

## Forests – July 1- 2011

### **Departmental Advisers:**

Mr G. Knight, Chief Executive, Department of Primary Industries and Resources SA.

Mr R. Robinson, General Manager, Forest Strategy, Department of Primary Industries and Resources SA.

Mr I. Robertson, Chief Executive, ForestrySA.

Dr D. Plowman, Group Executive Director, Primary Industries and Biosecurity, Department of Primary Industries and Resources SA.

Mr S. Archer, Group Executive Director, Portfolio Services, Department of Primary Industries and Resources SA.

Mr M. Williams, Manager, Budget Strategy, Department of Primary Industries and Resources SA.

Mr S. Johnke, Director, Finance and Asset Management, Department of Primary Industries and Resources SA.

**The CHAIR:** We are going to ForestrySA and forest policy. Minister, do you wish to make any opening remarks?

**The Hon. M.F. O'BRIEN:** No, thank you.

**The CHAIR:** Shadow minister, you have the call.

**Mr PEDERICK:** I refer to Budget Paper 4, Volume 3, at the top of page 199 the objective states:

Support the sustainable development of an internationally competitive forest industry, regional development and the provision of services from state government forest reserves.

How does the intended **forward sale** of three rotations of timber equate with this objective?

**The Hon. M.F. O'BRIEN:** My understanding is that the previous Liberal government put up a proposition to cabinet that called for the full sale of those assets, and the treasurer of the day was unsuccessful in that attempt. We are not privatising the assets; we will retain ownership of the land on which the forest sits, and in the initial period, which I believe is five years, ForestrySA will continue to manage the asset with the possibility of that being extended. It is pretty well business as usual in terms of the management of the asset and the sale of the product, which is the timber, so I think actually having a private sector owner of the timber is going to have a negligible impact on the objectives of our forestry policy.

**Mr PEDERICK:** In regard to that answer, minister, how are you ever going to guarantee that **sawmills** will not close and that **regional jobs** will be protected with the forward sale of these three rotations—since they are most likely to go to an international buyer, and I note that they are swarming over the South-East as we speak—especially in the event that the buyer is likely to be an offshore entity and also in view of the increased threat, as I indicated, that round logs could be illegally exported in containers, as recently happened in Victoria?

**The Hon. M.F. O'BRIEN:** There are several points. Firstly, it was the previous Liberal government that actually sold the milling facilities in the South-East, thus placing the possibility of their being on the market either for further onselling or for closure. The other comment is that, even under the current structure that is in place, mills are closing the South-East. Mills will open, mills will close, depending on the prevailing economic conditions and the ability to rationalise.

I think the most recent closure was the Mount Burr facilities within the last 12 months. The state government had total ownership of the forward rotations. It did not stop a decision being made that a mill would be closed. Our intention is that there will be an expansion in the South-East of the overall softwood plantation, either by the private sector or through government initiative, an increase in the size of the plantation by 30 per cent, which we believe is necessary to attract one if not more major investors to put in place one or more world-class timber milling facilities in the South-East.

Sorry, it was not Mount Burr, it was the downscale of Nangwarry. Without that increase in the size of the plantation there will not be investment in milling facilities.

**Mr PEDERICK:** But in regard to the forward rotation and in regard to that response, how are you ever going to guarantee that an overseas investor will not export round logs illegally under a contract of sale of the forward rotations?

**The Hon. M.F. O'BRIEN:** The structure of the Australian market is such that the bulk of product is used domestically. The product coming out of the South-East is of an extremely high quality; it is an exceptionally good structural timber. Australia is still experiencing significant population growth and growth in the housing sector. There is a lull at the moment but the industry, by and large, services domestic demand, and the forecasts are that population growth will continue over the next couple of decades.

I think it was the World Bank that forecast that population growth would continue in Australia, largely by way of skilled migration. This, in turn, will maintain a high demand for new housing which, in turn, will underpin milling activity in Australia. On occasions, if there is a temporary lull in building activity, which does occur from time to time, it has been the practice of all softwood milling operators and plantation owners to export. The reason that is done is to maintain a level of economic activity in their communities.

