

The Senate

Rural Affairs and Transport
References Committee

Sale of timber assets by the South Australian
Government

April 2011

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TABLE OF CONTENTS

Membership of committee	iii
Chapter 1	1
Introduction	
Inquiry terms of reference	1
Conduct of the inquiry	1
Scope of the inquiry	1
Background	2
Acknowledgement	3
Note on references	3
Chapter 2	5
Issues	
The likelihood of regional job losses and flow-on effects to communities in timber-reliant regions	5
The potential for the private buyer not to consider local impacts	11
The potential for reduced value-adding locally and increased off-shoring	15
Any other related matters	16
Adequacy of the justification for the proposed forward sale	16
Adequacy of public consultation and information	20
Regional Impact Statement	21
Issues relating to potential conditions attaching to proposed forward sale	22
Chapter 3	27
Committee view and recommendations	
Committee view	27
Recommendations	29
Additional comments by Senator Xenophon	31
Introduction	31
Likelihood of job losses in the South East	31
Attitude of the South Australian Government	33
Conditions of the sale	36
Fire Management	38
Conclusion	39
Recommendations	39

APPENDIX 1	41
Submissions Received	
APPENDIX 2	43
Public Hearings and Witnesses	

Chapter 1

Introduction

Inquiry terms of reference

1.1 On 10 February 2011, the Senate referred the following matter to the Senate Rural Affairs and Transport References Committee for inquiry and report:

The impact of the decision by the South Australian Government to forward-sell the state's \$2.8 billion timber assets on the state's economy, timber industry and on jobs and any other broader impacts, with particular reference to:

- (a) the likelihood of regional job losses;
- (b) the flow-on effects to communities in timber-reliant regions;
- (c) the potential for the private buyer not to consider local impacts;
- (d) the potential for reduced value-adding locally and increased off-shoring; and
- (e) any other related matters.¹

Conduct of the inquiry

1.2 Notice of the inquiry was posted on the committee's website. The committee also advertised the inquiry in *The Australian* on Wednesday, 16 February 2011 and wrote to key stakeholder groups, organisations and individuals to invite submissions.

1.3 The committee received 19 submissions, a list of which is at Appendix 1.

1.4 The committee held a public hearing in Mount Gambier on 30 March 2011. A list of witnesses who appeared at the hearing is at Appendix 2. Copies of the *Hansard* transcript are available on the internet at <http://aph.gov.au/hansard>.

Scope of the inquiry

1.5 The committee acknowledges that the issue at the centre of the inquiry's terms of reference—the potential decision of the Government of South Australia to forward-sell that state's timber assets—is ultimately a decision for the state government and the people of South Australia.

1.6 However, the committee notes that many of the particular issues that arise from the proposed sale are relevant to the interests of rural communities in Australia

1 The inquiry's terms of reference and other information may be accessed through the committee's website at http://www.aph.gov.au/senate/committee/rat_ctte/timber/tor.htm.

more generally, particularly in relation to the impacts of the privatisation of public assets on rural communities.

1.7 Further, the committee notes that the inquiry has provided a valuable opportunity for members of potentially affected communities and other interested stakeholders to express their views and to explore the important issues that arise from the proposed forward sale. This is particularly so where the processes of community consultation and engagement at the state level may be lacking. While the committee is restricted in its ability to directly influence the decisions of the state government in relation to its own resources, the committee hopes that it may, 'by shining a light into dark corners', promote accountability of government process and decision-making in relation to this matter. This goal is an intrinsic part of the work of Senate committees, and one that justifies the committee's inquiry into the matters addressed in this report.

1.8 In light of the above, the recommendations contained in this report recognise that the decision to forward-sell the timber assets of South Australia is ultimately a decision for the state government. However, they also acknowledge that the issues and quality of processes around decisions to privatise public goods or assets are broadly relevant to the interest of all Australians and the Commonwealth.

1.9 In its final report on the inquiry's terms of reference, the committee intends to explore some of the broader issues relating to forestry assets, including the implications of private management and foreign ownership.

Background

Forward sale proposal

1.10 On 19 December 2008, the South Australian Government announced in the 2008-09 Mid-Year Budget Review a proposal to 'sell the harvesting rights of ForestrySA plantations for up to three harvesting cycles'.² This was one of several measures proposed by the government to reduce the state's net debt in response to the global economic crisis and its impact on the state budget.³

1.11 The South Australian Government has indicated that it will be 'considering a range of issues' and undertaking 'consultation with affected parties and analysis of the regional [impacts of the proposed forward sale]'.⁴ An external consulting firm, ACIL Tasman, has been commissioned to develop a regional impact statement identifying the potential social and economic impacts of the proposed forward sale.⁵

2 Government of South Australia, *Mid-Year Budget Review 2008-09*, presented by the Hon Kevin Foley MP, Deputy Premier and Treasurer of South Australia, p. 4.

3 The Hon Jack Snelling MP, Treasurer of South Australia, *Submission 7*, p. 1.

4 The Hon Jack Snelling MP, Treasurer of South Australia, *Submission 7*, p. 1.

5 The Hon Jack Snelling MP, Treasurer of South Australia, *Submission 7*, p. 1.

South Australia's timber assets

1.12 The committee received evidence that timber production in South Australia is wholly plantation-based. South Australia has 183 000 hectares of dry-land plantations, consisting of 122 000 hectares of softwood and 61 000 hectares of hardwood.⁶ The committee heard that the region's established softwood processing industry is well integrated with the region's economy, and includes 'sawlog, engineered wood products, posts, pulp and paper, and other forest products and processing waste industries'.⁷

1.13 The committee heard that the state's plantation forests provide 'multiple benefits'. These include natural resource management outcomes, such as salinity and erosion control, and significant socio-economic, regional development and employment opportunities.⁸

1.14 ForestrySA manages the approximately 94 000 ha of South Australia's state-owned plantations, which are predominantly located in the 'Green Triangle' region. The Green Triangle is one of Australia's major forest regions, with extensive plantation resources spanning an area of 6 million hectares between the states of South Australia and Victoria.⁹

Acknowledgement

1.15 The committee thanks those organisations and individuals who made submissions and gave evidence at the public hearing.

Note on references

1.16 References in this report to individual submissions are to those submissions as received by the committee, not to a bound volume. References to the committee *Hansard* are to the proof *Hansard*; page numbers may vary between the proof and the official (final) *Hansard* transcript.

6 National Association of Forest Industries, *Submission 9*, p. 1.

7 National Association of Forest Industries, *Submission 9*, p. 2.

8 National Association of Forest Industries, *Submission 9*, p. 1.

9 Department of Agriculture, Fisheries and Forestry website, 'Australia's Green Triangle: a growing region with significant opportunities for forest sector investment', 26 May 2007, http://www.daff.gov.au/__data/assets/pdf_file/0008/37565/green_triangle_investment_ver8.pdf (accessed 12 April 2011).

