the currents and tidal movements experienced in the Apsley Strait. All current engineering advice is that a landfill extension of the port would not be physically viable;
 - A loading mechanism either of a travelling (moving up and down along the wharf to load all holds) or a slewing (able to swing into only a limited number of different holds, thus necessitating the movement of the vessel along the wharf) variety;
 - The establishment of appropriate berthing apparatus; and
 - Upgrades to navigation, berthing and pilotage equipment and craft.

It is too early at this stage to predict the cost of this infrastructure, but it is likely to be between \$40 and \$50 million. One key decision will relate to the need to accommodate the loading of minerals, which would be quite feasible but would require heavier duty and more expensive structures than needed for woodchips or pellets.

6. STAGE 2 DEVELOPMENT

6.1 Current estate less than optimal

The current size of the plantation estate on the Tiwis (29,000 ha) is less than optimal. Scale is particularly important because the cost of constructing and operating the port loading and stockpiling facilities requires a minimum level of annual throughput volume to be commercially viable. At current growth levels an estate of 30,000 ha could be expected to deliver annual throughput of approximately 450,000 tonnes whereas an internationally competitive facility would require 700,000 to 800,000 tonnes in annual throughput.

The creation of a viable scale estate provides significant “competitive insurance” to the Tiwi people in terms of the long term viability of their forestry industry. For example, a doubling of the size of the current estate:

- Effectively halves the fixed costs expressed in unit terms. This impact will reduce the unit cost of the port, infrastructure and management.
- Makes long-term supply arrangements from the Tiwi Islands more attractive to potential customers

Larger scale also has opportunity advantages:

- It increases the possibility of the biomass and pelletising operations mentioned earlier being exploited;
- It makes consideration of developing small areas for higher value forestry possible (at present the estate is too small to allow areas to be made available for alternative plantation projects); and

An optimal plantation estate size would be in the order of 50,000 – 60,000 hectares. Any expansion of the plantation project will be driven by the Tiwi people rather than Great Southern (for further information, see Section 6.4).

6.2 Landscape approach to plantation establishment

One of the impacts of the way the EPBC Act approval conditions are expressed is that to comply with buffer zone and threatened species exclusion requirements, the Project has had to develop the plantation estate in many, fragmented, irregularly shaped (i.e., large perimeter to area ratio) and smaller-than-desirable plantation blocks). The large perimeter to area ratio and small fragmented plantation estate results in increased fire exposure and costs of maintenance and increased haulage distances from Port (an economic disadvantage), and produces a widely dispersed 'footprint' which is also arguably less ecologically efficient than a landscape development approach.

If a landscape approach to plantation design and location were to be adopted in the areas of existing plantation on Melville Island, many of these disadvantages could be rectified at the same time as allowing reasonable additional land to be recovered.

6.3 Full benefit to Tiwis will not be realised with current estate location

All plantations are currently located on Melville Island, with the following consequences:

- While some Tiwi forestry workers come from Bathurst, it is impractical for them to make a daily trip to perform forestry work on Melville Island. The ferry from Nguiu to Paru does not run at the right times, the bus service does not synchronise with ferry operations, and wet weather often interrupts attendance from this distance. For Bathurst residents to participate in forestry, they need to reside at the Maxwell Creek camp, which adds additional cost.
- Great Southern is aware that a large number of Tiwi's on Bathurst Island are aware of the benefits that have come to Melville Island from forestry, and are consequently very keen to see forestry development on their land. They wish to see their land used for forestry in the same way as their fellow-Tiwi's on Melville have been able to do.

6.4 Current problems relating to additional land development

In response to this, Great Southern has reviewed the high cost that the current environmental constraints have imposed which over the past four years has added significantly to the cost of accessing land. This is due largely to the philosophy and approach to managing environmental risk

stemming from the precautionary approach of the EPBC Act. Given that the understanding of the impacts of forestry development on threatened species or vegetation of high conservation value is still developing, the land exclusion imposed by the EPBC Act approval conditions will continue to result in significant areas of land suitable for forestry being off-limits with the costs involved likely to be prohibitively expensive for Great Southern to undertake. It has concluded that it adds significantly to the cost per hectare of land that can actually be used for forestry.

Great Southern has drawn the Tiwi's attention to this high cost of environmental compliance, and has taken the position that:

- Great Southern does not currently intend to undertake any additional land development (not already approved) itself because of the high risk and costs involved in spending the funds needed to survey and assess land for forestry:
- However, in the interests of achieving better economies of scale and diversity of regions and community involvement, if the Tiwi can develop additional land which is suitable for forestry, Great Southern is prepared to:
 - lease the developed land at commercial rates;
 - establish and maintain plantations on that land; and
 - Manage aspects of new plantings that the Tiwi's require.

Many elements of such an arrangement would be negotiable including funding for and ownership of the plantations, type of plantations established, etc.

6.5 Common misconceptions about the Tiwi Islands Forestry Project

“Plantation development occurs without sufficient controls”

The facts: From the outset the forestry project was subjected to a rigorous approvals process, involving both the Federal and Northern Territory governments. Current approvals allow forestry to utilise less than 5% of the land mass of the Tiwi Islands. Land is selected for plantation development after consideration of a number of factors, including identification of various reserves and offsets around natural features and sensitive zones, restrictions on maximum slope and soil types, protection of vegetation, communities and sites of cultural significance. Land can only be developed with the approval of the traditional landowners after a rigorous consultation process, that is to say traditional owners may choose not to develop land, or may choose to develop smaller areas or with different requirements. To ensure the impact of forestry activities on the flora and fauna is minimised, the Project's environment team carries out surveys for threatened species, conducts regular monitoring and provides extensive buffer zones around known sensitive areas and water sources. Furthermore, the team regularly monitors nesting and activities of some species, feeding this data to a range of agencies and other land users.

