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Committee Secretariat
Standing Committee on Agriculture and Water Resources
Timber Supply Chain Constraints
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CANBERRA
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OneFortyOne Submission to the House of Representatives Standing Committee on Agriculture and Water Resources. Inquiry into the Timber Supply Chain Constraints in the Australian Plantation Sector.

Thank you for the opportunity to provide a submission to the inquiry into the timber supply chain constraints in the Australian Plantation sector.

OneFortyOne is a vertically integrated, trans-Tasman business with forests and sawmills in Australia and New Zealand. We are majority owned by Australian superannuation and sovereign wealth funds. In the Green Triangle¹, we operate and manage 82,000 hectares (ha) of plantation area with most of our forests subject to a 105-year lease with the South Australian Government. We also own the Jubilee sawmill, one of the largest sawmills in Australia and the largest private employer in Mt Gambier. We are one of several forest owners and managers in the Green Triangle (GT) region.

OneFortyOne is a member of the South Australian Forest Industry Advisory Council, the Green Triangle Forest Industries Hub, the Australian Forest Products Association and is invested in the successful establishment of the South Australian Forest Products Association. We believe in a united industry that works together to promote and advance the forestry and timber sectors.

We welcome this inquiry as an opportunity to preserve and enhance the future of forest and timber industries in Australia. Our industry is a sustainable and carbon positive industry, producing high quality products used daily by every Australian whilst sequestering carbon.

The forest industry, an economic pillar of the Green Triangle region, annually generates \$1.5 billion in economic output (7% of the region's total economic output) and supports over 7,000 jobs. The COVID-19 pandemic has highlighted just how important the sector is, producing essential products whilst supporting regional communities during tough financial times and supporting economic recovery.

Our submission highlights the importance of domestic processing and finding innovative solutions to ensuring the future of this manufacturing industry.

As a vertically integrated business, the growth of the domestic processing industry is a fundamental cornerstone of OneFortyOne's business strategy. It is OneFortyOne's preference to process more wood

¹ The Green Triangle spans the border between Victoria and South Australia from the council areas of Colac Otway in the east, West Wimmera in the north and Robe in the west. It has some of Australia's best climate, topography and accessibility for plantations and wood fibre processing. It comprises 17 percent of the nation's total plantation area, currently generating \$1.5 billion in economic output, and directly employs 3000 local workers and indirectly supports the jobs of another 4000 across the region.

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fibre in Australia. However, the domestic market does not always have the capacity to process all the wood fibre that is available.

Therefore, export channels are vital to the longevity of Australian forestry. Not only does export support jobs throughout the entire supply chain, but it provides certainty and relief in domestic market downturns or when there is a surge in production to salvage logs from bushfire-affected areas in the limited window available to complete this task.

To support the industry, from growers and domestic processors through to the contractors, mill workers and seedling planters, we encourage National and State governments to devote themselves to implementing the National Forest Industries Plan *Growing a better Australia: A billion trees for jobs and growth*. The industry can only hope to meet expected future increased demand for forest products if more trees are planted. Without extra trees in the ground, Australia will need to import these products.

In addition to planting more trees, governments must support trees that are already in the ground and plantation areas that needs to be replanted. This can be done by ensuring the industry has access to water so that trees can grow, and that the industry has the resources it needs to protect assets from fire.

Finally, ongoing investment in research and development in forest industries is critical. In Australia, funding for research and development in forest industries has fallen from around \$104 million in 2008 to less than \$20 million in 2019. Associated with this decrease has been a decline in the number of researchers, technical and support staff. Research helps the industry breed resilient tree stock, develop new products, protect assets from fire and ensures water use is measured correctly. Without supporting our scientists, we are at risk of lagging behind our international competitors.

We are excited for Australia's forestry future and look forward to working in collaboration with industry and government to achieve our goals.

I'd welcome the opportunity to discuss this submission.

Yours sincerely,

Cameron MacDonald
Executive General Manager – Australia
OneFortyOne

1. Introduction

- 1.1. OneFortyOne prioritises domestic customers and approximately 80% of our harvest is sold and processed domestically.
- 1.2. Export, as it does for other primary industries, has a legitimate role to play in business. An export market helps balance cyclical downturns in domestic markets, diversifies customer opportunities, supports the full timber supply chain, offers alternative markets for products that are not in demand from our domestic customers and offers a channel for salvage from fire or pests, as well as securing ongoing job opportunities.

