

# Chapter 2

## Forestry

### Forestry on the Tiwi Islands

#### *History of forestry on the Tiwi Islands*

2.1 The Tiwi Islands have a lengthy history of forestry. Three sawmills were established on Melville Island in 1898 for the export sale of timber.<sup>1</sup> In 1927, the South Australian government identified Melville Island as an ideal location for plantation forestry.<sup>2</sup>

2.2 During the 1960s and 1970s, the Commonwealth government through the Commonwealth Scientific and Industrial Research Organisation (CSIRO) commenced 'silvicultural research relating to the establishment of a plantation forestry industry on the Tiwi Islands'.<sup>3</sup> The Northern Territory government extended these plantations until 1986, at which time the territory government withdrew.<sup>4</sup>

2.3 Following the withdrawal of the Northern Territory government, the Tiwi landowners 'demanded the Tiwi Land Council maintain existing plantations and seek investment to develop the forestry industry further'.<sup>5</sup>

2.4 The Tiwi Land Council and others have actively sought to develop forest industries on the Islands, but with mixed success. In the 1980s the Land Council was involved in a joint venture with Minmel Pty Ltd, called Melville Forest Products, which established a native softwood business.<sup>6</sup> Disagreements over the direction of the business led to it being wound up in the 1990s,<sup>7</sup> though timber production did take place.

---

1 Tiwi Land Council, *Submission 34*, p. 12.

2 Tiwi Land Council, *Submission 34*, p. 12.

3 CSIRO, *Submission 17*, p. 6.

4 Tiwi Land Council, *Submission 34*, p. 12.

5 Tiwi Land Council, *Submission 34*, p. 13.

6 Tiwi Land Council, *Tiwi Islands Region Economic Development Strategy*, November 1996, p. 29.

7 *Pirntubula Pty Ltd v Melville Forest Products Pty Ltd*, Supreme Court of the Northern Territory, No. 90 of 1994, NTSC 68 (22 July 1994)  
[http://www.supremecourt.nt.gov.au/archive/doc/sentencing\\_remarks/0/94/0/NS001000.htm](http://www.supremecourt.nt.gov.au/archive/doc/sentencing_remarks/0/94/0/NS001000.htm)  
(accessed 30 June 2009).

2.5 The 1996 Development Strategy indicated continuing interest amongst Tiwi Islanders in forest industries, and there was discussion of establishing a woodchip plant. The Strategy said that the interest was due to:

The reported employment and financial benefits. However, the physical and social impact on the Tiwi Islands would be enormous and quite rapid, and the Tiwi people would need to thoroughly weigh the costs and benefits of any formal proposal.<sup>8</sup>

2.6 Perhaps reflecting this ambivalence, the section of the Strategy on economic development prospects did not discuss forestry.<sup>9</sup> Nevertheless, the search for opportunities continued.

### ***Approval for plantation forestry***

2.7 On 12 August 2001, Australian Plantation Group Pty Ltd (APG), later named Sylvatech, and the Tiwi Land Council received approval under the EPBC Act to establish and operate up to 26 000 hectares of forestry operations on Melville Island.<sup>10</sup>

2.8 In 2004, Sylvatech was acquired by Great Southern Limited.<sup>11</sup> Great Southern Limited commenced management of the Tiwi Islands Forestry Project (TIFP) in 2005.<sup>12</sup> Great Southern's operation was a forestry Managed Investment Scheme, an investment practice that has been widely canvassed by several other Senate inquiries. Great Southern Limited went into voluntary administration and later receivership during the course of this inquiry.

### **Current state of forestry**

#### ***Plantation size and condition***

2.9 Great Southern's forestry assets on the Tiwi Islands encompass 28 908 established hectares with an additional 1500 hectares approved for development.<sup>13</sup> Great Southern anticipated that the Tiwi plantations would be ready to harvest in 2012-13, with a rotation period of 8-10 years, and a regular annual harvest of around 3500 hectares.<sup>14</sup>

---

8 Tiwi Land Council, *Tiwi Islands Region Economic Development Strategy*, November 1996, p. 30.

9 Tiwi Land Council, *Tiwi Islands Region Economic Development Strategy*, November 1996, pp 41-51.

10 See [http://www.environment.gov.au/cgi-bin/epbc/epbc\\_ap.pl?name=current\\_referral\\_detail&proposal\\_id=229](http://www.environment.gov.au/cgi-bin/epbc/epbc_ap.pl?name=current_referral_detail&proposal_id=229)

11 Tiwi Land Council, *Submission 34*, p. 12.

12 Great Southern Limited, *Submission 19*, p. 1.

13 Great Southern Limited, *Submission 19*, p. 1.

14 Great Southern Limited, *Submission 19*, p. 5.

2.10 Based on the findings of a report by independent forestry consultancy GHD Australia, dated October 2008, the average established *Acacia mangium* stems per hectare on the Tiwi Islands for the 2006 Project (2007 and 2008 planting) was 1187.9 with an average survival rate of 74.7%.<sup>15</sup> In contrast, Great Southern's Green Triangle *Eucalyptus globulus* plantation in Victoria had an average of 1010.3 established stems per hectare at a survival rate of 97.5% while their Tasmanian *Eucalyptus nitens* plantation had an average of 1088.6 established stems per hectare with a 96.8% survival rate.<sup>16</sup>

2.11 Due to its proximity to the equator, tropical cyclones are a common occurrence along the Northern Territory coastline. In 2005, Tropical Cyclone Ingrid caused significant damage on the Tiwi Islands including to 4000 of the 5200 hectares planted to that date.<sup>17</sup> Post Cyclone Ingrid, all of the affected area was replanted by Great Southern.<sup>18</sup>

2.12 CSIRO Honorary Research Fellow Dr Ken Eldridge gave evidence to the committee that Great Southern had achieved good survival and weed control at the Tiwi plantation. According to Dr Eldridge, the trees were generally healthy with little damage from insects or fungi. However, Dr Eldridge assessed that poor stem and branch form would probably increase harvesting costs and reduce overall yields.<sup>19</sup> He considered *Acacia mangium* as 'a promising plantation species at an early stage of domestication and adaptation to the needs of industrial forestry production'<sup>20</sup> and that on the Islands:

stem and branch form was not good, many trees having forks, crooked stems or coarse branches. Such poor form is common when genetically unimproved 'wild' seed is used in *Acacia mangium* plantations elsewhere.' Such form deficiencies reduce the return at harvest due to reduced yield and the extra cost of delimiting and debarking, prior to chipping for export at age 8 to 10 years. Apart from the possible risk of lower returns due to tree form, there are obvious risks from cyclone and wild fire. Cyclone Ingrid in 2005 caused so much damage to plantations older than three years that they were replaced.<sup>21</sup>

2.13 Dr Eldridge's analysis was supported by GHD Australia's assessment that the 2006 Project was generally in good condition despite the occurrences of *Mastotermes*

---

15 GHD Australia, *Report for 2006 Project (2006 and 2007 Planting)*, prepared for Great Southern managers Australia Limited in October 2008, p. 30.

16 GHD Australia, *Report for 2006 Project (2006 and 2007 Planting)*, prepared for Great Southern managers Australia Limited in October 2008, pp 10 and 20.