Chapter 2

Issues

2.1 The inquiry's terms of reference required the committee to consider the impact of the decision by the South Australian Government to forward-sell that state's \$2.8 billion timber assets on its economy, timber industry and on jobs, and any other broader impacts, with particular reference to:

- the likelihood of regional job losses;
- the flow-on effects to communities in timber-reliant regions;
- the potential for the private buyer not to consider local impacts;
- the potential for reduced value-adding locally and increased off-shoring; and
- any other related matters.

2.2 This chapter discusses the main issues raised in relation to each of the terms of reference.

The likelihood of regional job losses and flow-on effects to communities in timber-reliant regions

Introduction

2.3 Terms of reference (a) and (b) required the committee to consider the likelihood of regional job losses and flow-on effects to communities in timber-reliant regions.

2.4 The submission of the Construction, Forestry, Mining and Energy Union (CFMEU) summarised the general concerns of many submitters and witnesses:

...the forward sale could decimate regional communities throughout South Australia if there is an unrestrained ability of the purchasing organisation to sell saw logs and fiber overseas, potentially forcing local mill closures and causing massive job losses.¹

2.5 The committee heard from a number of local communities outlining similar concerns. The City of Mount Gambier (CMG) and Wattle Range Council (WRC) were 'extremely concerned about [the]...region's economic and social future should a sale proceed'.² The CMG and WRC submissions stated:

The forward sale of our heritage and our future poses a serious threat not only to the viability of South East timber mills and jobs right across our

1 *Submission 5*, p. 1.

2 *Submission 6*, p. 1; *Submission 11*, p. 1.

economy; it also undermines community confidence and any future industry development into our region.³

Regional job losses

2.6 The committee heard that there would be significant potential for sustained job losses if the proposed forward sale were to proceed. In terms of total numbers, the National Association of Forest Industries (NAFI) submitted that the South Australian forest and forest products industry produced \$2.6 billion in goods and services and employed 13 000 people in 2006-07.⁴

2.7 The CMG and WRC submissions provided the following snapshot of the extent to which employment in the south-east region was dependent on forestry and the associated forest products industry:

Forestry and the associated timber industry in the broader Mount Gambier region is estimated to directly contribute between 18-20 per cent of gross regional product (estimated at \$2.8 billion for 2009-10). At an activity level, forestry plantation supports approximately 600 direct jobs, with the actual value added processing of timber from those plantations by 21 milling and manufacturing facilities and numerous contractors adding approximately another 3000 jobs. The majority of wood product processing employment is associated with resources supplied from softwood plantations—including those earmarked for sale by the SA Government. In 2009-10, workers in this industry earned around \$240 million, representing approximately 18 per cent of income paid in the South East of South Australia region.⁵

2.8 In terms of the employment multiplier effect of the forestry and forest products industries, there was significant scope for broader impacts on employment and economic activity through the proposed forward sale:

There is also a ripple effect driven by the purchase of goods and services from local industries and commercial providers to support timber industry activities in South East region. These activities support another 3,500 jobs generating approximately 20 per cent of total employment in the South East region, 2009/10. We also need to consider a decline in professional services, tradespeople and educational providers; we will not have the population to support them, therefore the pool of spending will decrease, leading to business closures and the migration of skilled residents from our region.⁶

3 *Submission 6*, p. 1; *Submission 11*, p. 1.

4 *Submission 9*, p. 2.

5 *Submission 6*, p. 2; *Submission 11*, pp 1-2.

6 City of Mount Gambier, *Submission 6*, pp 2-3.

2.9 CMG observed that the proposed forward sale also carried the possibility of job losses at ForestrySA:

In addition to the jobs lost within mills, [ForestrySA's] current 190+ employees are also in limbo. The management role of [ForestrySA] would possibly change to that of potentially providing contracted services to the new purchaser, and the likely outcome of that is that [ForestrySA] jobs will also be lost.⁷

2.10 A number of submitters and witnesses suggested that there would be a strong likelihood of job losses if the proposed forward sale were to proceed. CMG and WRC noted that the South Australian Government had 'admitted that it is impossible to place conditions on a sale to protect jobs and industry, and pointed to Victoria as an example of poor outcomes for local communities':⁸

In Victoria, where similar actions were taken in the softwood industry, we have seen many small sawmills close and an increase in the export of whole logs to China, India and other developing countries with devastating affects in regional areas.⁹

2.11 As a specific example of the potential for job losses, Gunns noted that, if the proposed forward sale were to proceed without sufficient conditions protecting the viability of the local industry, the company would be likely to relocate to a region that could better support 'the investment of a modern high technology sawmill'.¹⁰ Gunns observed that its withdrawal would 'have a devastating impact [on]...local communities'. This would result in:

...significant job losses in the value add solid timber processing business in the Green Triangle, which in turn will have a devastating impact [on]...the social fabric of the Green Triangle region.¹¹

2.12 The Australian Manufacturing Workers Union (AMWU) observed that the potential unemployment effects from the proposed forward sale could exacerbate and entrench more recent job losses:

This sale is being proposed against a back drop where the region has already recently been hit by the closure of two of the oldest tissue machines at Kimberley Clark Australia's Millicent mill leading to a loss of approximately 170 permanent jobs. On top of this the Tantanoola Pulp Mill has also been placed on the market and will close towards the end of the year if a buyer cannot be found enabling the Mill to continue its operations which will lead to a further 65 job losses.

7 *Submission 6, p. 2.*

8 *Submission 6, p. 2; Submission 11, p. 2.*

9 *Submission 6, p. 2; Submission 11, p. 2.*

10 *Submission 2, p. 4.*

11 *Submission 2, p. 4.*

The forward sale adds to potentially further restrict...our members' ability to find alternative jobs if the successful buyer fails to utilise the current value adding manufacturing processes that are in place today.¹²

Flow-on effects

Impacts on forestry and forest products industries

2.13 The committee heard concerns that, should the proposed forward sale go ahead, there would be significant flow-on effects to the local forestry and forest products industries as well as more broadly.

2.14 NAFI submitted that, in contrast to current arrangements, the proposed forward sale did not include any guarantee of local supply:

The proposal does not provide any assurances to local industry of long term plantation timber supply for local processing and/or export. Part of ForestrySA'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.¹³

2.15 The CMG submission described significant uncertainty surrounding future supply contracts for local processors since the announcement of the proposed forward sale. It noted that, if future supply were not ensured, South Australian sawmills would not be competitive in the future:

...the longest supply agreements currently in place with local processors will expire within 10-15 years. With the proposed sale ranging between 30 and 114 years, this creates a large amount of uncertainty...Geographically, the industry is at a disadvantage in Australia as the main markets for the processed timber are on the eastern seaboard and it has only been competitive due to the high quality of the resource grown in SA. If prices for local mills to purchase log are increased and the size of the logs decrease due to shortened rotations, SA sawmills will not be able to compete with other regions in Australia or foreign imports.¹⁴

2.16 Mr Ian McDonnell, a local sawmill owner, shared these concerns over future supply:

From a business point of view it would be almost impossible to make the investment necessary to remain competitive in today's market unless longer term resource security can be guaranteed.