2. Prioritisation of Domestic Markets

- 2.1. Domestic first is our preferred method of business. We are focused on ensuring we have a diverse and sustainable customer base within the Green Triangle region. It is commercially prudent to have such a strategy in place as it not only reduces our customer concentration risk, but we can also ensure there is a customer for every part of each tree we harvest.
- 2.2. OneFortyOne is a member of the Green Triangle Forest Industries Hub (GTFIH). All members of the GTFIH have committed to prioritising domestic processing.
- 2.3. Due to technology developments and upgrades we have enhanced our ability to recover more wood fibre to minimise waste. Domestic processors are looking for ways to utilise wood fibre that has to date been unsuitable for domestic processing. We regularly connect with our domestic customers to understand their future fibre needs.
- 2.4. We understand that there are new entrants to the Green Triangle domestic market who are seeking differing fibre requirements to existing customers – new entrants with innovative approaches to wood fibre use would bring investment to the region.
- 2.5. Most of our harvested product is sold through direct, bilateral negotiations with Green Triangle domestic processors.
- 2.6. Only volume that is not taken up by our domestic customers is made available to the export market. While our negotiations are conducted commercial-in-confidence we have offered all customers, past and present to visit our facilities, including the export operation.
- 2.7. We will continue to meet the rising domestic demand without compromising the long-term sustainability of our forests.

3. Export has a role to play

- 3.1. Our vertically integrated business model gives us insight into markets for logs, processed timber and sawmill chips – a significant product generated when round logs are converted into timber. More than 60% of the chips produced from the sawmills in the Green Triangle are exported to pulp and producers in Asia. Without access to this market the sawmills would have to close.
- 3.2. The majority of pulplog was once processed into tissue products by the Kimberley-Clark pulpmill and posts were also recovered from the straighter pulplogs for use in fencing and vineyards. As a result of the Kimberley-Clark mill closure in 2011 all major growers including OneFortyOne, sought

new markets, including export, to address the backlog of forest thinning. This product would have otherwise been left to rot on the forest floor resulting in increased risk of fire, pests and tree diseases.

- 3.3. Recognising the desire to domestically process the available resources, the Association of Green Triangle Growers (AGTG) was formed by the six major Green Triangle forest growers in 2013 (and incorporated in South Australia in 2014) with its primary role to attract domestic and international candidate investors in fibre processing capacity (<https://www.agtg.asn.au/>) A pre-feasibility study conducted by AGTG assisted by Pöyry Management Consulting (Australia) Pty Ltd (Pöyry) addressed resource issues (descriptions, suitability and availability), markets (demand, trends and logistics) and investment cost competitiveness of potential processing options. Despite significant effort over a sustained period, the AGTG was unable to attract a new processor to the region to process low quality logs.
- 3.4. Export of wood fibre products supports a wide range of Australian jobs from harvest and haulage contractors through to port activities, and the ensuing processes including nurseries and the replanting and silvicultural treatment of harvested areas.
- 3.5. In the absence of an outlet to market low quality logs there would be a significant residue waste problem in the forest that has traditionally been burnt or left to rot. We are working towards a zero-burn objective to improve the sustainability of our operations. These residues are also a fire risk to plantations if they remain. Residue attracts insects such as borers that can then attack the standing trees.
- 3.6. As is the case for many Australian industries such as viticultural, agricultural and mining, export has a legitimate role to play in helping to diversify customer opportunities, offering alternative markets for products and secure jobs.
- 3.7. Export is a considerably smaller part of OneFortyOne's activity in comparison to domestic and in 2020 the main export product was a low quality pulplog. The majority of the pulplog we produce is harvested from smaller younger trees that result from forest thinning activity whereby the smaller trees are removed to make way for the growth of sawlog trees. Thinning improves the quality and quantity of sawlogs for domestic consumption. Thinning also improves overall forest health and reduces the fire risk across the estate.
- 3.8. Whilst our preference is to supply the domestic market, we must of course ensure we have active alternative markets during downturns in domestic market cycles. This provided continuity to our employees and our contractors who have invested significant capital in harvesting and transport equipment and employee hundreds of people. Export enables OneFortyOne to generate more work for the local harvest, transport haulage and export contractors, with more than 102 new local jobs created as a direct result of our export operations.
- 3.9. Historically there was an option for OneFortyOne to sell excess sawlog volumes that had not been taken up domestically due to customer operating constraints to export markets. In the last two years timber processors and manufacturers have made investments in their equipment resulting increased production capacity. This has enabled OneFortyOne to sell 100% of its sawlog product domestically since February 2018.
- 3.10. Export markets carry inherently greater risks than domestic markets, including geopolitical, market volatility, currency and shipping cost risks. OneFortyOne has purposely limited its exposure to

