

Additional comments by Senator Xenophon

Introduction

1.1 This Senate inquiry was a valuable opportunity for those directly affected by the South Australian Government's proposal to forward-sell rotations of Forestry SA plantations to express their concerns regarding the economic, social and environmental impacts such a proposal will have on the Green Triangle region of South Australia.

1.2 The Committee's recommendations for the timely release of the ACIL Tasman Regional Impact Statement relating to the forward sale proposal and the release of all relevant information held by the South Australian Government should be initiated as soon as possible.

1.3 The Committee's recommendation that the South Australian Government should implement a comprehensive public consultation process if it chooses to further pursue the proposed forward sale of its timber assets should also be adopted.

1.4 The absence of any comprehensive public consultation prior to this stage is a serious and fundamental flaw in the South Australian Government's approach and should be condemned. Such a significant decision which will have a major impact on the State and should be made with more respect and transparency for those who will be most affected.

1.5 Any forward selling of South Australia's timber assets will have a significant impact on the Green Triangle with regards to the economy – both at a regional and state level, on economic development, jobs and the social fabric of the community.

1.6 It must be emphasised that, should the Committee's recommendations be ignored by the South Australian Government and the proposal proceed without an open consultation, information and engagement strategy, the South East of South Australia will be severely affected, with flow-on effects for the entire South Australian economy.

Likelihood of job losses in the South East

1.7 The forestry and associated timber industry in the South East of South Australia contributed approximately \$2.8 billion to gross regional product (GRP) in 2009-2010, which equates to nearly 20% of the total GRP.¹

1 City of Mount Gambier, Submission 6, pg 2

1.8 Further, the industry directly supports approximately 3600 jobs - 10-12 per cent of total employment in the region.² In addition, the multiplier effect will likely result in an additional 2 to 3 indirect job losses.³

1.9 From the evidence provided to the Committee, it is apparent that there is considerable concern these industry-supported jobs will be placed at risk should the South Australian Government proceed with the forward-sale of FSA plantations, given the refusal of the State Government to discuss which, if any, conditions will be placed on the sale.

1.10 Mayor of the City of Mount Gambier, Steven Perryman, Mayor of the District Council of Grant, Richard Sage, and Mayor of Wattle Range, Peter Gandolfi, are concerned that without conditions being placed on the sale, a buyer is under no obligation to process the plantations in the region.

1.11 In a recent joint statement from the three Councils, Mayor Perryman stated:

“If the State Government proceeds with a forward sale, in as little as 16 years every log harvested from our state owned forests could be exported out of Australia for processing leaving no logs for our local mills, and no jobs for our local community.”⁴

1.12 In appearing before the Committee, Mayor Sage emphasised the Councils’ concerns:

Councillor Sage—On the likelihood of regular job losses, we had a community impact assessment undertaken by Dr Bob Smith. In it he described 2,100 direct jobs and almost 1,000 indirect jobs in the lower south-east region will be affected as a result of the unrestricted sale of ForestrySA estate. By 2027-28 the purchaser would have the option to sell 100 per cent of the logs outside the south-east region. There is the potential by 2020-21 for around 40 per cent of the logs from ForestrySA softwood estates to be exported, reducing the wood base manufacturing jobs in the south-east area. The community and the three councils are strongly of the view that the combination of strong revenue streams from ForestrySA to the South Australian government, and the commitment to regional processing and jobs, provide strong support for the continuation of the current ownership arrangements of ForestrySA.⁵

2 Dr Bob Smith, *Community Impacts Statement Into The Forward Sale of Forestry SA Plantations – March 2011*, pg 4

3 Mayor Peter Gandolfi – Wattle Range Council, *Proof Committee Hansard*, 30 March 2011, pg 20

4 Mayor Steven Perryman – City of Mount Gambier, *Media Release*, 8 March 2011

5 Mayor Richard Sage – District Council of Grant, *Proof Committee Hansard*, 30 March 2011, pg 3

1.13 Mayor Gandolfi appositely summarised the impact the forward sale would have on the region during his appearance before the Committee:

“...it will have a devastating impact on our local communities. Three and a half thousand jobs are at risk - or 20 per cent of our region’s workforce. To put this in context, this would be like Adelaide losing 80,000 jobs.”⁶

1.14 Questions about the certainty of supply of softwood in the future are already undermining community and corporate confidence, with Australia's largest integrated hardwood and softwood forest products company, Gunns Limited, warning it would be forced to divest from the area if various conditions were not applied to the sale.