12 *Submission 17*, p. 1.

13 *Submission 9*, p. 3.

14 *Submission 6*, p. 2.

Sawmilling is a very capital intensive business and a medium sized business like ours needs to invest large amounts of capital every 5-10 years to remain viable, to do this we need the security of resource to be able to do this.

A reasonable supply agreement needs to be in the order of 15 years minimum. This is something private owners have not wanted to commit to in other areas and we have seen sales agreements for as short as 12 months in New Zealand and 4-5 years here in Australia.¹⁵

2.17 Mr McDonnell observed that privately owned plantations tended to prefer short supply agreements in order to 'maximise returns for that forest owner without any regard for the regional economies where the timber is grown'.¹⁶

Broader impacts

2.18 A number of submitters and witnesses expressed concerns about impacts of the proposed forward sale beyond the forestry and forest products industries. In general terms, Gunns noted that:

...the decision by the State Government to forward sell its rotations lacks any comprehensive review of the decision both from the local timber industry, social and environmental impact in the Green Triangle region.¹⁷

2.19 Similarly, the Hardware Association of South Australia (HASA) and the Timber and Building Materials Association (TABMA) submitted that:

The viability and profitability of many South Australian businesses is under threat as a result of the planned decision of the South Australian State Government to sell off forward rotations of timber products harvested from the softwood plantations managed by ForestrySA. This will have an enormous impact on the economy of South Australian, the South Australian Hardware industry and the South Eastern regions or the 'Green Triangle'.¹⁸

2.20 The HASA and TABMA submissions detailed significant potential threats to employment in the hardware and building industries and the local housing market if the forward sale were to go ahead:

The timber that originates from the South East not only provides local jobs it also provides thousands of jobs in the Hardware and Building Industries in South Australia. The timber our members sell would very likely be for the houses we build across the state. The immediate threat that is foreseen would be:

- a shortage of product;

15 *Submission 14*, p. 1.

16 *Submission 14*, p. 1.

17 *Submission 2*, p. 4.

18 *Submission 4*, p. 1; *Submission 8*, p. 1.

- poor quality timber being available to the industry and the consumer;
- loss of self sufficiency in the supply of timber; and
- increased costs.

All these would result in increased costs that will flow through to the everyday consumer, crippling the affordability of housing even further in a market that is already considered to be flat.¹⁹

2.21 CMG and WRC identified a number of negative social effects that would be likely to flow from substantial job losses in the region:

It is well documented that unemployment substantially impacts on mental and physical health, general well-being and family relationships. If the forestry sale goes ahead, greater demand will be placed on these services due to family breakdown and potential increases in domestic violence, mental health issues, young people leaving due to a lack of job opportunities, an ageing population base further isolated because young families move to where the jobs and facilities are, increased reliance on community or charitable services, and a decreased skill and education base.²⁰

Current impacts of the proposed forward sale

2.22 A number of submitters and witnesses observed that the uncertainty surrounding the proposed forward sale had already impacted on the confidence of local communities. This had created an uncertain investment environment, which was 'depressing housing prices and undermining investments by all businesses operating in the local community'.²¹ The CMG and WRC submissions observed:

Increasing uncertainty within the community caused by the proposed forward sale of the ForestrySA logs is already having an adverse impact on the South East business community particularly in the lending, retail and service sectors. The negative flow-on effects are also being demonstrated in the real estate sector in terms of regional house prices and saleability and a decline in the uptake of commercial tenancies.²²

2.23 The District Council of Grant (DCG) submission supported this view, stating that 'there is no doubt that since the announcement of the proposed sale there has been a realised impact on real estate prices, industry expansion and employment generation'.²³ The DCG submission went on to say:

19 *Submission 4*, p. 2; *Submission 8*, p. 2.

20 *Submission 6*, p. 3; *Submission 11*, p. 3.

21 Gunns Timber Products, *Submission 2*, p. 4.

22 *Submission 6*, p. 3; *Submission 11*, p. 2.

23 *Submission 10*, p. 3.

Further, it is considered that lack of confidence is causing contracts for building work to be postponed and other businesses are putting plans on hold to expand. Several of the local engineering companies have encouraged workers to take long service leave and paid annual leave to reduce their cash flow.²⁴

The potential for the private buyer not to consider local impacts

Commercial imperatives overriding local community and economic interests

2.24 CMG and WRC expressed concern that a purchaser in relation to the proposed forward sale would be primarily motivated by commercial interests, as opposed to local interests, and would 'find their commercial interests better served by exporting logs to non-regional markets'. The submissions explained:

Unlike the current...[Forestry] SA Charter, a new owner would not be constrained by regional development outcomes or bound by expectations to 'encourage and facilitate regionally based economic activity based on forestry and other industries'.²⁵

2.25 HASA and TABMA also stressed that the current ownership of South Australia's timber plantations by ForestrySA on behalf of the State Government effectively meant that the timber plantations were publically owned and operated for the benefit of South Australians.²⁶ HASA and TABMA were also concerned that an interstate or foreign buyer would effectively disregard the interests of the South Australian community in seeking to maximise return from the timber assets:

If the demand for timber were to increase in interstate or overseas the new owner would not have the same loyalty to the South Australian market as ForestrySA.

There would be a strong likelihood that timber normally destined for the South Australian market will be sold interstate or overseas leaving the market in South Australia short of timber.²⁷

2.26 On this issue, Mr McDonnell commented that a purchaser would be likely to pursue commercial imperatives at the expense of social or local economic interests:

The ForestrySA plantations are regarded as some of the best quality plantations in Australia and New Zealand for producing structural quality timber...This can be [affected]...very quickly by reducing the rotation age and or changing the [silvicultural] practices that have been such an important part of making the forests what they are today.

24 *Submission 19*, p. 4.

25 *Submission 6*, p. 2; *Submission 11*, p. 2.

26 *Submission 4*, p. 3; *Submission 8*, p. 3.

27 *Submission 4*, p. 3; *Submission 8*, p. 3.