17 The Institute of Foresters of Australia, *Submission 13*, p. 4.

18 Great Southern Limited, *Submission 19*, p. 1.

19 Dr Ken Eldridge, *Proof Committee Hansard*, Canberra, 14 August 2009, p 66.

20 Dr Ken Eldridge, *Supplementary submission 11*.

21 Dr Ken Eldridge, *Submission 11*, pp 1–2.

*darwiniensis* (Giant Northern Termite), with good growth and survival, and limited weed, insect and animal damage.<sup>22</sup> A 2008 URS Forestry report on the 2004 plantation supports Dr Eldridge's assessment of poor tree form.<sup>23</sup> The URS report claimed that while this was unlikely to adversely affect wood production it may increase harvesting costs.<sup>24</sup>

## **Governance and contractual arrangements for forestry**

2.14 The Tiwi Islands Forestry Project (TIFP) is a partnership between the Tiwi Land Council and Great Southern Ltd. The project has been governed by a series of agreements between GSL and the traditional landowners. These are part of a complex set of contractual arrangements and company arrangements under which the forestry venture is arranged. This includes the establishment of several companies such as Pirntubula, owned by the Tiwi landowners and which invests in activities that benefit Tiwi Islanders; Tiwi Resources, set up to engage as a forestry contractor to Great Southern's project; Tiwi Enterprises, which manages the distribution of rents to landowners; and Port Melville Pty Ltd, a company established to facilitate wharf construction. These arrangements are discussed further in chapter four.

### ***Contractual arrangements***

2.15 The contractual, commercial and legal arrangements between the Tiwi traditional owners and Great Southern are documented in a series of eighteen commercial forestry leasing agreements between the Tiwi Aboriginal Land Trust and Sylvatech Ltd, plus numerous other ancillary agreements.<sup>25</sup>

2.16 These leasing agreements are made between the *land trust* and the proponent, and *not* the land council and the proponent, as the land trust is:

...the formal legal vehicle for holding the inalienable freehold title conferred by the Act and nominally they take action in the name of traditional owners. But they have no autonomy under the tripartite structure of traditional owners, land trust and land councils. The ultimate decision-makers are the traditional owners. The land councils ascertain the wishes of the owners and instruct the land trust accordingly. The trustees must comply with the land council's instructions (s 5).<sup>26</sup>

---

22 GHD Australia, *Report for 2006 Project (2006 and 2007 Planting)*, prepared for Great Southern Managers Australia Limited, p. 44.

23 URS Forestry, *Expert Forester's Report on Sylvatech Tropical Timbers 2004*, prepared for Great Southern Limited on 22 September 2008, p. 2.

24 URS Forestry, *Expert Forester's Report on Sylvatech Tropical Timbers 2004*, prepared for Great Southern Limited on 22 September 2008, p. 2.

25 Tiwi Land Council, *Submission 34*, p. 29.

26 Heather McRae, *Indigenous Legal Issues: Commentary and Materials / Heather McRae et al* (fourth edition), Thomson Reuters (Professional) Australia, Pyrmont, 2009, p.239-240.

---

2.17 In its submission to the inquiry, the TLC stated that 'Each Forestry Lease has been clearly drafted with the protection of Tiwi interests in mind' through the inclusion of 'provisions typically found in any commercial lease agreement for the protection of the lessor' and additional terms 'protecting the unique interests of Traditional Landowners', for example:

- Best forestry practice – the lessee must conduct its operations to the best forestry practice suitable in all circumstances;
- Culturally sensitive manner – the lessee and its employees and visitors must conduct its operations and themselves in a culturally sensitive manner at all times;
- Compliance with all laws and Aboriginal land permits;
- Abiding by alcohol restrictions;
- Compliance with the Plantation Management Deed and Community Services Deed;
- Environment – the lessee must maintain the environment of the land in accordance with any obligation imposed on it by legislation and the recommendations, requirements and conclusions of the EIA; and
- Reservations – certain rights are reserved to the traditional landowners, for example rights to use the land, prohibition on entry by the lessor on sites of significance to traditional owners.<sup>27</sup>

2.18 The Plantation Management Deed was agreed between the Tiwi Aboriginal Land Trust and Australian Plantation Group Ltd. The deed contained provisions for the benefit of the Tiwi to 'ensure prudent forestry practices and the payment of royalties'.<sup>28</sup>

2.19 The Community Services Deed was also entered into by the Tiwi Aboriginal Land Trust and Australian Plantation Group Ltd. The deed required the Australian Plantation Group to aid in providing education, training and employment for the Tiwi community.<sup>29</sup> The TLC was of the opinion that 'The Community Services Deed has been extremely successful as a matter of practice since its inception in 1999, as evidenced by various positive tangible outcomes'.<sup>30</sup>

---

27 Tiwi Land Council, *Submission 34*, pp 30-31.

28 Tiwi Land Council, *Submission 34*, p. 31.

29 Tiwi Land Council, *Submission 34*, p. 33.

30 Tiwi Land Council, *Submission 34*, p. 33.

### ***Employment***

2.20 The forestry agreements between Great Southern and the Tiwi Land Council required Great Southern to source, where possible, employees from the local Tiwi population.<sup>31</sup>

2.21 Great Southern informed the committee that 35 to 55 per cent of its workforce on the Islands was Tiwi Islanders.<sup>32</sup> In 2009, Great Southern employed 28 traditional landowners, comprising 18 fulltime employees and another ten who were either Tiwi Land Rangers or Tiwi Marine Rangers funded by Great Southern.<sup>33</sup>

### ***Land rental***

2.22 The land on which forestry plantations are situated is subject to land rent payable by the lessee to the Tiwi traditional owners through Tiwi Resources Pty Ltd.<sup>34</sup> Many submissions to the inquiry queried these land rental arrangements, suggesting the Tiwi Islanders might have been underpaid for this land.<sup>35</sup> The concerns were driven in part by remarks made by Great Southern at the time it took on the Tiwi Islands project. In its annual report, the company noted:

The acquisition not only provides Great Southern access to extensive plantation land for future projects at a significant discount to current market prices for land in Great Southern's traditional plantation regions, it also involves us embarking on a relationship with the Tiwi Island people... This land represents a valuable resource for Great Southern, which is likely to represent a capital saving to the company of about \$40 million annually over the next 8 years.<sup>36</sup>

2.23 The Australian Valuation Office (AVO) conducted a desk-top rental valuation for the proposed rental agreement between the Tiwi Land Council and Sylvatech in August 1998.<sup>37</sup> The valuation was requested by Mr John Hicks, on behalf of the Tiwi Land Council.<sup>38</sup> The area of land being valued was 30 000 hectares on Melville Island

---

31 Tiwi Land Council, *Submission 34*, p. 75.

32 Great Southern Limited, *Submission 19*, Executive Summary.

33 Tiwi Land Council, *Submission 34*, p. 75.

34 Mr John S Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 19 May 2009, p. 13.

35 For example The Wilderness Society Inc. and Environment Centre NT, *Submission 30*, p. 24.

36 Great Southern Limited, *Annual Report 2005*, p. 10.

37 Tiwi Land Council, *Additional Information*, AVO Rental Valuation 1998, received 27 May 2009.

38 Tiwi Land Council, *Additional Information*, AVO Rental Valuation 1998, received 27 May 2009.

---

with limited roads and no services, for a 30 year lease with an additional 30 year right of renewal.<sup>39</sup>

2.24 Sylvatech submitted a proposal for the payment of rent at \$10.00 per hectare for the first two years of the agreement, \$12.50 for years three and four, and \$15.00 per hectare for the fifth year.<sup>40</sup> The amount proposed was to be adjusted for CPI from year two.<sup>41</sup>

2.25 In determining the rental valuation for Melville Island, the AVO considered rent paid for land subject to forestry plantations in Tasmania and Western Australia. The valuer noted that:

On instructions, I have not undertaken a full feasibility study on the likely success or otherwise of the silvicultural proposal and are unaware of the likely yield of chips per ha, establishment, maintenance, harvesting and shipping costs. In the NT, wood chipping is a sunrise industry with no historical information available.<sup>42</sup>

2.26 In conclusion, the AVO stated that:

Southern lands, now being given over to forestry, have a variety of more intensive uses and have competing users. Much of this land is suitable for viticulture, agriculture or horticulture. This situation does not exist in the Tiwi Islands. Much of the Tiwi land is eucalypt forest.<sup>43</sup>

2.27 The AVO calculated the market rental value to be \$3.00 per hectare per annum and on that basis recommended:

In view of the general market and unique soil / rainfall combination, it is strongly recommended that the proposal submitted by the developers be accepted.

