



SUBMISSION

Senate Rural Affairs and Transport References Committee - Inquiry into the Sale of Timber Assets by the South Australian Government

March 2011

The National Association of Forest Industries (NAFI) welcomes the opportunity to provide a submission to the Rural Affairs and Transport References Committee Inquiry into the proposed Sale of Timber Assets by the South Australian Government. NAFI views the Committee's inquiry as a valuable opportunity to present industry's views on this important matter.

NAFI is the peak representative body for Australia's forestry and forest based industries, and represents industry's interest to governments, the public and agencies on matters relating to the development and sustainable use of Australia's forests and wood products.

Introduction

One hundred per cent of timber production in South Australia is plantation-based. Using the South Australian Government's own published information¹ there are 183,000 ha of dryland plantation resources in South Australia, consisting of 122,000 ha of softwood and 61,000 ha of hardwood plantations, representing 12% and 6% of Australia's total respectively.

The State's plantation forests provide multiple benefits, including natural resource management outcomes (e.g. salinity and erosion control) and highly significant socio-economic, regional development and employment opportunities.

¹ South Australian Forest Industry Strategy: Directions for 2011-2015, Consultation Draft, Forest Industry Development Board

An essential consideration regarding the proposed sale is that the softwood industry is vertically integrated into regional economies, with significant inputs to the sawlog, engineered wood products, posts, pulp and paper, and other forest products and processing waste industries.

The regional significance of forestry is particularly well demonstrated in relation to the Lower Limestone Coast sub-region of the South East Region. A report prepared by Econsearch Pty Ltd² for PIRSA Forestry, the Limestone Coast Regional Development Board, the Green Triangle Regional Plantation Committee, and the South East Natural Resources Management Board on the timber industry in the Lower Limestone Coast sub-region notes that:

1. The total value of output (i.e. forestry + wood and paper products) was \$1218m in 2006/07.
2. Direct Gross Regional Product (GRP) generated by the timber industry was over \$500m (or 19% of the regional total); direct employment was 3,600 jobs (or 11% of regional employment); and directly generated household income was \$240m (or 19% of the regional total).
3. Flow-on GRP summed to another \$240m, flow-on employment another 3,900 jobs, and flow-on household income another \$150m.
4. Directly and indirectly the timber industry contributed in 2006/07 to \$760m (or 28%) to the South East Region GRP; 7,500 jobs (or 22%); and \$390 (or 30%) of household income.
5. All this comes from just 150, 108 ha, or 5.39% of the total land area of the South East Region.

In total the South Australian forest and forest products industry in 2006/07 produced \$2.6 billion of goods and services and employed 13,000 people, or 11.3% and 10.8% respectively of the Australian forest and forest products industry as a whole.

The sale of GBEs in general

In principle, NAFI is not opposed to the sale of government assets *per se*. NAFI supports appropriate efforts by government to open up publicly held assets and businesses to competition and market lead efficiencies, with the aim of promoting improved efficiencies within industries and in the operation of the economy.

However, it is important that when government embarks on such a program that it is part of a transparent reform agenda, that it is cognisant of the need for appropriate and genuine consultation with the affected industries and communities that are reliant on them, and that it produces a thorough impact statement of the proposed reform.

As noted in the House of Representatives Standing Committee on Transport and Regional Services *Background Paper on the Economic and Social Impacts of the Privatisation of Regional Infrastructure and Government Business Enterprises in*

² The Timber Industry and Lower Limestone Coast Water Allocation Planning: Socio-Economic Aspects, Econsearch, December 2008.

Regional and Rural Australia, it is essential that Governments undertake a detailed consideration of the benefits and disadvantages of privatising GBE's (including as appropriate from a regional perspective) that draws upon a wide range of social, economic and environmental assessment criteria, such as:

- employment generation, training opportunities, labour force diversification;
- social stability and community cohesion;
- service quality and choice;
- cost reduction and other productivity effects;
- pricing policies and cross subsidisation;
- competition implications;
- environmental spin-offs;
- new investment and disinvestment;
- innovation; and
- flow-on effects to local businesses.

The proposed forward sale of South Australia's forests

In light of the above NAFI has a number of comments in relation to the proposed forward sale of South Australia's forest resources. These include:

- It would appear the proposed sale is not part of a genuine reform agenda and is simply a revenue raising measure, with scant regard for regional consequences and industry efficiencies and long term outcomes.
- It is uncertain whether the Government has conducted a rigorous and comprehensive consideration of the cost and benefits of the proposed sale based on social, economic and environmental assessment criteria. If so, it has not been made available to the regional communities or industries affected by the proposed sale.
- Consideration does not appear to have been given to the regional significance of the forest industry and its vertical integration. The Government's proposal appears to treat the forest resource as separate from the downstream processing and export businesses, which are reliant upon a reliable supply of timber product.
- The proposal does not provide any assurances to local industry of long term plantation timber supply for local processing and/or export. Part of Forestry SA's charter is to encourage the growth of the local forest industry to meet international standards. As such, it deals with local mills and provides for variable harvest rights up to 10 years. Without such guaranteed security of supply there is a greater risk to invest, which will inhibit the ability of local saw mills to invest in new technology and adapt to change.

- There appears a lack of proper consultation by Government with either the timber industry or regional communities regarding the proposed sale.
- The Government proposal does not appear to take into account the inter-related nature of other land use policies, most notably proposed future water policies aimed at targeting interception of rainfall from plantation forests.
- NAFI has previously raised concerns with the South Australian Government regarding flaws in its water policy framework, including the inequitable nature of targeting plantation forests (e.g. compared to other dryland activities) and inconsistencies with the National Water Initiative water reform process. Given such uncertainty, this is likely to have a detrimental effect on the viability of the proposed sale for private investors.
- In this regard, the risk sharing arrangements between the Government and the future potential buyer of timber rights will be an important factor.

With respect to water policy, a number of potentially significant issues arise:

- Why would an investor buy into a forward sale of forest resources when the Government is potentially planning to tax water use by plantation forests by requiring plantations to acquire water access entitlements?
- Moreover, there could be significant uncertainty over future proposed water allocations for plantations.
- Additionally, there is no guarantee that the same plantation area will be able to be planted at the end of a rotation, depending on the Government's assessment of water availability and the terms of the sale structure.

Concluding comments

NAFI acknowledges the potential future benefits from the privatisation of Government owned assets such as forests and related benefits in terms of improved efficiencies within the industry sector.

However, given the general community opposition to its forests forward sale policy, it would appear the Government urgently needs to fully consider the economic and social impacts of the proposed policy. From an industry perspective, it is also important for the Government to fully assess the most effective sale structure or model for managing the resource and providing industry efficiency and associated downstream processing.

Furthermore, without a transparent and comprehensive policy framework for future investment in the industry (e.g. dealing with current water policy and sovereign risk issues), there is the potential for perverse policy outcomes in terms of long term innovation, downstream processing and related employment and community benefits. Consequently, there is a strong need for the Government to engage in a meaningful and transparent way with industry and the community regarding the structure of the proposed sale given the range of issues identified above.