A private company in control of this could and probably would be tempted to do this to get a quicker turnaround of rotations and selling the log to export markets.²⁸

2.27 Mayor Peter Gandolfi, representing WRC, supported these comments:

New owners are going to look for the highest bidder. I do not think they will be that interested in whether they and our local mills are supplying the domestic market with structural timber and so on. They would be looking for the biggest buck, and their demand in the future is going to come from China and India. I imagine that they will be bidding the highest for the raw product.²⁹

2.28 The DCG submitted that similar privatisations of forestry assets in Australia suggested that private purchasers would not consider the requirements of local sawmills:

Information obtained indicates that the purchaser of the Victorian Forest Assets has not considered local impacts. Indeed, it is understood that local mills in and around Mount Gambier have largely been unable to obtain log resource since this purchase occurred.³⁰

2.29 Mr Robert Eastment, who appeared in a private capacity, offered a number of insights into the economic factors and market dynamics influencing the likely commercial imperatives of a prospective buyer.

2.30 Mr Eastment noted that economies of scale and regulatory factors affecting price are critical drivers of trade in the forestry industry, and observed that timber processing community in the Green Triangle was comprised of relatively small scale operators which enjoyed access to 'cheap wood' sourced from ForestrySA. If the forward harvesting rights were sold, the purchaser would not necessarily be willing to sell locally at a price that 'would suit the sawmillers' and be competitive with what could be earned by 'putting it on a ship and sending it [to large timber processing facilities overseas]'.³¹

2.31 To illustrate such market dynamics, Mr Eastment noted that Australia currently imports '\$1 million worth of sawn [soft] wood each day', which was increasingly coming from a European producer, Stora Enso. Mr Eastment observed:

The reason that Stora Enso is able to send it here so cheaply is that the primary product its sawmills are producing in Europe is woodchips, because Europeans have a subsidy for bioenergy and they have commitments to meet certain renewable energy targets, so the logs are going into the Stora Enso sawmills, and a by-product of the sawmills is

28 *Submission 14*, p. 1.

29 *Committee Hansard*, 30 March 2011, p. 13.

30 *Submission 10*, p. 5.

31 *Committee Hansard*, p. 52.

sawn wood. Therefore, as long as the Europeans are subsidising their energy, Australia will be flooded with cheap wood. That is the reason why the guys here cannot sell it. It is because we have got this influx of cheap wood coming in. That is the straightforward dynamics of it. Yes, we have continued demand for softwood here. The only way we can stop the imports coming in is by reducing our processing costs—taking costs out of our production to be able to meet the import costs, to get import parity.³²

2.32 In terms of competing with large overseas processors to ensure that timber resources were processed in the region, Mr Eastment observed that there would need to be a significant restructuring of the local industry:

There is no doubt that, if we were to keep the timber here and process it, we would have to be looking at a million-tonne-a-year mill. Otherwise, imports are gradually going to take it away. You cannot have your cake and eat it. If you are going to keep your wood here, you have got to be able to process it sufficiently efficiently to compete. To do that, you are going to have to reduce your labour costs. But the labour that you keep will have to be of a much higher calibre. There will be far more professionals involved—technical people. A lot of it will be computer driven, made to order. Mills will be running in darkness because all the people will be sitting at consoles operating it—that type of stuff.³³

2.33 However, Mr Eastment observed that, while there would be 'some damage to the local industry' on account of such market dynamics, it would be in a purchaser's interests to ensure that the local timber processing industry was sufficiently preserved. He explained:

I assume that...[the purchaser]...would be...an international investor, and today they would be wanting to put it on a boat, because the demand in China is high. But you really would not want to lose your fallback position or plan B, which could well be selling it into the local market. So you would certainly want to keep enough of the local industry alive to ensure that, if your export markets collapsed or the dollar moved significantly against you...[that] you could have that domestic pool...[to] sell it into. So you would want to hedge your bets both ways. There could well be some collateral damage in the local domestic processing, because you may not have enough to keep everybody alive.³⁴

2.34 In addition to such economic factors, Mr Eastment also identified certain market dynamics as being likely to have a large influence on the selling strategies of a purchaser of South Australia's timber assets. He explained that whole log export market is a spot market which is subject to price fluctuations arising from ad hoc demand factors (such as the recent earthquake in Japan driving up demand) and foreign exchange rates. Mr Eastment commented:

32 *Committee Hansard*, 30 March 2011, p. 52.

33 *Committee Hansard*, 30 March 2011, p. 53.

34 *Committee Hansard*, 30 March 2011.

At the minute export markets...[are] pretty high because there are a number of drivers out there and it is reasonably competitive...There are other times when that market can really collapse. It is not the timber business or the owners who have much control over the pricing fluctuation on those markets; it is the foreign exchange. If our dollar stays high, technically the logs going offshore should be at a lower price but they are not because demand is strong. If our dollar fell back to 60c, why would you want to sell anything to a local sawmill? Put the log on a boat and get rid of it. You make more money. We are an open economy. If the dollar goes up to a \$1.50 and people simply cannot afford to do that then they will be more inclined to put it on a ship.³⁵

Discontinuation of beneficial non-commercial activities

2.35 In addition to the concerns over a purchaser's consideration of local impacts, , CMG and WRC described a number of non-commercial activities, currently fulfilled by ForestrySA, that a purchaser in the proposed forward sale would not be bound to consider in the absence of specific conditions:

Under the current ownership and operating framework, FSA, in addition to fulfilling commercial and sustainable regional development requirements, is also responsible for resourcing regional forest protection programs (eg fire and forest health), environmental sustainability (example conservation of 25,000 ha of native forest) and community, recreational and sponsorship activities. With an unconstrained sale of FSA's softwood estate, the direct resourcing of these non-commercial activities, estimated to currently cost approximately \$6.5m/yr, would have to come from elsewhere.³⁶

2.36 With particular reference to fire fighting capabilities, Mayor Gandolfi commented:

[The SA] Treasurer...[has] said that the new owners of the plantations would be responsible for the management of the forests, and added that the volunteer Country Fire Service [CFS] would take responsibility for fire prevention and fighting. This raises very serious questions about the region's future firefighting capabilities. Currently, our CFS volunteers work hand-in-hand with ForestrySA and have a cooperative relationship in fire prevention and suppression. To shift the responsibility of firefighting entirely onto our CFS volunteers would be irresponsible and put lives and property at risk.³⁷

2.37 Mayor Richard Sage, representing DCG, also commented on the potential loss of ForestrySA's current contribution to fire prevention:

ForestrySA's extensive fire prevention measures—fire breaks, roadside slashing, automatic dispatch of fire attack suppression forces—ensures a

35 *Committee Hansard*, 30 March 2011, p. 56.

36 *Submission 6*, p. 3; *Submission 11*, p. 3.