Rents are to be reviewed after 5 years and depending on the success of the project and may be adjusted.<sup>44</sup>

---

39 Tiwi Land Council, *Additional Information*, AVO Rental Valuation 1998, received 27 May 2009.

40 Tiwi Land Council, *Additional Information*, AVO Rental Valuation 1998, received 27 May 2009.

41 Tiwi Land Council, *Additional Information*, AVO Rental Valuation 1998, received 27 May 2009.

42 Tiwi Land Council, *Additional Information*, AVO Rental Valuation 1998, received 27 May 2009.

43 Tiwi Land Council, *Additional Information*, AVO Rental Valuation 1998, received 27 May 2009.

44 Tiwi Land Council, *Additional Information*, AVO Rental Valuation 1998, received 27 May 2009.

2.28 The committee heard evidence that the land rent finally agreed between Sylvatech and the land council was \$12.00 per hectare.<sup>45</sup> It also understands that the rate was indexed to annual increases in the Consumer Price Index, while the agreement was subject to review every five years.<sup>46</sup>

2.29 The land rent paid for Tiwi land subject to forestry was reviewed in January 2008.<sup>47</sup> The Tiwi Land Council engaged the AVO to conduct the rental review valuation for the Tiwi forestry lease.<sup>48</sup> The review included a site inspection, via helicopter, by the valuer as well as consideration of roads, access, and the terms of the lease.<sup>49</sup> The AVO also examined land sales in the Douglas-Daly and Marrakai areas of the Northern Territory.<sup>50</sup>

2.30 In its January 2008 valuation, the AVO considered 'the market rental value for 29,982.6 hectares of forestry lands on Melville Island' to be \$22.00 per hectare excluding GST.<sup>51</sup> Further, the AVO stated that 'For the purposes of negotiating it is not considered unreasonable to apply a range of values between \$20 and \$26 per hectare excluding GST'.<sup>52</sup>

2.31 The committee heard evidence that the lease agreement between the TLC and Great Southern allowed Great Southern to conduct their own valuation of the forestry land. Following the 2008 AVO valuation, Great Southern sought their own valuation. It recommended a market land rental rate of \$10.00 per hectare;<sup>53</sup> however, this was unacceptable to the TLC:

Great Southern under our agreements have the opportunity to also get a value and they did. That came in at \$10 a hectare. The argument was that the Australian Valuer-General was valuing it on the basis of infrastructure

---

45 Mr John S Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 19 May 2009, p. 3.

46 Oakton, *Tiwi land Council Timber Industry Arrangements: Review 2008/2009: Final Report*, Report to Department of Families, Housing, Community Services and Indigenous Affairs, Canberra, February 2009, p. 8.

47 Tiwi Land Council, *Additional Information*, AVO Rental Valuation Report 2008, received 27 May 2009.

48 Tiwi Land Council, *Additional Information*, AVO Rental Valuation Report 2008, received 27 May 2009.

49 Tiwi Land Council, *Additional Information*, AVO Rental Valuation Report 2008, received 27 May 2009.

50 Tiwi Land Council, *Additional Information*, AVO Rental Valuation Report 2008, received 27 May 2009.

51 Tiwi Land Council, *Additional Information*, AVO Rental Valuation Report 2008, received 27 May 2009.

52 Tiwi Land Council, *Additional Information*, AVO Rental Valuation Report 2008, received 27 May 2009.

53 Tiwi Land Council, *Additional Information*, Integrated Valuation Services (NT), received 27 May 2009.



that did not exist here on the Tiwi Islands—you have driven across some of it today—and was referring to land in the Douglas Daly, which is significantly different. The value from the Great Southern valuers was clearly not acceptable. As you say they were already paying \$17.35 a hectare and our agreement said they could not pay less. We then agreed—when I say ‘we’, the leaders of the land council—at \$20 a hectare.<sup>54</sup>

2.32 As of May 2009, the land rental rate paid by Great Southern to the Tiwi traditional owners was \$20.00 per hectare.<sup>55</sup> In 2007–08 these lease arrangements resulted in the distribution of \$467 000 in payments to Tiwi Island families.<sup>56</sup> Oakton consulting, in its report on Tiwi Land Council timber industry arrangements, commissioned by the Department of Families, Housing, Community Services and Indigenous Affairs in response to community concerns, reviewed the lease arrangements and found that:

The agreement on the new rental rate appears to be fair and reasonable, and the TLC provided clear evidence that this was discussed and agreed at an Executive Management Meeting in October 2008, with 15 TLC members present plus visitors. What is not yet decided, is what 'educational and forestry training programs' will be delivered with the money.<sup>57</sup>

2.33 In addition to the land rental payments, the arrangement between Great Southern and the Tiwi Land Council ensured other income streams would accrue to the Tiwi Islanders once harvesting commenced in 2012–13, including two per cent of net harvest proceeds, and a third of Great Southern's Management Entitlement from those same proceeds.<sup>58</sup> The committee received no evidence to suggest that the rental rates were not 'fair and reasonable'. Decisions about how money is to be distributed and applied to programs are important decisions, and this is discussed in chapter four.

## Impacts of forestry

### *Environmental impact assessments of the forestry project*

2.34 An environmental impact statement (EIS) for the forestry projects on the Tiwi Islands was prepared by ForSci Pty Ltd for the TLC in 1999.<sup>59</sup> The committee heard

---

54 Mr John S Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 19 May 2009, p. 3.

55 Mr John S Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 19 May 2009, p. 3.

56 Oakton, *Tiwi land Council Timber Industry Arrangements: Review 2008/2009: Final Report*, Report to Department of Families, Housing, Community Services and Indigenous Affairs, Canberra, February 2009, p. 8.

57 Oakton, *Tiwi land Council Timber Industry Arrangements: Review 2008/2009: Final Report*, Report to Department of Families, Housing, Community Services and Indigenous Affairs, Canberra, February 2009, p. 9.

58 Oakton, *Tiwi land Council Timber Industry Arrangements: Review 2008/2009: Final Report*, Report to Department of Families, Housing, Community Services and Indigenous Affairs, Canberra, February 2009, p. 7.

59 The Wilderness Society and the Environment Centre NT, *Submission 30*, p. 13.

that the EIS was for 'a conceptual start-up project of 3,000 hectares and then that was followed by another 2,000 hectares' and that this was submitted to the Northern Territory government.<sup>60</sup>

2.35 However, the committee also heard evidence that under Northern Territory legislation, the forestry project on the Tiwi Islands did not require approval:

**Mr Cowan**—There was never any approval that was required by the Northern Territory government—

**Senator TROETH**—I see. Because it was a private project?

**Mr Cowan**—No, because they did not have the laws in place. Many other states have clearing approvals, so that a person needs the approval before they can clear it. They need to provide a good assessment and the government can say, 'We are not giving you approval until you do that.' Unfortunately, in the Northern Territory it is completely advisory and they only assess a very small part of it. They were never really in a position to demand anything. It was a kind of catch up—'We need to try to impact this as much as possible on a voluntary basis.' That was really the fundamental problem.<sup>61</sup>

2.36 The current forestry project was approved under the Environment Protection and Biodiversity Conservation (EPBC) Act in 2001. Approval was granted to Australian Plantation Group Pty Ltd and the Tiwi Land Council 'to establish and operate up to 26,000 hectares of hardwood plantations on western Melville Island in the Tiwi Island group of the Northern Territory'.<sup>62</sup> In total, 11 conditions were imposed on the forestry project including:

- Prohibition of clearing the treeless plains or riparian areas near springs or watercourses or rainforest.
- The establishment of buffers zones which must not be cleared of vegetation around rivers, creeks, wetlands and rainforest patches.
- Implementation of strategies to deal with the spread and control of weeds; fertiliser application; water quality and groundwater levels; spread of *Acacia mangium* beyond plantations; erosion control; sediment deposition; fire management; outbreaks of pests and disease; and quarantine procedures.<sup>63</sup>

---

60 Mr Mark Cowan, Principal Solicitor, Environmental Defenders Office (NT), *Proof Committee Hansard*, 18 May 2009, pp 22-23.

