



17th August 2020

Committee Secretariat
PO BOX 6021
Parliament House
CANBERRA ACT 2600

House of Representatives Inquiry into Timber Supply Chain Constraints in the Australian Plantation Sector

KIPT Standing and Background to the Project

Kangaroo Island Plantation Timbers Ltd (KIPT) is pleased to be given the opportunity to make a submission to this Inquiry. Our Company is an ASX-listed plantation timber grower operating on Kangaroo Island, with a planted area of approximately 14,500 hectares.

The Kangaroo Island plantation timber estate is 80% hardwood (*Eucalyptus globulus* and *E. nitens*) and 20% softwood (*Pinus radiata*). Plantation hardwood is typically grown for pulp but is increasingly attracting interest for peelers, bioenergy and engineered wood products. Softwood is typically grown in Australia for sawlogs, with residues directed to a range of reconstituted and engineered wood products as well as pulp and paper products.

KIPT owns a site considered suitable for a deep water port, which is in the final stages of development assessment by the South Australian and Commonwealth governments. Once the port is approved, the Company expects to generate several hundred direct and indirect regional jobs, and significant economic growth for the Island community and the State more broadly.

Kangaroo Island also hosts a dozen small scale farm forestry owners, which totals around 3,000 ha of pine and eucalypt. Collectively, the KI resource represents the largest mature forest plantation estate in Australia that is yet to be brought to market. The impediment of course is suitable marine infrastructure capable of export to domestic or international markets.

On the afternoon of January 3, the Ravine wildfire affected a large proportion of the timber plantations located on Kangaroo Island as well as farms, tourist enterprises and social infrastructure. The fire originated in the Flinders Chase National Park from two lighting strikes on December 30, neither of which were contained before the predicted catastrophic weather conditions on January 3 drove the fire eastward. This followed the Duncan fires, which had originated on December 20 from several lighting strikes on private properties near to the KIPT estate, and subsequently contained by KIPT staff, CFS volunteers and local farm units.

The impact of the Ravine and Duncan fires to the western half of KI has been exacerbated by the Covid-19 pandemic which is selectively damaging tourism and other key components of the island and national economy.



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While the fires have damaged the forests on Kangaroo Island, the standing timber is still capable of economic recovery if harvested in a timely manner. The Committee will be aware a large-scale timber salvage operation is currently underway in the (approximately) 100,000 ha of east coast mainland forests that were also affected by the 2019-20 wildfires. This is creating much-needed jobs and maintaining a supply chain for vital forest products including construction materials, and packaging and sanitary products. A salvage operation on Kangaroo Island cannot proceed without the proposed seaport for which KIPT submitted an EIS to state (and federal government) in March 2020.

In anticipation of government approval for the seaport at Smith Bay, KIPT is planning a pilot salvage operation, via a temporary transshipment operation from Kingscote. The pilot program will establish a route to market for the higher-value at-risk softwood logs grown by KIPT and independent growers, and is the first step in creating much needed employment opportunities for island residents and south-east based forestry companies affected by the Covid-19-induced downturn.

KIPT was well insured for the wildfires and has access to sufficient capital to construct the seaport, immediately upon receiving the necessary approvals. I refer you to the latest shareholder update presented to shareholders on June 30:

<https://www.asx.com.au/asxpdf/20200630/pdf/44k2gt8ps9pr51.pdf>

Terms of Reference

Our submission relates to the Terms of Reference on the Standing Committee website¹, with specific reference to Kangaroo Island:

1. The nature of wood supply from Australia's plantation sector..
2. The plantation wood supply available for domestic softwood processors..
3. The competitiveness of log pricing between domestic and export market
4. The term of log supply contracts needed to support the processing sectors
5. Opportunities to increase Australia's wood supply, including ..barriers to plantation establishment.
6. The role that state governments could have in assisting in addressing any problems identified ...by the work of this committee
7. Make any recommendations around any code of conduct...

As an ASX-listed company, KIPT is bound by the rules of the exchange for release of information.

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https://www.aph.gov.au/Parliamentary_Business/Committees/House/Standing_Committee_on_Agriculture_and_Water_Resources/Timbersupply/Terms_of_Reference





1. The nature of wood supply from Australian plantation sector including:

- **Projected timber volumes over the next 30 years and the potential grades of logs available**

As a result of the fires on Kangaroo Island, the projected timber volumes for the island plantations has been substantially altered. Prior to the fires the projected timber volumes comprised a sustainable flow commencing at around 650KT/yr for several years, levelling to around 400KT/yr on an ongoing basis. The short run composition was approximately 30% softwood and 70% hardwood. Long run composition was yet to be determined, but the company had a preference for hardwood where it was appropriate given site conditions and economics.

As a result of the fires, the short run projection of timber volume now comprises a 5 year salvage campaign peaking at approximately 850KT, followed by a brief hiatus of 3 to 4 years, before the aforementioned long run target of 400KT/yr can be achieved. The grades of timber arising after the fires are characterised as 'green' and 'dry'. The former relates to the portion of the crop which is still capable of salvage, largely unaffected by the fire. The grades of green logs will be standard market specifications comprising pruned, part pruned, A, K, and pulp. Dry logs are those which cannot be sold as green, but are capable of being presented to markets as 'fuelwood' or 'biomass'.