In the case of the South-East, it is to maintain activity for loggers and also for the timber transport companies. If the export activity did not occur, then there would be a lull in that particular activity. This has been part and parcel of the way in which plantation managers in the South-East have managed their businesses and will continue to be so into the foreseeable future. If timber is going to be exported, it will be because domestic demand has come off a little bit, as a result of a temporary lull in building activity, and export will fill the gap.

**Mr PEDERICK:** In response to that answer, are you saying that there will not be a clause in any contract with a buyer forbidding them from selling round logs overseas? Because it is cheaper to mill overseas and bring back as finished product it puts at risk all those jobs in the South-East.

**The Hon. M.F. O'BRIEN:** I am going to receive advice, as is the Treasurer, from the round table regarding conditions. That may well be a condition. It may well be that there is a contrary view that, as I said, export in some circumstances is a sensible thing to do and it basically keeps truck companies in business and gainfully engages logging operators. However, that is something that would have to be bound up in advice from the round table, and I do not think there is an opinion either one way or the other.

As I said, it is something that has been part and parcel of forestry management in the past and probably will continue into the future. As for exporting log and having it milled and returning it to the Australian market, the advice that I have received is that, if we can get the 30 per cent increase in the sites of the plantations in the South-East, we will attract investment into the world class milling facilities and we can hold our own with any region anywhere in the world.

**Mr PEDERICK:** On the same budget line, will the decision to forward sell three rotations of south-eastern timber be reconsidered in the light of the recent sale by Gunns of its own timber in the region at what is considered to be less than half its true value?

**The Hon. M.F. O'BRIEN:** I think you made the comment, member for Hammond, that buyers were swarming over the asset in the South-East, which tends to indicate no shortage of interest in the asset. The way of the world is the greater the interest, the higher the potential level of demand, if you like, the higher the price. As for the sale of the Gunns assets, we are really not talking about comparable assets. We are talking about the sale of land in the South-East.

Gunns has a necessity to realise on value to secure adequate finance for their pulp mill. They have one interested international party, and my reading of the situation a few weeks ago was that they wanted to be able to strike out on their own if the deal with the potential international partner did not come through or the conditions that the international partner was attaching to the joint venture were unpalatable.

They wanted to be in a position where they could forge on independently, and for that reason they were realising on what they described as 'non-core assets'. They wanted to do that quickly. The Treasurer has indicated that we have a hurdle figure in mind, and if that hurdle figure is not leapt, then

the asset, the forward rotations, will not be sold. From what you have said, member for Hammond, there is a high degree of interest in the asset.

**Mr PEDERICK:** Buyers might sense a bargain.

**Ms THOMPSON:** I refer to Budget Paper 4, Volume 3, page 200. Will the minister provide the committee with information on the integration of forestry with other primary production?

**The Hon. M.F. O'BRIEN:** If you can just bear with us, we are awash with information here.

**Mr PEDERICK:** You could have done that one on notice.

**The Hon. M.F. O'BRIEN:** I will have to wing this one. Planting trees for natural resource management outcomes and voluntary carbon offset markets are examples of forestry producing financial and environmental benefits for landowners and society at large. Forests that are planted on previously cleared agricultural land can yield multiple benefits including: wood and wood products; diversification of rural economies, including participation in emerging carbon bioenergy and eucalyptus oil markets; sequestration of atmospheric carbon which offsets greenhouse gas emissions; and NRM outcomes, including protecting primary production land from soil erosion, mitigation of salinity, improved water quality, provision of shelter, and enhancement of biodiversity through improved habitats.

PIRSA Forestry has led the way in the promotion of the multiple benefits that arise from integrating forestry with other primary production systems in order to achieve sustainable landscapes. PIRSA Forestry has taken the initiative to provide landholders with up-to-date information on emerging carbon and non-traditional wood product markets to help prepare them for a carbon-constrained economy.

Stakeholder groups and landholders alike are also provided with the resources to encourage the use of forestry to achieve multiple benefits at a regional scale. In line with the International Year of Forests, PIRSA Forests will continue to support NRM boards and other key regional bodies to educate landholders as to the multiple benefits of trees through community events, publications and media opportunities. I thank the member for the question.