61 Mr Mark Cowan, Principal Solicitor, Environmental Defenders Office (Northern Territory), *Proof Committee Hansard*, 18 May 2009, p. 23.

62 Commonwealth of Australia, *Decision to approve the taking of an action (EPBC 2001/229)*, 12 August 2001, available: [http://www.environment.gov.au/cgi-bin/epbc/epbc\\_ap.pl?name=current\\_referral\\_detail&proposal\\_id=229](http://www.environment.gov.au/cgi-bin/epbc/epbc_ap.pl?name=current_referral_detail&proposal_id=229) (accessed 3 July 2009).

63 Commonwealth of Australia, *Decision to approve the taking of an action (EPBC 2001/229)*, 12 August 2001, available: [http://www.environment.gov.au/cgi-bin/epbc/epbc\\_ap.pl?name=current\\_referral\\_detail&proposal\\_id=229](http://www.environment.gov.au/cgi-bin/epbc/epbc_ap.pl?name=current_referral_detail&proposal_id=229) (accessed 3 July 2009).

### *Export of cleared timber*

2.37 In 2003, 15 000 tonnes of logs harvested from native eucalypt forest cleared from land, in preparation for planting *Acacia mangium* plantations, were exported to Asia from the Tiwi Islands.<sup>64</sup> This timber is often referred to as "red Tiwi". It was hoped that the export of this native timber would be profitable for both the forestry proponent and the Tiwi people:

Sylvatech and its contractors have commenced the harvest, extraction and haulage of native eucalypts. The timber being harvested is from areas designated for the establishment of future *Acacia mangium* plantation. People may remember that previously the Project Managers have only burnt the native timber, as infrastructure was not available to allow its export and similarly, markets within Asia were not profitable. With changes to the Australian dollar, increased demand and now the upgrade of Tiwi infrastructure such as the road, Sylvatech can now sell this timber into Asian markets – providing a profitable return for the owners of the native timber – the Tiwi people.<sup>65</sup>

2.38 The export deal had a reported value of \$1.5 million per year.<sup>66</sup> However, it was revealed during Senate Estimates in 2006 that the export of the red Tiwi had in fact resulted in a loss of approximately \$600 000.<sup>67</sup> This \$600 000 loss has been the source of both confusion and controversy, highlighted by its citation in numerous submissions and also in evidence to the committee.

2.39 The committee understands that Sylvatech and Pirntubula Pty Ltd negotiated a deal for the export of cleared timber – both red Tiwi and some of the plantation cypress – in which both parties were expected to make a profit and Sylvatech would carry the risk.<sup>68</sup> It was estimated that the export of the timber over a number of years would generate 'a few million dollars'.<sup>69</sup>

---

64 Mr John Hicks, Secretary, Tiwi Land Council, *Estimates Hansard*, 2 November 2006, p. 62.

65 Tiwi Land Council, *Annual Report 2002/2003*, p. 21, available: <http://www.tiwilandcouncil.net.au/Publications/Tiwi%20Annual%20Report%202003.pdf> (accessed 26 August 2009).

66 ABC Radio National, *Background Briefing*, 16 September 2007, available: <http://www.abc.net.au/rn/backgroundbriefing/stories/2007/2031767.htm> (accessed 26 August 2009).

67 Mr John Hicks, Secretary, Tiwi Land Council, *Estimates Hansard*, 2 November 2006, p. 62. At the time of the Estimates hearing, Mr Hicks foreshadowed a \$75 000 payment was supposed to be received for the seventh shipment of logs, however figures given to the committee during the course of its current inquiry suggested such a payment was not made.

68 Mr John Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 14 August 2009, p. 73.

69 Mr John Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 14 August 2009, p. 72.

2.40 The committee heard evidence that ultimately, due in large part to increased shipping costs and fluctuations in the value of the Australian dollar, Sylvatech bore a loss of \$610 000 on the timber export deal:

**Mr Hicks**—...The asset was to be sold in order that Pirntubula would make some money. Pirntubula presented these trees for harvest by Sylvatech with the expectation of making a profit—and they would not have entered into the arrangement unless they anticipated making a profit. They made a loss.

**Senator SIEWERT**—Sylvatech made a loss.

**Mr Hicks**—Sylvatech made a \$610,000 loss on this particular transaction.

2.41 The committee clarified that neither the Tiwi Land Council, nor any of the Islanders' commercial entities such as Pirntubula, incurred that loss. It was a loss borne by the forestry company:

**CHAIR**—The expectation was, as with all good commercial deals, that it would be profitable and Pirntubula would have received a share of the profits?

**Mr Hicks**—Absolutely. It was a fifty-fifty arrangement that Sylvatech would harvest and we would enjoy 50 per cent of the profits from that particular milling transaction. In the event, the fluctuations in the Australian dollar and in the shipping rates were the two cataclysmic events that Sylvatech anticipated would get better; in fact they got worse. Finally, in the hands of Great Southern, they terminated the export as being an absolutely non-profitable proposition. But Pirntubula made a loss in expectation. We did not carry a loss of \$610,000.

...

**Mr Hicks**—...The \$610,000 was to do with the people who harvested it, the people who transported it, the people who shipped it and the money that was paid by the people in southern China. That was a cumulative loss of \$610,000 across a number of shipments. When you talk about a loss, it was certainly a loss of expectation that having harvested 40,000 tonnes, or whatever it was, we would get a few million dollars for that. At the end of the day we got nothing but we did not make a loss.<sup>70</sup>

2.42 The committee believes that this evidence is unambiguous that the Tiwi Islanders themselves did not lose money on this part of the operation, though the results were obviously disappointing. The results of these log sales highlighted the volatility of international commodity markets and the potentially significant effects, on both this and future projects, of market factors outside the Tiwi Islanders' control.

---

70 Mr John Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 14 August 2009, pp 71-72.

---

***Breach of EPBC Act conditions***

2.43 The Commonwealth approval for the Tiwi Islands forestry project set out eleven conditions, including:

3. APG and TLC must not clear the treeless plains or riparian areas near springs or watercourse (including intermittent watercourses) or rainforest. APG and TLC also must not clear vegetation within the following buffer zones:
  - Rivers – 150m from each high bank;
  - Creeks – 100m from each bank;
  - Other drainage lines – 50m both sides;
  - Wetlands – 150m around wetland perimeter;
  - Wet rainforest patches – 400m; and
  - Other rainforest patches – 200m.
  - 300m radius around nest sites of the Red Goshawk. If nests are located outside the buffers for rivers, wetlands and creeks, they must be linked by a corridor of 300m width to the nearest riparian buffer.
  - 500m radius around known occurrences of Carpentarian Dunnart.
4. Before clearing any native forest, except as provided for in paragraph 1 above, the APG and TLC must prepare and submit for the Minister's approval, a plan outlining strategies to deal with the following matters:
  - Spread and control of weeds;
  - Fertiliser application;
  - Water quality and groundwater levels;
  - Spread of *Acacia mangium* beyond the plantations;
  - Erosion control;
  - Sediment deposition;
  - Fire management;
  - Outbreaks of pests and disease; and
  - Quarantine procedures.
  - The action must be taken in accordance with the plan approved by the Minister.
5. Before clearing each area of native forest, except as provided for in paragraph 1, the APG and TLC must prepare and submit for the Minister's approval, a plan for managing the impacts of forestry in that area on the Red Goshawk, Masked Owl, Partridge Pigeon and Carpentarian Dunnart. Each plan may cover no more than 5,000 hectares, and must contain provisions to conserve

adequate habitat for those species, including but not necessarily limited to the buffer areas required by paragraph 3.<sup>71</sup>

2.44 In the period from 2004 to 2006, breaches of the conditions for the forestry project established under the EPBC Act occurred. These breaches were incursions by *Acacia mangium* plantations into buffer zones required for the protection of rainforest and wetland areas.<sup>72</sup> The breaches of the TIFP EPBC conditions were notified to the Department of the Environment, Water, Heritage and the Arts by environmental groups in the Northern Territory.<sup>73</sup>

2.45 Negotiations between Great Southern and the Department discussing the reasons for and implications of the incursions took place during 2006 and 2007.<sup>74</sup> As a result of these negotiations, an agreed settlement was reached between Great Southern and DEWHA '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'.<sup>75</sup>

2.46 Additional conditions were applied to the forestry project by the Federal Minister for the Environment. These conditions required:

...ground-truthing to accurately identify all incursions, and rehabilitation of these areas through the establishment of sustainable vegetation communities using local species. A bond of \$1 million must be posted by Sylvatech to ensure that the necessary works are completed.