export markets due to the risks that these markets carry. Since it began its operations in the Green Triangle during 2012, OneFortyOne has increased the overall domestic customer volume by over 50%.

3.11. The total annual volume of sawlog fibre sold domestically by OneFortyOne has increased from approximately 850,000m³ in 2012 to 1.43 million m³ in 2019/20: a 168% increase.

4. An Industry Code of Conduct is Not Required

- 4.1. Mandatory industry codes are implemented by the Commonwealth Government in rare instances to address specific market failures for an entire industry.
- 4.2. The Commonwealth's power to mandate industry codes is designed to address market failures rather than interests of specific suppliers.
- 4.3. According to Treasury's *Industry Codes of Conduct – Policy Framework*,² the Government will only impose mandatory or voluntary codes in 'very limited circumstances' – 'when it is absolutely necessary for supporting the efficient operation of markets or the welfare of consumers. The Policy Framework notes that the 'high threshold is reflected in the limited number of codes that have been prescribed over the years'.
- 4.4. The Policy Framework notes that:
 - 4.4.1. While codes often arise in the context of an imbalance of power, they are not designed to protect smaller participants from competitive pressures that relate to bargaining power, access to markets or limited scale when purchasing. Codes should not be used to restrict competition or unduly interfere with the parties' freedom to contract. Rather, codes are intended to address conduct that goes beyond hard bargaining or vigorous competition, where inappropriate types and levels of costs and risks are being shifted by a stronger party onto a weaker party that are characteristic of market.
- 4.5. The Green Triangle forest industry does not suffer from market failure. An export channel is not a symptom or cause of market failure: there is an international dimension to timber demand. While there is a commitment to ensure and prioritise domestic supply, international demand creates incentives for domestic processors to run their operations efficiently and avoids subsidisation of inefficient mills – be that by government or Australian consumers.
- 4.6. No industry codes currently contain restrictions on export. Export restrictions are an extreme response and should only be considered in rare circumstances.
- 4.7. Further, industry codes do not typically stipulate the length of agreements between market participants.

5. Protections for Domestic Markets Exist

- 5.1. Where a market failure is identified, the primary purpose of an industry code is to improve transparency and certainty in commercial dealings, these mechanisms already exist.
- 5.2. OneFortyOne provides information to processors regarding the long-term availability of fibre through formal, transparent Expression of Interest process.

² <https://treasury.gov.au/sites/default/files/2019-03/p2017-t184652-5.pdf>.

- 5.3. Commercial contracts between growers and processors already contain dispute resolution mechanisms to address any contracting concerns.
- 5.4. Processors have existing contractual protections that compensate them for quality discrepancies.
- 5.5. Forest growers already seek to meet the requirements of their customers (processors) in terms of product specification.

6. Supporting Industry Growth, its Future and Ongoing Supply of the Ultimate Renewable

- 6.1. The Green Triangle supports a world class forest industry that contributes significantly to Australia's economic activity and is the bedrock of the region. It is a mature, stable and strong industry, utilising the ultimate renewable asset: wood fibre. All wood fibre produced in the region comes from plantations; a crop that was intentionally planted.
- 6.2. The current pandemic has highlighted the essential nature of forest and timber industries. Not only does the industry supply the daily needs of people, but it supports the construction industry and thousands of jobs across the full supply chain.
- 6.3. However, forecasts indicate a growing deficit of wood for Australia, with future demand for local wood and fibre outstripping local supply.³ Forest and timber industries have the expertise, desire and capability to grow and meet Australia's growing wood fibre need. It is constrained however, by various barriers. Urgent policy action is required to support new plantings of the right trees in the right places.