37 *Committee Hansard*, 30 March 2011, p. 2.

minimum of two ForestrySA appliances are on the scene within 15 minutes on any fire index day of 35-plus. We have seven ForestrySA Fire King appliances, valued at over \$1 million each, in the region. We are also concerned about the existing contract of aircraft for water bombing surveillance during the fire season. Who is going to pay for that in the future?³⁸

2.38 The CMG, DCG and WRC submissions also noted the cultural and heritage contributions, community engagement activities and environmental achievements of ForestrySA; as well as the extent of its fire prevention and fighting activities. The submissions observed that it was unlikely that these programs would continue and be funded under the proposed forward sale. This was particularly so in light of the South Australian Government's admission that it would not place conditions on the proposed forward sale to protect jobs and industry.³⁹

The potential for reduced value-adding locally and increased off-shoring

2.39 HASA highlighted a number of findings from a community impact statement indicating the potential for substantially reduced access of local value-adding industry to timber from the South Australian Government plantations in the event of a forward sale proceeding. The statement noted that:

- there is the potential by 2020-21 for around 40 per cent of logs from ForestrySA's softwood estate to be exported [thereby] reducing wood based manufacturing jobs in the south-east area; and
- by 2027-28 the purchaser would have the option to sell 100 per cent of logs outside the South East Region.⁴⁰

2.40 Mr Michael Bleby, who provided a submission in a private capacity, considered that the proposed forward sale 'could be very detrimental' to the region if it did not ensure the continued support of the integrated supply arrangements that existed in the region for the mix of value adding industries.⁴¹ Mr Bleby's submission explained:

The [south-east region] has companies that specialise in milling high quality sawlogs and others who have equipment and access to markets suited to lower quality logs. There are particle board plants, wood chip export outlets, and markets for by-products such as wood shavings, boiler fuel, and even bark for compost and landscape supplies. Of special importance (particularly for the Millicent region) is the existing KCA pulp mill. This, along with the roundwood preservation markets, is absolutely

38 *Committee Hansard*, 30 March 2011, p. 4.

39 *Submission 6*, pp 3-4; *Submission 10*, pp 6-9; *Submission 11*, p. 3.

40 *Submission 4*, p. 2; see also Mayor Richard Sage, District Council of Grant, *Committee Hansard*, p. 30 March 2011, p. 3.

41 *Submission 3*, Attachment 1, p. 1.

critical to the economics of thinning and the creation of the higher value forest products, later in rotations. One would hope that any forward sale provides for local pulpwood supplies into the future – but who knows?⁴²

2.41 NAFI also commented on the importance of considering the sale in the context of the vertical integration of the South Australian softwood industry.⁴³ The NAFI submission commented:

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.⁴⁴

2.42 Mr Bleby noted that a prospective buyer would presumably want to retain control over who it might sell its wood to. Any conditions to require a buyer to sell to local industries could reduce the sale price and bring into question the value for money represented by the forward sale.⁴⁵

2.43 As a specific example, HASA and TABMA raised particular concerns that the forward sale would impact on the availability of pine bark used for the production of potting mixes and as landscape materials. The HASA and TABMA submissions explained:

The majority of potting mixes within South Australia use pine bark as the base ingredient. Much work has been done by industry over many years to prepare high quality potting mixes based on pine bark. Manufacturers have invested in the technology to produce potting mixes that suit the local environmental conditions.

If harvested logs are sent off overseas untreated...[that, is, with] the bark not removed, this will dramatically reduce the availability of pine bark for use in the production of potting mixes and as landscape materials.⁴⁶

Any other related matters

Adequacy of the justification for the proposed forward sale

Criticisms

2.44 A number of submitters and witnesses provided comment on the perceived adequacy of the stated motivation or justification for the proposed forward sale. The

42 *Submission 3*, Attachment 1, p. 1.

43 *Submission 9*, p. 2.

44 *Submission 9*, p. 3.

45 *Submission 3*, Attachment 1, p. 2.

46 *Submission 4*, p. 4; *Submission 8*, p. 3.

South Australian Treasurer, provided the following information concerning the reasons underpinning the proposed forward sale:

In the wake of the unfolding Global Financial Crisis, the South Australia Government announced in the 2008-09 Mid-Year Budget Review, several measures aimed at realising some of the value of the State's assets, with the intention of reducing net debt. Reducing the State's net debt will improve the long term sustainability of our finances, contribute to the retention of our triple A credit rating and reduce interest borrowings, thereby helping our operating balance. One of these measures was looking at options to sell the harvesting rights of ForestrySA...⁴⁷

2.45 Mr Jerry Leech, who provided evidence to the committee in a private capacity, expressed concern about the stated rationale for the proposed forward sale:

You have heard about the AAA credit rating, but if...[the South Australian Government] have got the forests in their books at, say, \$1.3 billion including the land then they are in essence mortgaging the forests at \$1.3 billion. So if you sell it for \$500 million or \$600 million, where are you going to [find] the other \$700 million of assets to support the credit rating, even if you do use that \$600 million to pay off the state debt? No-one has effectively explained that to me, and that concerns me.⁴⁸

2.46 The Treasurer noted that the South Australian Government would consider a range of relevant factors in deciding whether the proposed forward sale would go ahead:

I note that the South Australian Government is the owner of FSA and needs to consider, in the context of a tight fiscal position, whether a forward sale of FSA timber rotations will deliver better value to the State than proceeding with FSA operating on a business as usual basis. Other State Governments have taken similar decisions, albeit with different models for realising value, for example Victoria in 1998 and Queensland in 2010. Such a decision will not be taken without considering a range of relevant issues, consultation with affected parties and analysis of the regional impacts (including the factors listed at (a) to (d) in [the inquiry's terms of reference]).⁴⁹

2.47 Gunns submitted that the apparent justification for the proposed forward sale:

...indicates that the forward sale is not part of an overriding broader strategic plan by the South Australian Government where all factors of a decision of this magnitude are very carefully considered but rather a 'knee jerk' reaction to a debt position that needs rectification [for the state] to retain its AAA rating.⁵⁰

47 The Hon Jack Snelling, *Submission 7*, p. 1.

48 *Committee Hansard*, 30 March 2011, p. 42.

49 *Submission 7*, p. 1.

50 *Submission 2*, p. 2.

2.48 NAFI expressed similar reservations:

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.⁵¹

2.49 A common view was that a balancing of future annual returns against a likely forward sale price did not indicate sufficient economic justification for the sale to proceed. HASA and TABMA, for example, criticised the decision as 'short sighted...with no long-term benefit to the state's economy'.⁵² HASA and TABMA noted that a sale price would be set against the direct income and multiplier effect which the industry currently generated. The current value of timber assets to South Australia included, for example:

- a return to the South Australian Government of \$45 million in 2009-10 (a 93 per cent increase on 2008-09) and a return of 11.5 per cent on funds invested (up 23 per cent on 2008-09);
- \$2.6 billion of goods and services produced by the forest and forest products industry in 2006-07; and
- 13 000 people directly and indirectly employed in timber and wood processing activities.⁵³

2.50 The AMWU commented:

The AMWU believes that it is not sound to sell an asset that is providing nearly \$1 million per week into the state government treasury to provide an income stream in the short term whilst risking the long term viability of employment opportunities in the south east region.⁵⁴

2.51 This view was supported by CMG and WRC, which submitted:

...the combination of consistent revenue streams from ForestrySA to the South Australian Government and a commitment to regional processing and jobs provides a clear basis of support for the continuation of current management arrangements with ForestrySA.⁵⁵

2.52 CMG and WRC provided the following analysis:

The State Government has publicly admitted that the forward sale of forestry plantations has been designed to cover lost revenue caused by the global financial crisis. Currently, the SA Government receives dividends and taxation payments from the assets managed by FSA. For 2009/2010

51 *Submission 9*, p. 3.

