



City of Mount Gambier

Office of the Mayor

17th March 2011

Committee Secretary
Senate Rural Affairs and Transport References Committee
PO Box 6100
Parliament House
CANBERRA, ACT 2600

RE: Inquiry into the Sale of Timber Assets by the South Australian Government

Dear Chair,

The City of Mount Gambier welcomes this opportunity to highlight the devastating regional impact of the South Australian Government's proposal to forward sell the harvesting rights of Forestry SA Plantations. Should the Committee choose to conduct hearings on this matter we respectfully request the opportunity to appear and encourage the Committee to travel to our region to inspect and receive submissions.

Our Council area encompasses 2,704 ha with a population of approximately 25,216. As the commercial and retail centre for the region the City serves a catchment population of over 70,000. We represent a community which is extremely concerned about this region's economic and social future should a sale proceed, and request that this inquiry act upon our concerns in order to safeguard regional communities.

The South Australian Government claims that the money raised from a sale will help compensate for lost revenue caused by the global financial crisis, but this "cash grab cure" comes at considerable economic and social expense. This plight has united civic and industry leaders, timber workers and residents who are facing the grim reality of thousands of job losses if the State Government's plan goes ahead.

Executive Summary

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

- The City of Mount Gambier is of the strong view that the combination of consistent revenue streams from Forestry SA 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 Forestry SA.

The Terms of Reference

a) The likelihood of regional job losses

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 \$2.8B 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 3,000 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 \$240m, representing approximately 18 per cent of income paid in the South East of South Australia region.

The SA Government has previously made assurances that the plantation estate will remain under the management of Forestry SA (FSA), but has also admitted that it is impossible to place conditions on a sale to protect jobs and industry. It is understood that 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. A feared outcome of forward selling of FSA softwood assets is that as wood becomes uncontracted to regional processors, the purchaser of FSA's softwood estate may find their commercial interests better served by exporting logs to non-regional markets. 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.

Unlike the current FSA 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". 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.

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

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.

b) The flow-on effects to communities in timber reliant regions

In the South East of South Australia, there is no bigger player than the timber industry, and all the ancillary businesses and economic and social activity it attracts. Forestry has shaped our heritage and underpinned our local economy for over 80 years; take away a very large slice of this sector and the flow-on effects will be catastrophic for the region, directly impacting on six South East Council areas along with parts of Western Victoria.

Increasing uncertainty within the community caused by the proposed forward sale of the Forestry SA 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.

The region is also bracing itself for the flow-on negative social impacts; distress extends not only from the loss of jobs, but also from the more profound loss of an entire way of life. In 2009/10, 13,994 individuals – or approximately 25 per cent of the South East population - used an ac.care service in the South East. The services accessed included emergency relief, adult community education classes, family relationship counselling and education, family violence counselling, financial counselling, foster care, homelessness and supported accommodation, parenting classes, and men's counselling. 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.

It is also important to remember that the South East timber industry supports everything from housing construction to household toilet paper, so all Australian consumers will be affected should the forward sale proceed.

c) The potential for private buyer not to consider local impacts

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 (eg 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.

With the SA Government's admission that it will not place conditions on a sale to protect jobs and industry, it is therefore highly unlikely that it would have the power to influence, encourage

and facilitate regional-based economic activities based on forestry and other industries if it no longer owns the plantations.

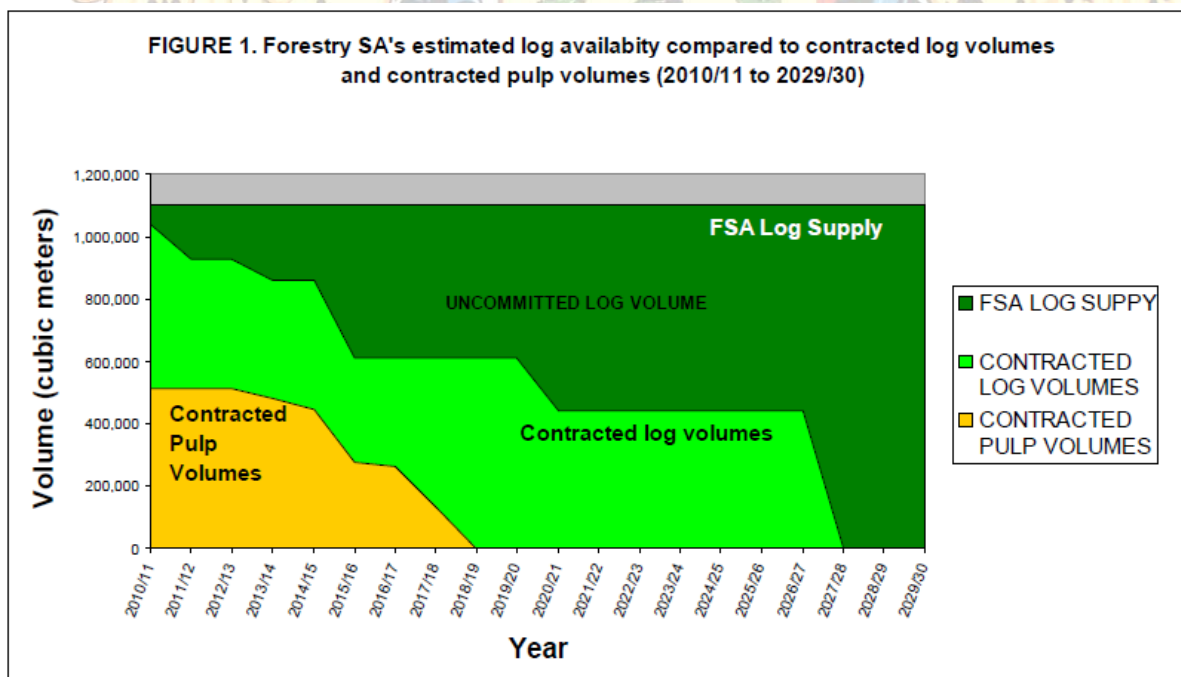
It appears to my Council that State Treasury will block any attempt to place conditions on the sale if it has the potential to limit the sale price.