**The Hon. S.W. KEY:** My question relates to the timber industry in the Mount Lofty Ranges. Minister, can you advise the committee on any positive developments in the timber section of the Adelaide Hills?

**The Hon. M.F. O'BRIEN:** I thank the member for Ashford for the question. It is actually quite timely. As you would be aware, ForestrySA is a state government owned company. That will not come as a revelation to some. It also manages timber plantations in the Mount Lofty Ranges. The focus has been on the South-East, but there are considerable holdings in the Mount Lofty Ranges. In a positive development for the timber sector in the Adelaide Hills, ForestrySA has scaled up its thinning operations in the ranges after securing a new market for small diameter pine log.

In recent years, lack of demand has meant that only limited thinning operations have been carried out in the Adelaide Hills pine plantations. However, ForestrySA has scaled up thinning operations to deal with the backlog of previously unthinned and underthinned forest areas after securing a two-year log contract at 100,000 tonnes per year. Through this operation it is hoped to produce higher volumes of larger sawlog for local customers sooner.

ForestrySA has already engaged the services of an additional harvesting and transport contractor to assist with the increased workload. I have been advised by Mr Gary Pearson, the Mount Lofty Ranges District Forest Manager, that thinning operations have a number of benefits. The targeted removal of individual trees from within the established pine plantations not only improves the health, vigour and diameter growth of remaining trees, it also provides an improved quality log product derived from subsequent thinning and harvest operations. Thinning operations also lead to the more timely supply of saleable sawlog and plylog and a reduction in residue left on the ground following harvest.

Despite this wide range of benefits, I have been advised that delayed thinning operations require careful management. Any catch-up program also presents risks to the stability of plantations when they are finally thinned. Mr Pearson has said that ForestrySA would work to complete the backlog of thinning operations over the next two to three years.

**Mr VAN HOLST PELLEKAAN:** I refer to Budget Paper 4, Volume 3, page 199. Minister, can you please confirm for me and the people of Stuart that the **Bundaleer and Wirrabara Forests** will definitely be excluded from the proposed forward selling of offtake?

**The Hon. M.F. O'BRIEN:** Yes, I can.

**Mr VAN HOLST PELLEKAAN:** Can you also please confirm that they will definitely be retained as commercial forests under ForestrySA operation?

**The Hon. M.F. O'BRIEN:** That is my understanding, yes.

**Mr PEDERICK:** I refer to Budget Paper 4, Volume 3, page 200: Targets 2011-12, particularly dot point two which states 'Industry development: initiate implementation of the South Australian Forest Industry Strategy through engagement with forest industry stakeholders'. On the subject of engagement with forest industry stakeholders, we learn from the Treasurer's response to a question in estimates A on 29 June 2011 that certain information about the forward sale proposal was not shared with ForestrySA as it was considered to be commercial-in-confidence. My question is: does the government not **trust its own board** to treat such information with absolute confidentiality?

**The Hon. M.F. O'BRIEN:** I expect to receive the South Australian Forest Industry Strategy within a fortnight. My understanding is that it has been developed with wide engagement with forestry industry stakeholders. I have just been advised that some 428 copies of the draft strategy were distributed. There were 21 media interviews and articles, which obviously would have gone to other individuals and businesses with an interest in the industry. There were seven stakeholder forums involving more than 100 people, and 21 submissions were received. I have been advised that I will receive the final strategy within the fortnight, and it is then my intention to consult further on the key recommendations.

**Mr PEDERICK:** You have not answered the question, minister. Regarding the forward sale of the three rotations, certain information was not shared with the ForestrySA board, and I am wondering whether the government does not trust its own board to keep things in confidence.

**The Hon. M.F. O'BRIEN:** Member for Hammond, you referred to a dot point that referred to the forest industry strategy and engagement with forest industry stakeholders, and I have answered the question.

**Mr PEDERICK:** I do not think you have but it sounds as though that it is all we are going to get. It sounds like the ForestrySA board is out in the wind. How can the government explain its decision not to share the detailed financial information and modelling of the forward sale proposal of three rotations of forestry in the South-East with the ForestrySA board?