52 *Submission 4*, pp 1-2; *Submission 8*, pp 1-2.

53 *Submission 4*, pp 1-2; *Submission 8*, pp 1-2.

54 *Submission 17*, p. 2.

55 *Submission 6*, p. 2; *Submission 11*, p. 1.

approximately \$44m was paid by [ForestrySA] in dividends and taxes. Based on an income stream of \$41m plus pa and allowing for a more aggressive marketing approach with less social obligation, the new owners could recoup their investment money in as little as a decade, which is certainly not a good outcome for all South Australians.⁵⁶

Alternative approaches

2.53 A number of submitters and witnesses felt that the South Australian Government should consider improving the income and growth potential of the forestry and forest products industry instead of contemplating a forward sale. Mr Des Taylor, who provided a submission in a private capacity, commented:

The real way to get back South Australia's AAA Credit Rating is not to sell off what we have but to advance and expand forestry because of the demand from overseas for our timber supplies. In this way local timber communities will not be destroyed and the government coffers will be added to substantially.⁵⁷

2.54 Similarly, Mr McDonnell stated:

I believe our state government needs to look at growing its plantation estate and attracting more business and investment to our state instead of the short term cash grab they appear to be focused on.⁵⁸

2.55 Mr Leech submitted:

Given the return on equity I have great difficulty understanding why a state Government would want to sell their forestry asset that is earning 11.5% and reduce state debt when with a AAA credit rating they would be paying far, far less than 11.5% servicing their borrowings.⁵⁹

2.56 Mr Leech suggested that, given the return on equity for ForestrySA was 11.5 per cent in 2009-10, and that the forest industry was at least 'in part counter cyclical to normal investment trends', superannuation funds could invest funds in ForestrySA and provide improved growth prospects.⁶⁰

2.57 Gunns submitted that the South Australian Government should consider alternative options to the proposed forward sale. The Gunns submission stated:

The State Government [should] consider alternative sale options such as the sale of smaller parcels of standing timber to local processors as an alternative to the current mill door price sale process managed by

56 *Submission 6*, p. 5; *Submission 11*, p. 4.

57 *Submission 12*, p. 1.

58 *Submission 14*, p. 1.

59 *Submission 16*, p. 3.

60 *Submission 16*, p. 2.

ForestrySA. This will maximise efficiencies for both local processors and ForestrySA, provide long term resource security to local processors and have the added benefit of avoiding the creation of [a] monopoly private forest owner in the region.⁶¹

Adequacy of public consultation and information

2.58 The committee received a substantial amount of evidence commenting on the adequacy of public consultation and information in relation to the proposed forward sale. Gunns, for example, commented:

The decision to forward sell forestry rotations appeared to be made by the South Australian Department of Treasury and Finance with little or no consultation with any stakeholders.⁶²

2.59 Gunns noted that the lack of public consultation appeared, in the light of comments made by the South Australian Minister for Forests, to be matched by a lack of consultation within the South Australian Government, and that there appeared to be little value placed on consulting with the local community'.⁶³ The Minister was reported to have said:

...this process has been run by the Bank of Scotland and by Treasury and Finance. We didn't consult widely. My views weren't sought. I don't think [the views of the Chief Executive Officer of ForestrySA were sought]...in any depth.⁶⁴

2.60 The CFMEU commented:

The South Australian Government has taken a piecemeal, precarious approach by not comprehensively and transparently sharing their knowledge of the trade offs (costs and benefits) of the proposal with regional communities.⁶⁵

2.61 NAFI commented that, while it supported the efforts of governments to 'open up publicly held assets and businesses to competition and market efficiencies', it was important that appropriate consultation was undertaken:

...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.⁶⁶

61 *Submission 2*, p. 4.

62 *Submission 2*, p. 2.

63 *Submission 2*, p. 3.

64 *Submission 2*, p. 3.

65 *Submission 5*, p. 1.

66 *Submission 9*, p. 2.

Regional Impact Statement

2.62 The committee heard that, while no detailed cost-benefit analysis of the proposed forward sale was provided at the time it was announced, the South Australian Government has since commissioned a Regional Impact Statement (RIS). The South Australian Treasurer advised:

As part of the decision to investigate the sale of the forward harvest, the [South Australian] State Government has commissioned an independent external economics consulting firm, ACIL Tasman, to develop a Regional Impact Statement (RIS), to identify the potential social and economic impacts on the South-East from selling the forward harvest.

ACIL Tasman has begun a comprehensive consultation process with interested parties including local councils, timber industry representatives, unions and chambers of commerce and it is expected that ACIL Tasman will deliver its report by the end of this month [March 2011]. The report will include:

- issues and views expressed through the consultation;
- costs and benefits to the region and community, particularly looking at employment;
- the impact of the proposal on social inclusion and economic development; and
- strategies for managing identified risks and impacts, including those on downstream industries and mills in the area.⁶⁷

2.63 The committee heard that there are many considerations in relation to the broader potential impacts of the proposed forward sale. NAFI commented:

The State's plantation forests provide multiple benefits, including natural resource management outcomes (e.g. salinity and erosion control) and highly significant socioeconomic, regional development and employment opportunities.⁶⁸

2.64 NAFI identified a number of social, economic and environmental factors that should be included in a detailed cost-benefit analysis of a proposal to privatise public assets. These included:

- 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;

67 The Hon Jack Snelling, *Submission 7*, pp 1-2.

68 *Submission 9*, p. 1.

- competition implications;
- environmental spin-offs;
- new investment and disinvestment;
- innovation; and
- flow-on effects to local businesses.⁶⁹

2.65 The committee heard that, based on interactions with ACIL Tasman to date, there were concerns that the scope of the RIS would be too restricted in terms of the timeframes studied as well as consideration of the broader economic implications of the proposed forward sale.⁷⁰

Issues relating to potential conditions attaching to proposed forward sale

2.66 A number of submitters and witnesses observed that there were significant areas of risk relating to the sale that could result in the seller or a prospective buyer insisting on attaching particular conditions to the sale/purchase.