7. Water Policy

- 7.1. Water access is the single biggest impediment to the supply chain in the Green Triangle region. Under current South Australian water allocation limits, there may be a loss of more than 25,000 hectares of plantation area in South Australian portion of the Green Triangle.
- 7.2. We believe that the policy that determines how this resource is equitably shared amongst all users must be based on robust, peer reviewed scientific findings that rely on the most current data available.
- 7.3. There is a risk that the forest industry will be required to absorb water allocation reductions based on data that is outdated at a time when economic productivity has never been more important.
- 7.4. Policy outcomes must be based on sound science and there is an opportunity to incorporate the most up to date science into the 2023 review of the *Water Allocation Plan for the Lower Limestone Coast Prescribed Wells Area* (South Australia) and make water allocation decisions based on those findings.
- 7.5. Without adjustments to regulatory conditions and the way water use is calculated and managed in South Australia, growth and future investment will be inherently limited. Without action there will

³ Whittle, L., Lock, P. & Hug, B. (2019) *Economic potential for new plantation establishments in Australia: Outlook to 2050*. ABARES, Australian Government.

be an overall reduction in the national plantation estate by 2050,⁴ having profound implications upstream and downstream of the industry, and for the broader Australian community.

- 7.6. We welcome Commonwealth and State government commitment to future research initiatives including additional groundwater monitoring, subregional models and additional Ground Water Dependent monitoring.

8. Freight Infrastructure

- 8.1. Forest and timber industries rely on road freight to move product from forests to processors (i.e. mills, ports) and through to customers (timber wholesalers, frame and truss manufacturers) in the major metropolitan markets of Adelaide, Melbourne, and Sydney and their growing satellites.
- 8.2. The safest and most cost-effective way to transport both logs and finished timber, is via high productivity vehicles [i.e. A-double trucks]. They have a higher pay load, better turning circle, while maintaining the same axle loads as B-double trucks. Consequently, there are less truck movements required to deliver products, reducing the number of interactions with other road users, less diesel burn (better for the environment) and less road damage.
- 8.3. There are significant obstacles and cost associated with gaining approval to use high productivity vehicles. The process to gain approval for A-doubles are different in the Victoria and South Australia resulting in significant delays.
- 8.4. OneFortyOne is conducting research to make recommendations on an A-Double transition plan that identifies productivity and efficiency gains, reductions in our carbon footprint and opportunities to maximise safety for road users.
- 8.5. The Green Triangle Region Freight Action Plan Committee (the Committee) is composed of representatives of the forest industries, local councils and representatives of both South Australian and Victorian government officials.
- 8.6. The purpose of the Committee is to bring together key stakeholders to address regulatory, efficiency and infrastructure barriers to freight movement in the region.
- 8.7. The Committee has characterised the A-Double Project (the Project) as a key priority. The Project identifies the key issues the region's timber and haulage industries are experiencing with the heavy vehicle approval process via the Victorian Department of Transport and the National Heavy Vehicle Regulator. This includes A-Doubles unable to access key routes into Victoria's Green Triangle Region from South Australia because of load limits on certain road structures and the length of time and the cost in obtaining consent.
- 8.8. The objectives of the Project are:
 - A-Double at maximum weight (85.5 tonne) having pre-approved / permitted route access into (from SA) and within western Victoria to Portland, Colac and Geelong.

⁴ Whittle, L., Lock, P. & Hug, B. (2019) *Economic potential for new plantation establishments in Australia: Outlook to 2050*. ABARES, Australian Government.

- Upgrade road and bridge infrastructure to allow the broadest spectrum of vehicle design to access key locations i.e. Princes Hwy to Colac.
- Clarification on the pre-approved vehicle designs and that the vehicle designs match / suit the vehicles used within the industry.
- Reduce the costs, time, and complexity associated with accessing permits.

8.9. The productivity of the industry would benefit from government commitment to improving freight infrastructure as well as government support for the Green Triangle Region Freight Action Plan. The Action Plan update indicates that \$180 million is required to make the freight network fit for purpose over the next decade.

9. Research, Innovation, and the Uptake of New Technologies

9.1. OneFortyOne is keenly interested in innovation and the uptake of new technologies as the opportunity of new markets provides security and growth for our business.

9.2. From a timber processing perspective, we are investing in artificial intelligence and Deep Learning vision technology. Investing in this advanced technology increases our ability to extract the maximum value of our fibre, ensuring that we reduce fibre waste as much as possible and meet the growing needs of our customers. Robotics, data sharing and high automation (for example, technology systems that can make decisions based on vision) are fast growing areas for development.