**The Hon. M.F. O'BRIEN:** That is not a budget line within my portfolio area. It is one that sits squarely within the budget responsibilities of the Treasurer and I thought the Treasurer made himself available through this process to answer any questions on the forward sale.

**Mr PEDERICK:** Surely, minister, referring to Budget Paper 4, Volume 3, page 199, Program 4: Forestry Policy, as far as forestry policy, I would have thought the ForestrySA board would have something to do with the Minister for Forests.

**The Hon. M.F. O'BRIEN:** They do, in the sense that it manages and advises within the policy settings. The policy settings are in the process of being determined, in large part by the round table. Once they are determined, they will inform the management practices of ForestrySA and the advice that will be given to me.

**Mr PEDERICK:** A policy decision of forward selling three rotations of forest, you do not think that is a policy decision that ForestrySA should be involved with?

**The Hon. M.F. O'BRIEN:** It is a policy decision that is made by government.

**Mr PEDERICK:** Obviously, as the Minister for Forests, you are right in the thick of the forest, I would think with regard to this matter, and I would have thought it would be appropriate that ForestrySA's opinion was sought on the advisability of the forward sale. I am advised that their opinion was not sought before the decision to sell was announced. Can you clarify that one way or the other, minister?

**The Hon. M.F. O'BRIEN:** I have made the comment that it is not a budget line for which I have responsibility. It falls squarely within the Treasurer's ambit of responsibilities. He has given

evidence and I think these issues may have been canvassed. If they were not, that was a decision the opposition made at the time. We are talking about my budget lines, areas over which I ultimately have responsibility, and that is not one of them.

**Ms THOMPSON:** My question relates to Budget Paper 4, Volume 3, page 199. Will the minister provide the committee with information on the impact climate change is expected to have on the forestry industry in South Australia?

**The Hon. M.F. O'BRIEN:** As you are well aware, for South Australian rural areas the CSIRO predicts a drier and a warmer climate. This increases the risk of drought, fire, pest and disease incursion, with potentially adverse impacts on biodiversity, agriculture and forestry. The federal government's climate change policy has three pillars: the first is adaptation to unavoidable impacts, the second is mitigation of greenhouse gases, and the third is international agreements.

A National Climate Change and Commercial Forestry Action Plan is being implemented to guide government and industry action on forestry's role in climate change. The potential loss in the forestry sector may reduce regional economic activity. Significant changes in management may be needed to minimise costs, maximise benefit and ensure environmental sustainability. Adaptation opportunities in the forestry sector include:

- the use of drought-tolerant strains or different species;
- new harvesting patterns;
- rotation periods;
- improved fire management; and
- adopting risk management in business planning.

In preparation for climate change, PIRSA Forestry has facilitated investment in plantations and small-scale farming forests for carbon sequestration and timber production. Adapting to the unavoidable impacts of climate change is also important. PIRSA Forestry supports long-term research trials to demonstrate the suitability of various low rainfall tree species and improved genetics and silviculture regimes for low rainfall areas in order to facilitate investment in plantations for carbon sequestration and timber production.

**Mr PEDERICK:** In the light of the Treasurer's statement in Estimates A on 29 June that the government was aware that ForestrySA considers the **regional impact statement flawed**, has the minister or the government since discounted all the problems that ForestrySA has picked up in the regional impact statement in regard to the forward sale of forestry in the South-East?

**The Hon. M.F. O'BRIEN:** The government has established a round table, the membership of which is probably known to opposition members sitting in here today. It is a highly credentialled and representative group of individuals largely drawn from the South-East. Any concerns, observations or comments that the board or executive team of ForestrySA have can be fed into the round table, which in turn will advise both myself and the Treasurer. In answer to your question, the mechanism is there, and I am sure that all those who want the best possible outcome on this particular proposition will avail themselves of the opportunities that the round table affords.

**Mr PEDERICK:** In regard to a decision being made on the forward sale of forests, which minister, the Treasurer or yourself, will bear **responsibility for making a decision** which could be based on what might eventually prove to be a report full of flaws and problems? I refer to the ACIL Tasman report.