2.67 NAFI, for example, identified uncertainty around water policy as an apparent risk that would be likely to have a 'detrimental effect on the viability of the proposed sale for private investors' and which might therefore affect the sale price of the timber assets.⁷¹ The NAFI submission warned that:

...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.⁷²

2.68 More generally, Mr Leech considered that risk was a critical issue in the context of the proposed forward sale:

To me the critical issue is risk; how is risk to be identified and measured, who is to carry the risk, and how is it to be accounted for in the states accounts.

The reply by [the South Australian Treasurer]...to the three Green Triangle Mayors did not address this issue at all. It would seem almost as though The Treasurer does not understand the term risk, nor understand how important risk is in forest management, nor how it should be accounted for. Risk includes the effect of fire on the future ability to maintain wood supply, the possible effects of insect or pathogenic attacks (such as the

69 *Submission 9*, p. 3.

70 Mayor Steven Perryman, City of Mount Gambier, *Committee Hansard*, 30 March 2011, pp 5, 8 and 9.

71 *Submission 9*, p. 4.

72 *Submission 9*, p. 4.

Sirex noctilio epidemic), and errors in predicting forward yields. There are many other uncertainties given the long time frame involved in forest management planning.⁷³

Lack of information regarding potential conditions of sale

2.69 A number of submitters and witnesses commented on the lack of information regarding conditions, if any, which may be attached to the proposed forward sale.

2.70 The CMG and WRC submissions noted that, although the South Australian Government had stated that the plantation estate would remain under the management of ForestrySA, it had also 'admitted that it is impossible to place conditions on a sale to protect jobs and industry'.⁷⁴

2.71 Gunns made a number of recommendations regarding conditions that should be imposed on any forward sale, generally aimed at preserving the quality and viability of South Australia's timber plantations, as well as ensuring that a purchaser is required to contribute to the maintenance and growth of the local forestry industry. Such recommendations included requiring a purchaser to:

- maintain the current clear-fell age or rotation of plantations;
- maintain the existing size of the radiata pine plantation;
- continue to invest in growing the radiata pine plantation estate;
- contribute to the growth of the local forestry industry; and
- enter into long-term supply agreements with stakeholders in the local forestry industry.⁷⁵

2.72 Gunns submitted that without such conditions as outlined above, it would not have the confidence 'to invest in its processing facilities in the Green Triangle region'.⁷⁶

Effect of conditions on sale price

2.73 A number of submitters and witnesses also pointed out that the imposition of sale conditions could affect the forward sale price, bringing into question whether the sale would represent value for money over the long term. Mr Bleby, for example, submitted:

Getting a good price for harvesting rights depends very much on where the associated risks might lie. If the Government wants to carry lots of the risk itself, or not spell out lots of conditions in any contract with a buyer, then

73 *Submission 16*, p. 1.

74 *Submission 6*, p. 2; *Submission 11*, p. 2.

75 *Submission 2*, pp 3-4.

76 *Submission 2*, p. 4.

they might get a better price for the sale. If on the other hand, it wants the buyer to take on some of the risk, then the buyer will offer a reduced price accordingly.⁷⁷

2.74 Mayor Perryman observed:

If conditions like that are applied, it will reduce the value of the asset and the sale price. 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. That is something that gives us concerns.⁷⁸

2.75 A number of submitters and witnesses provided evidence which suggested that a lack of appropriate conditions regarding the maintenance of plantations could negatively impact on the quality of the asset on its return to public ownership. The CFMEU noted that there were potential risks associated with private sector management of plantations:

A major risk to maintenance of softwood processing jobs in Australia is the low rate of replanting of harvested softwood plantations and their expansion. The private sector does not have a good track record of establishing and/or expanding softwood plantations.⁷⁹

2.76 Similarly, Mr Eastment observed:

...if the commercial company that is buying [the resource]...have to produce an eight per cent return instead of a four per cent return...they will therefore cut costs and some of the costs will be the work that is required to produce better timber resources for future rotations. You can argue that that has possibly happened in Victoria, Queensland and in my home state of Tasmania.⁸⁰

2.77 Mr Eastment advised that a potential solution to this problem would be to separate the right to take the timber from the role of developing the timber resources. However, such an arrangement would necessarily involve a lower sale price for the right to harvest the timber:

The problem of separating the taking of the wood from the future management of the forests is that people do not want to pay as much for the wood, because if they have to pay the government money to manage the forest it lessens the return for them.⁸¹

77 *Submission 3*, Attachment 1, p. 2.

78 *Committee Hansard*, 30 March 2011, p. 12.

79 *Submission 5*, p. 1.

80 *Committee Hansard*, 30 March 2011, p. 51.

81 *Committee Hansard*, 30 March 2011, p. 51.

2.78 Mr Eastment noted in the context of such sales that he had 'not seen a resource that has been sold that has improved in quality'.⁸²

2.79 CMG and WRC also commented on the potential for a private owner to fail to adequately maintain and enhance the plantations subject to the proposed forward sale:

...the private sector does not have a positive record of re-establishing and/or expanding long-rotation softwood plantations, yet it is only by increasing softwood resources available for processing that investment and jobs will be maintained in a price competitive and trade exposed industry such as wood processing. Wood processing industries require threshold levels (volumes) of wood input to be financially viable. It is probable that [production strategies of a purchaser]...will not only reduce the number of processing industries but also change and rationalise the mixture of small and medium size processing facilities.⁸³

82 *Committee Hansard*, 30 March 2011, p. 51.

83 *Submission 6*, p. 5; *Submission 11*, p. 4.

Chapter 3

Committee view and recommendations

3.1 As noted in Chapter 1, the committee acknowledges and respects that the responsibility for the decision to forward sell the timber assets of South Australia's ForestrySA is one that ultimately rests with the South Australian Government.

3.2 However, the committee notes that many of the issues arising from this proposal represent the interests and concerns of communities across Australia that are dependent on rural industries, particularly where those industries are dependent on publicly owned assets.

3.3 Further, the committee notes that its participation in the inquiry has provided an important opportunity for consultation with stakeholders in the South Australian forestry and forest products industries.

Committee view

3.4 The committee heard that there is significant community concern regarding the potential for job losses and broader negative flow-on effects from the proposed forward sale of South Australia's timber assets. Such concerns are exacerbated by the absence of any guidance to date from the South Australian Government on what conditions, if any, would attach to the forward sale, particularly in respect of requirements for a purchaser to enter into supply agreements with local sawmills, and to positively consider the region's economic interests in exploiting and managing the timber assets.

3.5 The committee notes evidence suggesting that, in the absence of any such conditions, there is a substantial likelihood of significant job losses in the region. This would arise not only from the direct impacts on local sawmilling operations, but also from flow-on effects to value-adding activities and the local goods and services economy more generally. The imposition of any such conditions, however, may well reduce the expected sale price of the timber assets, and thereby undermine the financial imperative underpinning the proposed forward sale.