The conditions also require Sylvatech to pay an annual financial contribution of \$450,000 over three calendar years to contribute to environmental works and projects, including protection of habitats for listed species under the EPBC Act.<sup>76</sup>

2.47 The \$450 000 paid by Great Southern to contribute to environmental works and projects is provided to the Tiwi Land Council, who as a joint proponent of the forestry project is responsible for the environmental offsets programs:

The environmental offset programs are not something that Great Southern is required to do; they are something that the Tiwi Land Council is required to do under EPBC as a joint proponent of the forestry project. The revised

---

71 Commonwealth of Australia, *EPBC Act 1999 Decision to approve the taking of an action 2001 / 229*, 12 August 2001, available [http://www.environment.gov.au/cgi-bin/epbc/epbc\\_ap.pl?name=current\\_referral\\_detail&proposal\\_id=229](http://www.environment.gov.au/cgi-bin/epbc/epbc_ap.pl?name=current_referral_detail&proposal_id=229) (accessed 18 August 2009).

72 Great Southern Ltd, *Submission 19*, p. 14.

73 Dr Stuart Blanch, Co-ordinator, Environment Centre NT, *Proof Committee Hansard*, 18 May 2009, p. 6.

74 Great Southern Ltd, *Submission 19*, p. 14.

75 Great Southern Ltd, *Submission 19*, p. 14.

76 DEWHA, *Agreed statement on Tiwi Islands Forestry Project*, 2008, p. 2.

conditions say the Tiwi Land Council must do these offset projects because it is a joint proponent of the forestry. Great Southern must provide \$450,000 a year to the Tiwi Land Council to assist them to do the offset projects under the EPBC compliance, changing the conditions.<sup>77</sup>

2.48 In January 2009, Great Southern made the first payment of \$450 000 to the TLC.<sup>78</sup> The TLC sub-contracted rangers employed by Tiwi Enterprises to conduct the environmental offset work required under additional EPBC conditions.<sup>79</sup> The committee understands that there are eight land rangers employed by Tiwi Enterprises whose duties include the environmental offset work.<sup>80</sup>

2.49 The committee believes that the collapse of the Great Southern Group in May 2009 may lead to some of the payments not being made. The \$1 million bond has been paid to the Department of Environment, Water, Heritage and the Arts, but that other undertakings by Great Southern to spend \$450 000 per year may now lapse:

[The Department is] not a creditor in the mainstream sense and, because the company is currently in compliance with the conditions, there is nothing else we can do at this stage other than to have made the administrators aware of our interest and involvement.<sup>81</sup>

2.50 At the time the committee last took evidence from the Department, the first payment had been made (prior to Great Southern's collapse), but the second payment had not yet fallen due.<sup>82</sup>

### **Future of forestry**

2.51 When the committee commenced the present inquiry, some stakeholders, both on and off the Tiwi Islands, had concerns about the desirability of forestry activities on the islands, and about its future. These included islanders Ms Marjorie Liddy, Mr Adam Kerinauia and Mr Manyi Rioli.<sup>83</sup> It also included some non-government

---

77 Ms Kate Hadden, Environment Manager, Tiwi Land Council, *Proof Committee Hansard*, 19 May 2009, p. 24.

78 Ms Kate Hadden, Environment Manager, Tiwi Land Council, *Proof Committee Hansard*, 19 May 2009, p. 4.

79 Ms Kate Hadden, Environment Manager, Tiwi Land Council, *Proof Committee Hansard*, 19 May 2009, p. 4.

80 Ms Kate Hadden, Environment Manager, Tiwi Land Council, *Proof Committee Hansard*, 19 May 2009, p. 23.

81 Mr Peter Burnett, First Assistant Secretary, Approvals and Wildlife Division, Department of the Environment, Water, Heritage and the Arts, *Committee Hansard*, 14 August 2009, p. 25. See also Tom Arup, 'Company collapse leaves huge clean-up headaches', *The Age*, 12 June 2009, p. 5.

82 Mr Peter Burnett, First Assistant Secretary, Approvals and Wildlife Division, Department of the Environment, Water, Heritage and the Arts, *Committee Hansard*, 14 August 2009, p. 28.

83 *Committee Hansard*, 20 May 2009.

organisations such as the Environment Centre of the Northern Territory<sup>84</sup> and the Environmental Defenders Office (Northern Territory).<sup>85</sup>

### ***Great Southern Ltd***

2.52 Many managed investment scheme (MIS) businesses have their forestry schemes evaluated by an agribusiness research house.<sup>86</sup> These evaluations are intended to provide investors and financial advisers with additional information on, and confidence in, the MIS.<sup>87</sup>

2.53 Assessments of forestry schemes by independent research houses generally focus on two key questions:

- Whether the forestry project will result in a commercially successful plantation; and
- Whether investors are likely to get a suitable financial return given the likely risk-return relationship.<sup>88</sup>

2.54 In March 2009, agribusiness research house Lonsec published such an evaluation of Great Southern Ltd.<sup>89</sup> With respect to the performance of Great Southern Ltd's forestry projects, Lonsec stated:

Lonsec has reviewed the company's 2006 - 2008 Independent Expert Reports distributed to Investors, which indicate that plantations from 1996 - 2006 demonstrate variable growth. In particular Great Southern's pre 2001 Pulpwood projects is performing below original PDS expectations, with the 2008 report identifying that all regions have produced "limited to good growth over the past year".

While [Great Southern Ltd] has demonstrated its financial commitment to its earlier projects though providing additional timber and waiving

---

84 *Submission 30.*

85 *Submission 33.*

86 Roger Underwood, 'Assessing 'management investment scheme' forestry projects: a best-practice template for commercial plantation development', *Australian Forestry*, vol. 70, no. 4, pp 269-274.

87 Roger Underwood, 'Assessing 'management investment scheme' forestry projects: a best-practice template for commercial plantation development', *Australian Forestry*, vol. 70, no. 4, pp 269-274.

88 Roger Underwood, 'Assessing 'management investment scheme' forestry projects: a best-practice template for commercial plantation development', *Australian Forestry*, vol. 70, no. 4, pp 269-274.

89 Lonsec Agribusiness Research, *Manager Profile Great Southern Limited*, March 2009, available: [http://www.great-southern.com.au/Company\\_research.aspx](http://www.great-southern.com.au/Company_research.aspx) (accessed 28 August 2009).