“The Tiwi people don't support the forestry project”

The facts: Great Southern has a very close working relationship with the Tiwi Land Council and indeed the broader Tiwi community. The company has carried out regular consultations, and continues to do so. As the largest employer/industry on the Tiwi Islands Great Southern strives to support and contribute to all groups. Documented surveys from consultations across all land owning groups participating in forestry show a very high level of support.

“Great Southern doesn’t pay a fair rental for using land on the Tiwi Islands”

The facts: The land rental payable by Great Southern is determined on the basis of an *undeveloped site*, with due consideration of the lack of infrastructure in place on the islands. Both factors are vitally important aspects when considering these sites with respect to their agricultural value. The rental is determined in consultation with the Australian Valuer General, and market reviews in accordance with the registered leases are undertaken every three years. Great Southern is responsible for all development costs, which are very significant.

6.5 Way forward

The two key elements for increasing the Tiwi forestry estate are present: (1) enthusiastic and virtually universal landowner commitment to forestry land use, and (2) an established and reputable operator on the islands with a proven track record in establishing and operating its plantations to world-class environmental standards.

The establishment of a larger estate (whether by increments on both Islands, or entirely on Bathurst) would shift the TIFP down the cost curve compared with other forestry operations, thus better securing the Tiwi’s livelihood from forestry in the future.

The expansion of estate would have other cost and opportunity benefits as mentioned in Sections 6.1 and 6.2, and beneficial social and economic outcomes for those on Bathurst Island as mentioned in Section 6.3.

Cooperative and open discussion between the Tiwi people and government, with technical and commercial input from Great Southern, is needed to progress these opportunities.

7. SUMMARY

Great Southern has been managing the Tiwi Island Forestry Project for four years. Over that time, nearly 29,000 hectares of *A. mangium* plantation have been successfully established on Melville Island, representing less than 5% of The Tiwi Islands' total land area.

Having reached close to the development limit imposed under the EPBC Act approval, Great Southern does not propose to undertake further plantation development in the foreseeable future.

The Tiwis have approached Great Southern to develop more land for forestry, particularly on Bathurst Island. Great Southern will view approaches to establish plantations on land which has already been developed by the Tiwis very favourably, as doing so will:

- Improve the financial viability of the project; and
- Enable Tiwis on Bathurst Island to share the benefits of plantation forestry with those Tiwis on Melville Island.

There are substantial advantages available from a larger plantation estate, including strengthening the economics of Tiwi Forestry and placing it lower on the cost curve, allowing Bathurst Island landowners to realise their forestry aspirations, and providing opportunities for extensions into other areas such as biomass, pellets and downstream value-adding.

Dialogue with government to discuss how these opportunities can be realised is essential.

Consistently with the way it operates elsewhere, Great Southern is keen to see the Tiwi Islanders take a much more active role in working in and owning existing and future forestry operational assets, including camp infrastructure and equipment. This would achieve the two-fold objective of:

- Realising the Tiwis' underlying aspiration to develop a strong cornerstone industry on their island; and
- Providing a more viable cost base for the project.

The TIFP is a strong and effective partnership between Tiwis and Great Southern, in which the Tiwis as landowners and as a community committed to bettering their future are much more than just stakeholders.

Harvest of the current plantations is expected to commence in 2012 or 2013. When it does it will result, on current assumptions, in:

- Over \$40 million of export income annually;
- Up to \$30 million of expenditure annually on harvest, establishment and plantation maintenance operations; and
- Over 100 full time jobs.

Tiwi employment and participation has been 25 to 35% of Great Southern's Island workforce. Great Southern is committed to increasing Tiwi employment within the company and through increasing capacity of Tiwi companies to perform contract work and employ Tiwis in the course of those activities.

Great Southern takes its environmental obligations very seriously, and funds a significant team of experts to ensure it operates in strict accordance with its EPBC obligations and to environmental

management plans developed with the Tiwi Land Council and consistent with the Land Council's plans. Following some historic incursions into environmental buffer zones, Great Southern is currently undertaking a staged incursion identification program to be followed by rehabilitation work as required by the Minister for the Environment.

The TIFP has achieved ISO 14001- certification and operates to high standards in operational, health, safety, environmental and community activities.

Great Southern is pursuing two key strategies to make the TIFP more competitive and thus secure its long-term future for the Tiwis:

- Cost containment, which is closely aligned to securing more Tiwi employment and participation in the Project; and
- Improved wood production.

Over the next three years, Great Southern will be planning, designing and constructing a new shiploading facility on the site of the existing general cargo wharf at Port Melville. This is likely to require expenditure of \$40 to \$50 million.

The Tiwi Islands Forestry Project has the potential to be one of the best examples of plantation forestry development on traditional Aboriginal land in Australia. Delivering on the vision of a forestry project managed by skilled indigenous people for the long-term benefit of the indigenous island community is too important an opportunity to lose.

LIST OF ATTACHED DOCUMENTS

1. ISO 14001 Certification