3.6 The committee notes that the lack of information on potential sale conditions renders many of the issues outlined in the inquiry's terms of reference uncertain. In particular, the potential for a purchaser not to consider local impacts in exploiting the timber assets would be directly defined by the conditions of the forward sale agreement. In the absence of any conditions requiring the purchaser to consider local impacts, or to continue with non-commercial activities currently undertaken by ForestrySA, the evidence to the inquiry strongly suggested that commercial imperatives would override, and could ultimately undermine, local jobs and economic activity.

3.7 In much of the evidence to the inquiry, the considerations outlined above, and the current and ongoing value of South Australia's timber assets as an income stream, were weighed against the apparent justification for the proposed forward sale as stated by the South Australian Government. While the committee acknowledges the evidence of the South Australian Treasurer that a range of factors will be assessed in making the decision regarding the forward sale, the committee notes that any sale price would need to reflect the potential risks and impacts of privatising the timber assets, as well as annual income foregone over the period contemplated by the forward sale.

3.8 On the question of the likely value for money of the forward sale alone, when foregone profits are set against a likely up-front sale price, the evidence received would suggest that there is as yet, prima facie, no compelling case for the proposed forward sale.

3.9 Further, the committee notes that the forward sale proposal to date has failed to engage with any of the broader factors which affect the economics of the forestry and forest products industries, such as processing economies of scale and exchange rate fluctuations. These factors would shape the commercial imperatives of a prospective buyer and, in the event that the sale did not proceed, would need to be taken into account in any strategy to ensure the ongoing viability, development and success of the timber asserts in the Green Triangle region. The committee considers that the South Australian Government should ensure that any further consideration of the proposed forward sale explicitly assesses such matters to ensure the protection of the public interest.

3.10 The committee acknowledges the stated view of the South Australian Treasurer that the decision regarding the proposed forward sale is 'a matter for the South Australian Government, as the asset owner, and [that] the South Australian Parliament is the appropriate forum for these matters to be debated'.¹ However, the committee would respectfully observe that any government that holds public assets holds such assets on trust for the public benefit. Accordingly, it is incumbent on a government proposing to alienate public assets to ensure that this is done to achieve an explicit social benefit, and on the basis of a clear social licence or political mandate.

3.11 On this point, the evidence to the inquiry strongly suggests that the forward sale proposal has to date been characterised by a lack of transparency, information and public engagement. This is particularly the case, as noted above, with respect to what sale conditions, if any, are proposed, and in relation to broader considerations around potential social, environmental and economic impacts.

3.12 The committee urges the South Australian Government to ensure that the deficiencies highlighted through the inquiry are addressed in future public consultation and information processes around the proposed forward sale. These

1 *Submission 7*, p. 2.

should also be addressed in the Regional Impact Statement, which should be made available to the public as soon as possible.

3.13 The committee notes with great concern evidence which strongly suggests that the proposed forward sale has already negatively impacted on the economic confidence and activity of the areas which rely on the forest and forest products industries. This serves to demonstrate the importance of ensuring that the contemplation of a forward sale occurs with the highest regard for transparency and public engagement.

3.14 Finally, the committee notes that certain evidence received in the course of the inquiry went to issues relating to the sale management and foreign ownership of agricultural assets more broadly. The committee has had an ongoing interest in these subjects and, although they are not addressed in this report, notes that these issues are under consideration for future inquiry.

Recommendations

Recommendation 1

3.15 The committee recommends that the South Australian Government facilitate the timely release of the Regional Impact Statement relating to the proposed forward sale of South Australia's timber assets, as well as any relevant information that is currently, or comes to be, held by the South Australian Government.

Recommendation 2

3.16 While the committee recognises that the proposed forward sale of the state's public timber assets is a matter for the South Australian Government, the committee recommends that, in making any such decision, the South Australian Government have regard to:

- **the potential impact on the region's economy, employment opportunities, property values and business viability;**
- **the conditions under which the sale might proceed having regard to these potential impacts, and**
- **the relative financial benefits and/or disbenefits of the sale to the state Government's finances in the short and longer term.**

Recommendation 3

3.17 The committee recommends that, in the event of a decision that the proposed forward sale will proceed, the South Australian Government engage in a public consultation process on the proposed forward sale and any conditions on which it might proceed, through the release of a public discussion paper and public engagement strategy.

Senator the Hon Bill Heffernan
Chair

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.

Nick Xenophon
Independent Senator for South Australia

APPENDIX 1

Submissions Received

Submission Number	Submitter
1	Larry Wilson
2	Gunns Timber Products (Gunns Ltd)
3	Michael Bleby
4	Hardware Association of SA Inc.
5	CFMEU (Construction, Forestry, Mining and Energy Union)
6	City of Mount Gambier
7	Hon. J J Snelling MP, Treasurer of South Australia
8	TABMA (Aust) Ltd (Timber and Building Materials Association)
9	National Association of Forest Industries
10	District Council of Grant
11	Wattle Range Council
12	Des Taylor
13	Mayor Richard Sage, District Council of Grant
14	Ian McDonnell
15	South East Local Government Association (SELGA)
16	Jerry Leech
17	Australian Manufacturing Workers Union (AMWU)
18	Government Department of Environment and Natural Resources
19	Bob Newman

Additional Information Received

- Received on 6 April 2011, from Mr Robert Harding, Regional Director SA/NT, Housing Industry Association Limited (HIA). Answers to Questions taken on Notice on 30 March 2011 in Mount Gambier;
- Received on 12 April 2011, from Mr Jason Howse, State Manager, SA/VIC/TAS, Timber and Building Materials Association (TABMA) Limited. Answers to Questions taken on Notice on 30 March 2011 in Mount Gambier;

TABLED DOCUMENTS

- Tabled by Mayor Peter Gandolfi, Wattle Range Council on 30 March 2011 in Mt Gambier, SA. Copy of the 'Charter of the South Australian Forestry Corporation'.

APPENDIX 2

Public Hearings and Witnesses

WEDNESDAY, 30 MARCH 2011 – MT GAMBIER

- EASTMENT, Mr Robert
- EVINS, Mr Rodney Horton, President,
Hardware Association of South Australia
- GANDOLFI, Councillor Peter John, Mayor,
Wattle Range Council
- HARDING, Mr Robert, Regional Director,
Housing Industry Association
- HOWSE, Mr Jason Anthony, State Manager,
Timber and Building Materials Association
- LEECH, Dr Jeremy Wilfrid,
- McDONNELL, Mr Ian Leslie, Managing Director,
N.F. McDonnell and Sons
- PERRYMAN, Councillor Steven Allan, Mayor,
Corporation of the City of Mount Gambier
- SAGE, Councillor Richard John, Mayor,
District Council of Grant
- STEWART, Mr Robert Norman, Chief Executive Officer,
Master Builders Association of South Australia Inc.