---

management fees (1994-1996 Projects), Lonsec believes such a practice is unsustainable over the medium and longer term.<sup>90</sup>

2.55 Overall, Lonsec expressed 'some concerns about the company's ability to meet its short term debt maturity obligations' and advised that some caution be exercised 'given the uncertainty in respect to the group's long term sustainability'.<sup>91</sup> On its rating scale of 'Excellent', 'Very good', 'Good', 'Approved' and 'Not approved', Lonsec only awarded Great Southern Ltd an 'Approved' rating.<sup>92</sup>

2.56 There are a number of other company research reports on Great Southern Ltd. In their October 2008 report, Austock Securities examined 'whether the [Great Southern Ltd] business model has worked to date', concluding that shareholders had experienced mixed returns whilst:

...project returns are expected to be well below initially expected. Initial yield expectations of 250/gmt (green metric tonne per hectare) were too ambitious and are tracking at around 160/gmt. The other contributing factor was little real increase in pulpwood prices.<sup>93</sup>

2.57 With respect to the management of Great Southern Ltd, Austock Securities felt that 'The depth of management was a positive...Should the scheme progress, more Forestry experience would be preferable'.<sup>94</sup> The committee notes that these analyses were, once again, for Great Southern's operations in general, and only provided limited insight into the situation facing individual projects, such as the Tiwi Islands plantations.

2.58 On 1 April 2009, ABC News reported that Great Southern Plantations was winding back its planting operations on the Tiwi Islands. The article stated that the

---

90 Lonsec Agribusiness Research, *Manager Profile Great Southern Limited*, March 2009, available: [http://www.great-southern.com.au/Company\\_research.aspx](http://www.great-southern.com.au/Company_research.aspx) (accessed 28 August 2009), p. 14.

91 Lonsec Agribusiness Research, *Manager Profile Great Southern Limited*, March 2009, available: [http://www.great-southern.com.au/Company\\_research.aspx](http://www.great-southern.com.au/Company_research.aspx) (accessed 28 August 2009), p. 2.

92 Lonsec Agribusiness Research, *Manager Profile Great Southern Limited*, March 2009, available: [http://www.great-southern.com.au/Company\\_research.aspx](http://www.great-southern.com.au/Company_research.aspx) (accessed 28 August 2009), p. 2.

93 Austock Securities, *Great Southern (GTP)...to a significant land and forestry play*, 31 October 2008, available: [http://www.great-southern.com.au/Company\\_research.aspx](http://www.great-southern.com.au/Company_research.aspx) (accessed 31 August 2009), p. 4.

94 Austock Securities, *Great Southern (GTP)...to a significant land and forestry play*, 31 October 2008, available: [http://www.great-southern.com.au/Company\\_research.aspx](http://www.great-southern.com.au/Company_research.aspx) (accessed 31 August 2009), p. 18.

company had reached the development limit imposed by the EPBC Act and that no further plantation development would be undertaken in the foreseeable future.<sup>95</sup>

2.59 On 7 May 2009, Great Southern went into a trading halt pending an announcement on its managed investment scheme sales program and working capital requirements.<sup>96</sup> The company was subsequently granted an extension to Monday 18 May 2009 to make an announcement about its finances.

2.60 On 16 May 2009, Great Southern went into voluntary receivership and two days later McGrathNicol was appointed receivers and managers of Great Southern Ltd and its eleven subsidiary companies.<sup>97</sup>

2.61 In July 2009, investors were advised by the receivers that there was 'no money with which to meet the day to day operating expenses of the Schemes'<sup>98</sup> or to make lease payments to landowners.<sup>99</sup> During July, McGrathNicol also commenced a review of Great Southern Ltd's horticulture and forestry schemes with a view to investors deciding 'whether to keep funding the schemes until harvest, or whether they should be wound up'.<sup>100</sup>

### ***Current ownership status***

2.62 An investor circular issued by McGrathNicol on 2 October 2009 stated:

Tiwi Island operations are commercially unviable. The operating costs and capital expenditure requirements are extremely high. As we have been without funding for the Tiwi Island operations from 30 September 2009, we have commenced cessation of these operations. We also wrote to the Tiwi Land Council, on 30 September 2009, advising that we will not be accepting any liability for the lease costs from 30 September 2009.<sup>101</sup>

2.63 A separate circular of 2 October 2009 released by McGrathNicol advised that:

---

95 ABC News, *Plantation company winds back operations in the Tiwi Islands*, 1 April 2009, available: <http://www.abc.net.au/news/stories/2009/04/01/2532067.htm> (accessed 1 April 2009).

96 The Age, *Great Southern in a trading halt*, 7 May 2009, available: <http://business.smh.com.au/action/printArticle?id=508093> (accessed 14 May 2009).

97 ASIC, *Information for Great Southern growers*, available <http://www.asic.gov.au/asic/asic.nsf/byheadline/Information+for+Great+Southern+Growers> (accessed 6 October 2009).

98 McGrathNicol, 'Circular to investors', 2 July 2009.

99 ABC News, *Great Southern declared insolvent*, available: <http://www.abc.net.au/news/stories/2009/07/08/2620404.htm> (accessed 6 October 2009).

100 ABC News, *Great Southern declared insolvent*, available: <http://www.abc.net.au/news/stories/2009/07/08/2620404.htm> (accessed 6 October 2009).

101 McGrathNicol, Receiver and Manager, 'Receiver - Circular to Plantations project investors', <http://www.great-southern.com.au> (accessed 6 October 2009)

Where the landlords are able to take possession of the leased properties, the ownership of the trees may revert to the landlords and the future harvest proceeds are unlikely to be available to investors.<sup>102</sup>

2.64 The circular also stated that on 1 October 2009 the TLC exercised their right, consistent with the terms of their contract, to terminate the lease with the tenant company.<sup>103</sup>

2.65 Based on these statements, it is the committee's understanding that, subject to any investor legal challenges, the TLC took ownership of the forestry plantation on 1 October 2009 at no upfront cost. However, ownership in the absence of any other partners exposes the TLC to responsibility for the plantation's running costs, which TLC chairman Robert Tipungwuti has publicly claimed to be \$700 000 a month.<sup>104</sup>

### ***Forecast returns***

2.66 Great Southern spent \$150 million to establish the plantation estate on the Tiwi Islands.<sup>105</sup> Harvesting of the *Acacia mangium* plantation estate on Melville Island is scheduled to commence in 2012-13.<sup>106</sup> The committee was advised that from that time, the harvest is anticipated to generate '[o]ver \$40 million in revenue per annum from the export of woodchips'.<sup>107</sup> Great Southern's proposal was for the trees to be processed into woodchips locally and exported to the Asia-Pacific region for use in the pulp and paper industry.<sup>108</sup> The committee has received evidence that the *Acacia mangium* species – the current plantation crop – is a high-quality pulp wood well regarded internationally.<sup>109</sup>

2.67 The Australian Bureau of Agricultural and Resource Economics (ABARE) record the December 2008 price of broadleaved woodchip as \$193 per bone dry tonne<sup>110</sup> (bdt), up from \$161 per bdt in 2005/06.<sup>111</sup> On 27 March 2009, three of

---

102 McGrathNicol, Receiver and Manager, 'Receiver - Circular to 04 and 05 Plantations project investors', <http://www.great-southern.com.au> (accessed 6 October 2009)

103 McGrathNicol, Receiver and Manager, 'Receiver - Circular to 04 and 05 Plantations project investors', <http://www.great-southern.com.au> (accessed 6 October 2009)

104 Stewart, P. *Tiwi plantations could be left to rot*, ABC News, <http://www.abc.net.au/news/stories/2009/09/10/2682195.htm>, (accessed 10 September 2009).

105 Great Southern Limited, *Submission 19*, Executive Summary.

106 Great Southern Ltd, *Submission 19*, p. 5.

107 Great Southern Ltd, *Submission 19*, p. 6.

108 Great Southern Limited, *Submission 19*, Executive Summary.

109 Dr Robert John Thistlethwaite, Chair, Tropical Forestry Special Interest Group, Institute of Foresters of Australia Inc., *Proof Committee Hansard*, 14 August 2009, p. 94.

110 Bone dry tonne is a common industry price volume standard generally used in reference to shipping. In this context, the term 'bone dry' specifically refers to wood density and moisture content.