1.15 In his submission to the Inquiry, Gunns General Manager David Ford stated:

“Without any of these conditions applied to the sale, Gunns would be in a position where it would not have the confidence to invest in its processing facilities in the Green Triangle.”⁷

1.16 Mr Ford also expressed little confidence that such conditions would be applied to the sale, suggesting that the State Government had not bothered to engage key stakeholders in an open consultation process:

“The approach adopted to date by the State Government on this issue has been unprofessional and has created a lot of unnecessary angst that could have been avoided with a transparent and consultative process”⁸

1.17 As a result of these factors, Mr Ford concludes:

“The Green Triangle region is currently not considered to be a region that provides confidence in capital investment in processing facilities.”⁹

1.18 From the evidence provided to the Committee, it cannot be emphasised strongly enough the potential the proposed sale has to undermine the core of this regional economy.

Attitude of the South Australian Government

1.19 The South Australian Department of Treasury and Finance, Forestry SA and Department of Primary Industries and Resources SA declined the Committee’s invitation to attend the public hearing in Mount Gambier.

6 Mayor Peter Gandolfi – Wattle Range Council, *Proof Committee Hansard*, 30 March 2011, pg 2

7 Gunns Limited, Submission 2, pg 4

8 Gunns Limited, Submission 2, pg 4-5

9 Gunns Limited, Submission 2, pg 4

1.20 In his submission to the Inquiry South Australian Treasurer, the Hon Jack Snelling MP, argued "... this is a matter for the South Australian Government, as the asset owner, and the South Australian Parliament is the appropriate forum for these matters to be debated."¹⁰

1.21 However, that comment blithely ignores that in the event of the proposal proceeding with associated severe job losses, the Commonwealth Government will be responsible for picking up the pieces from the wreckage this policy will create – including the welfare and associated benefits payable.

1.22 Further, the Commonwealth will see a decline in tax receipts for the loss of jobs and economic activity.

1.23 The Treasurer stated that an extensive consultation process was already underway to investigate the economic and social viability of the forward sale proposal, with the State Government appointing independent economics consulting firm, ACIL Tasman, to conduct a Regional Impact Statement (RIS). Mr Snelling indicated:

"Consultants have begun an comprehensive consultation process with key stakeholders including local councils, timber industry representatives, key unions and chambers of commerce"¹¹

1.24 However, there was concern by those appearing before the inquiry that ACIL Tasman lacked an intimate knowledge of the timber industry and therefore may not be able to produce a comprehensive report:

Senator XENOPHON—Are you satisfied that ACIL Tasman has expertise in dealing with the timber industry? It is quite a specialised field.

Councillor Perryman—No, I am not. The same lack of understanding and knowledge of the timber industry in South Australia was evident in the questions that were being asked in that first reconnaissance trip that they undertook back in February. I was quite alarmed at some of the questions being asked, in particular by the consultant. One of them was, 'In a worst-case scenario for us as a community, if a full, unencumbered forward sale occurred, what was the community planning for its plan B?' My response to him was that I was not aware that a community had to have a plan B when plan A had worked so well for over 100 years. I said that perhaps he should go and see the Treasurer or the Premier and ask them what plan B is for the south-east.¹²

1.25 In his appearance before Committee, Mr Ian McDonnell, co-owner of sawmilling business NF McDonnell and Sons, questioned the neutrality of ACIL

10 The Hon Jack Snelling MP, Submission 7, pg 2

11 The Hon Jack Snelling MP, *Hansard, House of Assembly, Parliament of South Australia*, pg 2592

12 *Proof Committee Hansard*, 30 March 2011, pg 8

Tasman, suggesting that the RIS was being prepared so the State Government could justify the sale of its timber assets.

“I do believe and will say strongly that the RIS, in my opinion, was something that was put together by the government just to tick the boxes in this process. I do not believe for a minute that it was done with any genuine regard for the southeast region or the industry down here.”¹³

1.26 Further, Mr McDonnell suggested that ACIL Tasman’s consultation thus far had been incomprehensive:

“When I asked them about who they were going to talk to, I was told not just industry people but other people in the town. I suggested the president of the chamber of commerce, other major retailers, car dealers, hardware dealers—those sorts of things. They replied by saying that they did not really think that was necessary; they have national modelling to do that sort of thing.”¹⁴

1.27 Jason Howse, State Manager of the Timber and Building Materials Association, also raised questions of the independence of the RIS, when asked to recall details of his meeting with ACIL Tasman consultants:

CHAIR—Did you get the impression that he was there to justify the government’s decision rather than analyse it?