d) The potential for reduced value adding locally and increased off shoring

FSA's resources in this region represent approximately 65 per cent of softwood plantations in the Green Triangle (SA and Victoria). These plantations supply a wide range of forest products to a variety of processing plants including sawmills, engineered wood products, preservation, pulp and paper, waste industries and potentially energy facilities. The diversity of industries supports the commercial utilisation of the different grades of logs produced by softwood plantations, an essential component of the economic performance of FSA *and* regional prosperity.

The “current ownership framework and operating model (for FSA is) a catalyst for stability within the industry” (Chairman’s Report, FSA Annual Report, 2009/10).

Over the last decade, there has been a shift to international ownership of forests and processing facilities in the broader South East region. This ‘internationalisation’ of ownership is placing increased competitive pressures on the potential use of forest resources and commitments to regional processing. One of the key findings of the independent Community Impact Statement partly commissioned by the City of Mount Gambier was the worst case scenario that the purchaser would have the option to sell 100 per cent of logs outside the South East Region by 2027/28. 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, as outlined in Figure 1.



An even likelier scenario would see a purchaser “hedging their bets” by selling a proportion of logs into non-Green Triangle markets. One scenario is that the purchaser could segregate logs, with lower quality logs being retained for regional processing and higher graded logs sold on

export markets. Export markets for higher quality logs, primarily driven by China, are currently very attractive to sellers with available logs. Under this scenario, if contracts are not renewed, there is the potential by 2020/21 for around 40 per cent of logs from FSA's softwood estate to be exported reducing wood based manufacturing jobs in South East area. A 40 per cent reduction in logs available for local processing would reduce by 2020/21 direct log processing employment (in sawmills and other wood engineering plants) by around 920 jobs (from 2011 levels) increasing to 1,350 jobs when flow-on impacts to employment in South East region are taken into account.

In addition, 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 the implementation of such a marketing scenario will not only reduce the number of processing industries but also change and rationalise the mixture of small and medium size processing facilities.

e) Any other related matters

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 approximately \$44m was paid by FSA 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. The City of Mount Gambier is strongly of the view that the combination of strong revenue streams from FSA to SA Government and commitment to regional processing and jobs provides strong foundation for continuation of current ownership arrangements for FSA. The current system has stood the test of time and has succeeded in producing both wealth and prosperity for our State and our region.

Rather than asset stripping this valuable, community-owned resource, government should be reinvesting in - and expanding - the forestry estate in order to secure employment and attract investment. New owners of failed MIS companies are forecasting that significant areas (around 30%) of land currently in hardwood plantations will be transferred to different land uses, and there is scope to increase the land allocated to pine plantations. We need long term contracts for good quality logs which will lead to further investment by private companies with state of the art modern sawmills to produce quality value added products for the Australian and overseas markets.

The region is already reeling from the recent closure of the two oldest tissue machines at Kimberly-Clark Australia's Millicent Mill, leading to the loss of an estimated 170 permanent jobs. The continued high level of the Australian dollar, difficulty in maintaining a "level playing field" in the tissue market with dumped product and escalating energy prices in Australia have all contributed to a rapidly deteriorating environment for commodity pulp and tissue manufacture. The Tantanoola Pulp Mill has also been placed on the market, and will close at the end of the year if a buyer cannot be found, leading to a further 65 job losses.

The role and value of the carbon assets embedded in FSA plantations could play a significant role in the Nation's evolving carbon management structure. If the proposed sale proceeds, opportunities in emerging carbon trading and bio-energy markets could be lost.

In addition, the absence of a prescribed sale model from the South Australian Government continues to leave the South East vulnerable in the following arenas:

- Water policy and the impact of water licensing on existing and expanding plantations
- Liabilities associated with fire and the cost of re-establishing forests and covering losses

Conclusion:

The City of Mount Gambier remains fully opposed to the forward sale for Forestry SA harvesting rights. This is a critical situation that will have a significant and irreversible consequence on our region and beyond if the State Government proceeds with this sale.

Yours sincerely



Steve PERRYMAN
MAYOR

Reference: 311/1/1
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