Australia's leading forestry companies, including GSL, announced that the 2009 benchmark price for Australian plantation grown Tasmanian blue gum woodchip for export to Japan would be A\$207.40 per bdt, a nil increase on 2008 pricing.<sup>112</sup>

2.68 The Tiwi Land Council indicated that the price of woodchip had remained stable through the global financial crisis at \$180 per tonne.<sup>113</sup>

2.69 The committee has not received any other species-specific evidence concerning the export price of *Acacia mangium* woodchip. However, it is aware that in its 2007-08 product disclosure statement, Great Southern stated:

As a result of generally lower pulp yields and higher chemical use in the bleaching process, *Acacia mangium* does not currently attract the same price premium as the Eucalypt species used in the Projects.<sup>114</sup>

2.70 In her submission to the committee, forest economist Dr Judith Ajani applied a discount factor resulting in an estimate of approximately \$162 per bdt.

2.71 There exists a range of views concerning the current and future export market for Australian woodchips. Bureau of Rural Science projections outline an increase in the supply of Australian hardwood pulp by around 14 million cubic metres per year by 2010, about four times the volume harvested in 2005–06.<sup>115</sup> The Bureau expects this average supply volume to continue beyond 2010.<sup>116</sup>

2.72 Dr Judith Ajani from the ANU Fenner School of Environment and Society argues that the increasing supply of woodchip, produced by Australian managed investment schemes, will begin to flood the market by early 2010, driving prices down.<sup>117</sup> Dr Ajani supports this analysis by highlighting the minimal growth in hardwood chip exports to Japan – the primary purchaser of Australian hardwood chips

111 Australian Bureau of Agricultural and Resource Economics, [http://www.abareconomics.com/publications\\_html/afwps/afwps\\_09/afwps\\_may09.pdf](http://www.abareconomics.com/publications_html/afwps/afwps_09/afwps_may09.pdf), p. 35. (accessed 17 September 2009)

112 Timbercorp, <http://www.timbercorp.com.au/default.asp?cid=15286&rid=15286>, (accessed 17 September 2009)

113 Mr John Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 14 August 2009, p. 79.

114 Great Southern Group of Companies, *Great Southern Plantations 2007 Project and Great Southern Plantations 2008 Project: Product Disclosure Statement*, p. 20.

115 Parsons, M., Frakes, I. and Gavran, M. 2007, 'Australia's Plantation Log Supply 2005-2049, Bureau of Rural Sciences. [http://adl.brs.gov.au/brsShop/data/log\\_supply\\_final.pdf](http://adl.brs.gov.au/brsShop/data/log_supply_final.pdf) (accessed 18 September 2009), p 5.

116 Parsons, M., Frakes, I. and Gavran, M. 2007, 'Australia's Plantation Log Supply 2005-2049, Bureau of Rural Sciences. [http://adl.brs.gov.au/brsShop/data/log\\_supply\\_final.pdf](http://adl.brs.gov.au/brsShop/data/log_supply_final.pdf) (accessed 18 September 2009), p 5.

117 Ajani, J. 2008, 'Australia's Transition from Native Forests to plantations: The Implications for Woodchips, Pulpmills, Tax Breaks and Climate Change', *Agenda*, Vol 15, No. 3, p 29.

---

– since 1997,<sup>118</sup> and China's strategies 'to reduce the demand for wood but to still produce large volumes of paper':

...China in my view will not come to the rescue in clearing this market and certainly not at prices that growers might expect. My point again here is that this is the market which the Tiwi Islanders will be faced with.<sup>119</sup>

2.73 Dr Ajani also observed that a resource such as that on the Tiwi Islands may face particular difficulties in the current market:

The issue here is that with a glut we have a problem that happens in any commodity industry. Lower quality resources are the ones that always struggle to get market share and, in particular, to get market share at the price they expect. In other words, they are the parts of the industry or the resource that are discounted in these sorts of market situations.<sup>120</sup>

2.74 Andy Fyfe of Pöyry Forest Industry conversely argued that regional demand for pulpwood is projected to grow as a result of increasing Chinese demand.<sup>121</sup> Fyfe's paper did not specifically address the impact of Australian woodchip supply on the South East Asian market. However, the National Association of Forest Industries was optimistic about the long-term outlook:

the long term global demand for renewable and sustainable forest products remains unchanged, reflecting underlying population growth and consumption of printing and writing papers in the Asia-Pacific region...

with a maturing and high quality resource, the Australian hardwood plantation industry is well positioned to take advantage of the upswing in demand as the world economy recovers.<sup>122</sup>

2.75 In a media release of 9 October 2009, Wood Resources International stated:

Global trade of wood chips has increased on average four percent per year from 2004 to 2008 reaching a record 32 million tons last year. This upward trend was broken in 2009 with trade being down 26% during the first half of the year as compared to 2008. The drop in shipments was the direct result of the global financial crisis and the reduced demand for paper products worldwide.

...

---

118 Dr Judith Ajani, *Submission 9*, to the Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into Agribusiness Managed Investment Schemes.

119 Dr Judith Ajani, Economist, Fenner School of Environment and Society, Australian National University, *Proof Committee Hansard*, 2 October 2009, pp 3 & 6.

120 Dr Ajani, *Committee Hansard*, 2 October 2009, p. 6.

121 Andy Fyfe, Pöyry Forest Industry, *South East Asia Resource Availability and Woodfibre Suppliers*, conference presentation, Singapore, 21 October 2008. Provided to the committee by Mr John Hicks, Secretary, Tiwi Land Council on 11 September 2009.

122 NAFI, *Submission 43*, p. 2.

The countries that have reduced exports the most in 2009 are Australia...Australia, the world's largest exporter, has reduced shipments from 3.1 million tons [during part of] last year to 2.3 million tons during the same period this year.<sup>123</sup>

### *Expenditure and revenue*

2.76 Great Southern presented a cost summary in their submission:

- Over \$40 million per annum in revenue 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 per annum on re-establishment and maintenance (\$80 million over the harvest cycle).<sup>124</sup>

However, these figures were developed before Great Southern went into receivership. Despite repeated invitations to appear or comment, Great Southern's administrators have not released Great Southern representatives to give evidence to the committee. On the basis of the very broad figures offered by Great Southern early in 2009, there is a potential total profit of \$80 million over the eight year harvest cycle or \$10 million annually from the harvest of *Acacia mangium* on the Tiwi Islands. Of this, the Tiwi Islanders were to receive two per cent of net harvest proceeds, and a third of Great Southern's Management Entitlement from those same proceeds. This was estimated to total about \$693 000 per annum for the Tiwi Islanders.<sup>125</sup>

2.77 In evidence presented to the committee, Mr Hicks summarised the revenue potential of the plantation as:

**Mr Hicks**—...At harvest time, in 2013 we will be exporting 500,000 tonne of chip, cutting down 3,500 hectares and planting back. The resource is then sustainable based upon the 31,000 hectares. The price of chip has held right through the recession or the crisis and is \$180 a tonne. For 500,000 tonnes that means \$90 million and the costs of making that, including wages, harvesting and shipping, are calculated to be around \$75 million.<sup>126</sup>

---

123 Wood Resources International, 'Global trade of wood chips down 26% in 2009 as pulpmills reduce production worldwide, reports Wood Resources International', Press release, 9 October 2009.

124 Great Southern Limited, *Submission 19*, p. 6.

125 Oakton, *Tiwi land Council Timber Industry Arrangements: Review 2008/2009: Final Report*, Report to Department of Families, Housing, Community Services and Indigenous Affairs, Canberra, February 2009, p. 8.