Mr Howse—Absolutely. Actually, that is probably a good way to put it. We were there to ask him questions, and he was just asking us questions about how it would affect us as an association.¹⁵

1.28 This sentiment was supported by Rodney Evins, President of the Hardware Association of South Australia:

Senator XENOPHON—Sure. I understand that. So what confidence do you have in the ACIL Tasman process?

Mr Evins—As I indicated earlier, they are justifying a means, and I believe that they have been employed and their brief would be, ‘We are selling the plantations—the forward rotations in the south-east—and we want a report to give us a green light.’¹⁶

1.29 Given the Treasurer has indicated that the ACIL Tasman RIS will be the key factor in determining whether the State Government will sign off on the forward sale proposal¹⁷, it is understandable that there is considerable concern that the decision to forward sell has already been made.

13 Mr Ian McDonnell, *Proof Committee Hansard*, 30 March 2011, pg 24

14 Mr Ian McDonnell, *Proof Committee Hansard*, 30 March 2011, pg 24

15 *Proof Committee Hansard*, 30 March 2011, pg 31

16 *Proof Committee Hansard*, 30 March 2011, pg 30

17 Mayor Peter Gandolfi, *Proof Committee Hansard*, 30 March 2011, pg 8

1.30 The decision of the South Australian Government not to participate in the public hearing of this Committee Inquiry shows a lack of respect for the concerns of the community and those who will be affected by any forward selling of timber assets.

Conditions of the sale

1.31 While the specific figure the State Government is hoping to recoup and the model for the sale of its assets has been deemed commercial-in-confidence, a number of witnesses expressed concern throughout the public hearing that the assets would not be sold for even close to their actual worth.

1.32 Dr Jeremy Leech, who appeared before the Committee in a private capacity but has a extensive background in the forestry industry, suggested the value of the asset

“Consultants that I have been talking to will put the value somewhere probably at \$600-650 to perhaps \$700 million but it depends very much on the amount of room that people have got to move, which depends on the contract. As you know, no-one really knows the model they are going to use. Every time you put a constraint on the potential buyer, you are going to drop the value to that buyer.”¹⁸

1.33 Dr Leech also drew comparisons to the sale of Queensland’s forestry assets to Hancock in 2010:

“I remind you that Queensland sold their plantations for \$600 million to the Hancock Group and it is in the Productivity Commission report that it was worth, according to them, \$1.4 billion. So they sold it for roughly 50 per cent.”¹⁹

1.34 Dr Leech continued:

“My point is that the government in Queensland wanted the money, or so it would seem. I do know of a company that were quite happy bidding about \$700 or \$800 million. Obviously I cannot name them. But they did not bid because there were so many constraints put on the sale that they just opted out of the bidding process.”²⁰

1.35 The theory that the State Government will put minimal restrictions on the sale in order to gain the best price possible was a concept discussed during the public hearing:

18 Dr Jeremy Leech, *Proof Committee Hansard*, 30 March 2011, pg 42

19 Dr Jeremy Leech, *Proof Committee Hansard*, 30 March 2011, pg 44

20 Dr Jeremy Leech, *Proof Committee Hansard*, 30 March 2011, pg 44

Councillor Perryman—If the South Australian government wants the best price it can get from the sale of the asset, it would be looking to sell it with minimal conditions.²¹

1.36 As has been discussed extensively, an unconditional sale, while potentially enabling the State Government to obtain the best sale price, will have dire effects on a number of areas.

1.37 The CFMEU raised concerns relating to the maintenance and enhancement of privately managed plantations in its submission to the inquiry:

“A major risk to the maintenance of softwood processing jobs in Australia is the low rate of replanting of harvested wood plantations and their expansion. The private sector does not have a good track record of establishing or expanding softwood plantations.”²²

1.38 These concerns were echoed in an independent Community Impact Statement prepared by Dr Bob Smith, a resource economist:

“The private sector does not have a positive record of re-establishing and/or expanding long-rotation softwood plantations. Over the last decade the areas of softwood plantation in Australia has stagnated at around 1m hectares. The SA Government has recognised this risk and has facilitated FSA, in addition to re-establishing around 1,900 hectares of harvested areas, planting an additional 700 hectares per annum to create additional resources.”²³

1.39 Without conditions of re-establishing plantations placed on the sale, a private investor could potentially choose to fell the forest and not invest any further in replanting. This would invariably decimate the forestry industry in the region and lead to the job losses discussed previously.