**The Hon. M.F. O'BRIEN:** I have two observations; one is that the ACIL Tasman report is not flawed. Individuals or organisations may take case against some of the propositions but, by and large, it is a robust proposition in its own right. The decision will be a cabinet decision; it will be an informed decision, and it will be one in part informed by the deliberations of the round table, which will take on board any comments made in relation to the veracity of propositions contained within the ACIL Tasman report. This will be extremely thorough, and I am sure it will adequately advise cabinet in its deliberations.

**Mr PEDERICK:** I refer to Budget Paper 5, page 48. In Annual Programs there is an allowance of \$12 million for **acquisition of land**. This is the same amount that was budgeted for land acquisition in 2010-11, as described on page 47 of the 2010-11 budget. My question is: how much of last year's \$12 million was spent, and where was the land that was purchased?

**The Hon. M.F. O'BRIEN:** I will pass that over to Islay, who is basically running the land acquisition program.

**Mr ROBERTSON:** In the last two weeks, in fact, we settled on about 1,550 hectares of land and plantation purchases in Victoria. A month earlier I think we settled on a small area of land just outside Mount Gambier. So, in terms of total capital expenditure on land in the last year, it amounts to about \$6 million of the \$12 million. There was a further \$4 million of purchase of plantations, because some of the land had radiata plantations on it that we purchased. While the market for land purchase has been improving, it is still a tough market. The opportunities are arising, though.

**Mr PEDERICK:** Was that \$12 million expended in the previous financial year, minister?

**The Hon. M.F. O'BRIEN:** Again, I will pass that to Islay.

**Mr ROBERTSON:** I am afraid I cannot pull a number out of my head for the previous year. We did make some limited purchases, but I believe we struggled that year. In some years we have been more successful than in others.

**The CHAIR:** You can take that on notice if you need to come back with more detail.

**Mr ROBERTSON:** I am happy to take that on notice.

**Mr PEDERICK:** Could I get the detail of the properties and how much was spent in those two financial years?

**The CHAIR:** One last question from the shadow minister.

**Mr PEDERICK:** Minister, I refer to Budget Paper 4, Volume 3, page 199. Does the minister accept the argument that part of the reason for the increase in timber imports is due to a slowdown in construction in other world markets, particularly the US, and that this has caused other timber exporters to look for new markets, including Australia, which has led to a drop in timber prices through increased competition?

**The Hon. M.F. O'BRIEN:** I believe that is one of the reasons. The other reason, as I understand it and as it has been put to me, is that that has produced a concerted effort by Canadian and US timber companies to get into the Australian market because the US domestic home construction sector is not as robust. There has been a development in Europe, particularly in the Scandinavian forests, because of the high EC demands on energy efficiency, that has led to the Scandinavians entering into the generation of electricity through the burning of timber offcuts.

This, combined with the high Australian dollar and the fact that most exports from the Asian area, particularly China, are exported to Europe by way of container and those containers have been coming back to China and the Asian region carrying very little freight (in most cases, coming back empty), the Scandinavians or the Europeans have been able to freight timber, particularly from Scandinavia, into the Australian market at a very low freight rate.

In addressing those particular challenges, I am keenly looking at the opportunities for us to use biofuel as a by-product of plantation forest activity to actually drive down our costs of production, as the Europeans have. RenewablesSA has made a grant to the new owner of the Kangaroo Island plantations and mill to pilot an electricity-generating plant on Kangaroo Island to use timber offcuts. If that successful, I think it is their intention to go from pilot stage to a larger generating capacity, which could potentially deal with a lot of the electricity issues on Kangaroo Island and also, if successful, could give us some pointers as to what we can do in the South-East ultimately to be able to compete with the Americans, Canadians and the Scandinavians by having another revenue-generating activity sitting alongside our forest plantations and our mills.

**The CHAIR:** Thank you, minister, and I thank the members of the committee and the advisers. There being no further questions, I declare the examination of the proposed payments for the Department of Primary Industries and Resources and the administered items for the Department of Primary Industries and Resources adjourned to committee A on Monday 4 July.