126 Mr John Hicks, Secretary, Tiwi land Council, *Proof Committee Hansard*, 14 August 2009, pp 79-80.

2.78 Great Southern contended that an increased plantation size would economise the fixed costs of infrastructure upgrades and ensure the long-term viability of the Tiwi forestry project.<sup>127</sup> Great Southern explained that:

The current size of the plantation estate (29,000ha) on the Tiwis 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 30,000ha 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.<sup>128</sup>

2.79 Further, Great Southern indicated that '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'.<sup>129</sup>

### ***Port Melville wharf***

2.80 Both forestry and mining operations on Melville Island require port facilities in order to export products to markets. The wharf at Port Melville was originally constructed in 2004 and was upgraded with a face expansion the following year to allow ships up to 20 000 tonnes to berth.<sup>130</sup>

2.81 A combination of Aboriginal Benefit Account (ABA) grants (\$4 million) and money provided by Great Southern Ltd (\$1 million) funded the construction of the wharf.<sup>131</sup>

2.82 The wharf was pivotal to exporting timber from the Tiwi Islands:

The upgraded Port Melville has been vital to the harvesting and mining operations on the Tiwi Islands. Without the wharf and berthing facilities provided at Port Melville, loading costs would have been prohibitive and exports would not have occurred.<sup>132</sup>

2.83 In addition to Great Southern Ltd's use of the wharf, Matilda Minerals was a third party user of the port facility.<sup>133</sup> Matilda Minerals had established a port access agreement with the forestry proponent and paid wharf usage fees to enable it to ship

---

127 Great Southern Limited, *Submission 19*, p. 19

128 Great Southern Limited, *Submission 19*, p. 19.

129 Great Southern Ltd, *Submission 19*, p. 22.

130 Tiwi Land Council, *Submission 34*, p. 35.

131 Tiwi Land Council, *Submission 34*, p. 35.

132 Tiwi Land Council, *Submission 34*, p. 35.

133 Tiwi Land Council, *Submission 34*, p. 38.

mineral concentrate from Melville Island.<sup>134</sup> Three shipments of mineral concentrate were successfully exported from the port during 2006 and 2007.<sup>135</sup>

2.84 In two separate incidents in September and October 2007, the face of the wharf collapsed thus 'preventing any direct loading of ocean going vessels from the wharf'.<sup>136</sup> Whilst Great Southern Ltd maintained an industrial special risks insurance policy covering loss or damage to the wharf, and lodged a claim for the wharf collapse, it was determined by engineers representing both the insurer and Great Southern Ltd that the wharf damage was the result of 'faulty design, which made insufficient allowance for the pressures exerted by the landfill wharf on the sheet piling on the face and sides of the wharf'.<sup>137</sup> As a result, the insurer declined the claim made by Great Southern Ltd.<sup>138</sup>

2.85 At present, the wharf at Port Melville remains in disrepair and cannot be used for the export of either timber products or mineral concentrate. As a result, Matilda Zircon has put in place export procedures, once it re-commences mining operations, which will circumvent use of the wharf:

**Mr Maluish**—...we got approval to ship directly from the beach. So, rather than truck it all the way to the port, we have cut that part of it out. We are still using barges to transship it, but we are not having to truck it 140 kilometres.<sup>139</sup>

And:

**Mr Maluish**—...The ship would stand about a mile offshore, the barges would go from the shore out to the ship and we would use cranes to lift skips on and off.<sup>140</sup>

2.86 The Tiwi Land Council informed the committee that returning the wharf to its state prior to the collapse would cost \$3 million.<sup>141</sup> However, both the land council<sup>142</sup> and Great Southern Ltd advised the committee that the wharf would need to be

---

134 Mr Bruce Maluish, Business Development Manager, Stirling Resources, *Proof Committee Hansard*, 14 August 2009, p. 50.

135 Matilda Minerals, *Submission 16*, p. 3.

136 Tiwi Land Council, *Submission 34*, p. 38.

137 Tiwi Land Council, *Submission 34*, p. 38.

138 Tiwi Land Council, *Submission 34*, p. 38.

139 Mr Bruce Maluish, Business Development Manager, Stirling Resources, *Proof Committee Hansard*, 14 August 2009, p. 51.

140 Mr Bruce Maluish, Business Development Manager, Stirling Resources, *Proof Committee Hansard*, 14 August 2009, p. 55.

141 Mr John Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 14 August 2009, p. 78.

142 Mr John Hicks, Secretary, Tiwi Land Council, *Proof Committee Hansard*, 14 August 2009, p. 78.



---

returned to operation with additional infrastructure prior to harvesting of the *Acacia mangium* so that the woodchip can be exported:

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.<sup>143</sup>

2.87 Prior to the company going into administration, Great Southern Ltd had intended to have a central role in the re-construction of the port facility:

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.<sup>144</sup>

2.88 There will thus need to be very substantial capital investment before harvesting can proceed. In the absence of Great Southern, a new source of investment will need to be found.

### **The prospects for Tiwi Islands forestry**

2.89 In light of the collapse of Great Southern Ltd and the apparent impact of the economic downturn on the woodchip market, the forestry operations on the Tiwi Islands face a large number of potentially significant hurdles. These include:

- The apparent need for major infrastructure to be constructed before harvesting can commence;
- The possibility that the plantation estate is only about half the optimal size needed for an internationally competitive facility;
- The lower price likely to be secured for *Acacia mangium* compared to other available Australian hardwood woodchip sources;
- Reports of growth form problems that may raise the cost of harvesting;
- Their ability to attract and retain appropriate technical and management skills in the absence of an experienced business partner.
- The very negative assessment by the Administrators, noted above, that for the Tiwi Island operations '[t]he operating costs and capital expenditure requirements are extremely high'; and
- The high demands for cash flow required to sustain the plantation until harvesting begins.

---

143 Great Southern Ltd, *Submission 19*, p. 7.

144 Great Southern Ltd, *Submission 19*, p. 24.

2.90 One of the factors that may work in the Islanders' favour is, unfortunately for investors, the collapse of Great Southern. It appears to the committee that Great Southern's insolvency and inability to maintain lease payments has resulted in the Land Council effectively acquiring the plantation estate at no direct capital cost. The absence of this normal commercial requirement to make a return on the capital investment appears to provide an enhanced opportunity for the Land Council to generate income for Tiwi Islanders. In normal circumstances, the business would need to recoup the costs of clearing, planting and maintaining the trees, as well as leasing costs, before it could make a profit. However, the Land Council does not face these historical costs.

2.91 The Land Council does face substantial maintenance costs that have been estimated at over half a million dollars each month. It must also find a market for its product. In addition to these pressures is the need for a port facility to be built, at significant capital expense. In the absence of government assistance the Land Council may need to seek another industry partner to help continue the project, and to assist in securing markets for its product. In the current market environment and, mindful of the opinions expressed by receivers McGrathNicol, this may not be an easy task.

2.92 While the committee accepts that there is a range of views about plantation forestry on the Islands, it believes that successful management of the existing plantation estate is vital to both the economic and environmental future of the Islands.

2.93 The decisions to clear the land and plant the forests have been executed. While rehabilitation of the forestry land may be possible in the long term, the committee believes that, having come this far, the Tiwi Islanders should be given all reasonable assistance to make these plantations a positive for their ongoing economic self sufficiency.

2.94 It is possible that both Federal and Northern Territory agencies with responsibility for industry assistance, infrastructure and Indigenous economic development will be able to provide assistance. The committee believes the Northern Territory government has taken some steps in this regard.<sup>145</sup>

### **Recommendation 1**

**2.95 The committee recommends that, as a matter of urgency, relevant Federal and Northern Territory agencies work with the Tiwi Land Council and Tiwi Islanders to:**

- **undertake an urgent assessment of the ongoing economic viability of the plantations and, if a model or models of management are found to be economically viable, assist in the preparation of business plans necessary to support their successful execution; and**

---

145 Mr John Hicks, Tiwi Land Council, Correspondence to committee, 19 October 2009.

- **consider the provision of infrastructure support, especially for the port facilities, if it will assist in the economic viability of the plantations.**

2.96 The committee believes that, regardless of the current difficult market situation facing plantation operators (not just those on the Tiwi Islands), it is imperative that more than one major economic activity operate on the Islands. It is to those other activities that the committee now turns.