Kangaroo Island is capable of hosting an expanded log supply, but is currently prevented from doing so due to local government barriers to expanding the plantation footprint on island. The total area of agricultural land is around 300,000 ha, of which plantation forestry comprises around 17,500 ha (6%). The island could host an additional 12,500 ha in appropriate agroforestry formation, which would increase long run timber production without competing with agricultural production. Agroforestry projects, if designed appropriately, are complementary in nature, and have the benefit of increasing forest and agricultural production simultaneously.

2. The plantation wood supply available for domestic softwood processors including:

- **Current and future demand for logs for domestic processors**
- **Any shortfall in current processing industry demand for logs**

Modern processing facilities require scale and consistency of product to achieve efficiencies. The sawmill and post treatment plant formerly operating on Kangaroo Island by the predecessor to KIPT has for several years been mothballed due to insufficient scale. The softwood resource on Kangaroo Island, which includes some of the finest pruned logs in Australia, is available for mainland, domestic processors once the proposed port at Smith Bay is constructed and open for business.



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3. The Competitiveness of log pricing between domestic and export market

When the proposed Seaport at Smith Bay is complete, KIPT logs will be available for domestic and export markets on a free-market price competitive basis.

4. The term of log supply contracts needed to support processing sectors

KIPT makes no comment on this point.

5. Opportunities to increase Australia's wood supply, including identifying and addressing barriers to plantation establishment

KIPT supports the Australian Government's National Forest Industries Plan – A billion trees for jobs and growth. This policy platform has the essential elements to kick-start reinvestment into Australian timber plantations to arrest the decline in area, and promote the expansion in a sustainable manner.

KIPT has already provided a submission to the Plantation Development Concessional Loan Scheme Consultation Paper (submitted 20 December 2019). A key barrier to growth identified by KIPT in that submission was local government restrictions on commercial tree planting.

Kangaroo Island Council for example has enacted a barrier to growth in its Development Plan, which presents an inequality to our industry that is not incurred by any other in the rural sector. We argue that imposing an artificial barrier to tree-growing has no more merit than government imposing a ban on wheat or canola. It is not the role of governments to impose artificial barriers or restrictions to private enterprise, beyond those necessary for community welfare and environmental concerns. The fact that no such local government barrier exists in regions such as Mt Gambier attests to the inequality of the policy.

Our argument is that rural enterprise should be able to determine where and what it deploys its capital towards, based on a land's highest and best use. If timber grown in plantation or agroforestry formation represents a land's highest and best use, then there should be no barrier to investment into forestry.

Nevertheless, in our view, Kangaroo Island could expand its timber plantation footprint from 17,500 ha to 30,000 ha without compromising agricultural production, on the basis that well-designed agroforestry regimes will boost both agriculture and forestry output.



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6. The role that state governments could have in assisting in addressing any problems identified by the work of this committee

The three key areas for state government, as noted above, are:

- Reform to local government planning policies
- Improving efficiencies in major projects approvals and infrastructure planning
- Adopting the recommendations of the state inquiry into the 2019-20 bushfires.

In March 2020 the Forest Industries Advisory Council SA (FIACSA) identified as its highest priority recommendation to state government to “promote..the forest industry on a fair and equitable basis as other industries..”.

As noted above, Kangaroo Island Council has enacted an artificial barrier to plantation expansion on Kangaroo Island. While state government is implementing reforms to its town and rural land planning framework, it is not clear that this will remove the artificial barrier to plantation investment enacted by Kangaroo Island Council.

In addition to local government inequalities, the Australian plantation sector often encounters impediments or inequalities in planning and funding infrastructure. As noted above, Kangaroo Island Plantation Timbers is in the final stages of a major projects approval process for a new seaport on Kangaroo Island. The project will not only provide the vital infrastructure required to bring the island's timber resource to market, but it will provide modern marine infrastructure for other island enterprises such as tourism and agriculture, subject to relevant approval.

While the plantations on Kangaroo Island were established under the policy umbrella of the National Forest Policy Statement (1992), there was no action by state or local government to identify a suitable location for a port, let alone planning facilitation to assist private sector development of such a facility. This policy and planning oversight has required KIPT to navigate a lengthy approval process which has yet to reach its conclusion.

We observe the wider inequality in support experienced by the plantation sector on Kangaroo Island compared to other industries. For example, the SA government has fully funded the construction of a mooring facility to enable cruise ships carrying international tourists to visit Kangaroo Island; SA Government has committed to funding upgrades required to the berthing facilities for the Sealink Ferry at both Cape Jervis and Penneshaw; SA Government has fully-funded road upgrades to improve capacity and safety of KI's major tourist routes; SA government funds national and international marketing campaigns to attract tourists to KI, and taxpayer funds (Tourism SA) are spent promoting KI as a destination for cruise ships. We accordingly seek equitable consideration into the requirements for forestry infrastructure.



In 2019-20 Australia and Kangaroo Island experienced an unprecedented fire season. Fire losses by the timber industry on Kangaroo Island exceeded the combined losses for all other agricultural enterprises in South Australia. The circumstances of the fires and the events that led up to the losses incurred are the subject of inquiries at both state and commonwealth level. In South Australia, the Keelty Inquiry recognised the importance of forestry sector expertise in fire planning and suppression. KIPT is satisfied with the findings of the Keelty Inquiry and looks forward to the implementation of its recommendations.

7. Make any recommendations around any code of conduct or management mode that could assist in addressing any problems identified by the work of the committee

That governments build on the first recommendation of FIACSA (March 2020) to incorporate fairness and equity in its dealings with the Australian Plantation Sector.



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