1.40 Further, should water licences be included in the terms of the sale, and there is speculation that the water itself be worth more than the timber assets.

1.41 In an extreme scenario suggested by Dr Leech, a private investor may even conclude that it is beneficial to immediately clear-fell the land and make money from selling the associated water licences:

“... If you consider almost an absurd, extreme strategy, a company could come in and buy the forest, let us say they might even decide to pay \$750 million. If they could sell the water rights on that for, say, \$400 million and clear-fell the whole of the forest and if the ForestrySA value is about \$670

21 Mayor Steven Perryman – City of Mount Gambier, *Proof Committee Hansard*, 30 March 2011, pg 12

22 CFMEU, Submission 5, pg 1

23 Dr Bob Smith, *Community Impacts Statement Into The Forward Sale of Forestry SA Plantations – March 2011*, pg 5-6

million, which is, if you like, an immediate liquidation value, then they could sell the whole of the forest for \$700 million and say, 'We're not going to replant it and now we can sell the water rights on that.' Therefore they would get \$1.2 billion. These are the sorts of figures. I am not suggesting that is likely to happen but it would mean that you would decimate the forest industry and you would certainly not have the sawmill industry or a utilisation industry."²⁴

1.42 Dr Leech even suggests that in some circumstances, the value of the water and carbon rights could be worth more than the forest itself.²⁵

1.43 It would be incredibly short-sighted of the State Government not to consider this as part of its forward-sale proposal.

Fire Management

1.44 Under current arrangements, Forestry SA comprehensively manages fire protection and fire-fighting activities in the state-owned timber assets.

1.45 During their appearance before the Committee, Mayors Sage and Gandolfi indicated that the Treasurer had suggested the CFS would be responsible for managing any future forest fires should the state-owned assets be sold.²⁶

1.46 However, as the Chair suggested, "...for volunteer fire-fighters—all the good local volunteers—there is a lot of difference between putting out a grass fire that is running and a forest fire."²⁷

1.47 Further, as indicated my Mayor Gandolfi, there is considerable concern that the CFS lacks the resources to be able to be able to provide comprehensive fire protection to approximately 94 000 ha of South Australia's state-owned plantations:

Councillor Gandolfi—Certainly, from my informal discussions with those involved with the CFS, I know they are very concerned that they would have to take responsibility for the operations that ForestrySA currently undertake when it comes to firefighting and suppression. In the summer season of 2009-10, ForestrySA manned our fire towers for I think 97 days.

Senator BACK—Volunteers?

Councillor Gandolfi—No, this is ForestrySA. These are the sorts of roles that ForestrySA currently do. I think a lot of it comes down to just a clear

24 Dr Jeremy Leech, *Proof Committee Hansard*, 30 March 2011, pg 47-48

25 Dr Jeremy Leech, *Proof Committee Hansard*, 30 March 2011, pg 47

26 Mayor Richard Sage – District Council of Grant, Mayor Peter Gandolfi – Wattle Range Council, *Proof Committee Hansard*, 30 March 2011, pg 6

27 Senator Bill Heffernan, Chair, *Proof Committee Hansard*, 30 March 2011, pg 7

fact that the state government is unaware of its role, and that is a concern. I think it needs to be raised and highlighted that these current practices of ForestrySA do need to continue. You cannot expect volunteers to sit in firetowers for three months.²⁸

1.48 It is of grave concern that the State Government seemingly expects the CFS to manage fire protection independently, and may choose to place no conditions relating to fire management on any potential private investor.

Conclusion

1.49 The South Australian Government's decision to forward sell its timber assets has clearly been made with little real consultation with key stakeholders in the Green Triangle region.

1.50 There is considerable concern that few, if any, conditions will be placed on the sale (and there is a concern that any conditions may not be enforced), as it is strongly suspected that an unconditional sale will yield the best price for the State Government.

1.51 However, an unconditional sale raises serious concerns about the long-term viability of the forestry industry in the South East and the impact on jobs, the economy and the region.

1.52 There is concern that the South Australian Government will not consider the actual value of its assets, in terms of the value of water licenses and carbon credits, and in relation to the constant source of revenue the asset provides as discussed extensively in the Chair's report.

Recommendations

Recommendation 1

That the South Australian Government not proceed with the forward sale of its timber assets.

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