9.3. From a forest management perspective OneFortyOne has identified the following priority areas:

9.3.1. Tree breeding – continued research into understanding the genetic make-up of pine species so that productivity can be maximised across the estate.

9.3.2. Aerial surveillance (low level satellite / drones): above and beneath canopy. Undertaking seedling survival audits, under canopy inventory/plot measurement, tree selection optimisation when thinning, tree stress and disease detection, continuous mapping to detect change.

9.3.3. In forest log quality scanning: fit biometric detection technology to harvesting machinery to enable scanning of a tree before cutting decisions are made.

9.3.4. Log density mapping of trees and stands: improve product intelligence and better target customer with fit for purpose products.

9.3.5. Autonomous or semi-autonomous harvesting vehicles: less machine operators (currently hard to find), reduce operator fatigue, improve productivity (operate machines 24 hours a day), improved safety outcomes.

9.3.6. Central processing: sorting, debark, and optimise each tree to maximise each tree potential, improve capture of best stem for higher end use.

9.4. Government ongoing contribution for research and development is critical – discovering new uses for wood fibre ensures that the valuable resource is not wasted, and maximum value can be extracted. Furthermore, ensuring future generations have the interest, skills and expertise to grow the forest and timber industries is important to safeguard the industry.

9.5. Government commitment and funding to the National Institute for Forest Products Innovation (Mount Gambier) for industry research and development is vital. Key areas include water use and new generation value-added products such as biomaterials, biochemicals and bioenergy from Australian renewable wood fibre.⁵

10. Commitment to Fire Prevention

- 10.1. A key danger for all plantations and therefore the security of domestic processing is the increased risk of fire with the longer, drier and warmer summers.
- 10.2. OneFortyOne is committed to fire management in the Green Triangle and during the 2019/2020 season we provided support to New South Wales to help fight the catastrophic fires in that state. We train our forestry personnel in fire management and suppression techniques in the lead up to and throughout the fire season. Over the 2019/2020 season we completed 2,189 hours of fire training. We own and operate a fleet of dedicated fire tankers and bulk water carriers for the ground level response.
- 10.3. In South Australia and Victoria our efforts are very much enhanced through the collaborations of the forest industry as well as the Country Fire Service (CFS) in South Australia and the Country Fire Authority (CFA) in Victoria.
- 10.4. Whilst current collaborative efforts are positive, there are additional opportunities for cooperation between State Governments, local council, crime prevention and the forest and agricultural industries.
- 10.5. Forest growers across the Green Triangle support each other and have a significant number of resources including 29, 3,000 litre water tankers and 31 quick response vehicles.
- 10.6. A combination of spotter planes and tower networks are used for early fire detection so we can respond rapidly as soon as a blaze is detected.
- 10.7. The Green Triangle has been well served by a network of fire towers that are strategically located across the landscape to quickly detect fires and enable a swift response. On the South Australian side of the border, the fire tower network has been maintained and operated by ForestrySA for many years. Unfortunately, in recent years the condition of these towers has deteriorated to the extent that, in the current season, two (out of seven) of the towers have been closed due to safety reasons.
- 10.8. This places an unreasonable level of risk on the local community with an inferior level of fire detection. State Government must prioritise funding to upgrade all towers to an acceptable standard and reinstate a reasonable level of fire detection.

⁵ Such as new food packaging; new bio textiles and fabrics used in cars and for clothing; new biochemical compounds for use as adhesives, detergents, cosmetics; and new high-performance biomaterials (e.g. nano-cellulose) used in aircraft and many other uses.

- 10.9. In the longer term, government should continue to contribute into research into new technologies to enhance fire detection.
- 10.10 The Green Triangle forest industry has addressed the increased risk of ignition on high fire danger days with the implementation of closures to forest operations that is commensurate with the fire danger level. However, risks outside of the industry persist.
- 10.10. OneFortyOne advocates for the implementation of consistent restrictions on all activities during Total Fire Ban periods across all land tenures. There have been many incidents of ignitions in the Green Triangle that have occurred due to adjacent landholders conducting activities on high fire danger days. An example of restrictions that need strengthening include use of agricultural machinery.
- 10.11. We ask that governments invite the forest industry to share our protocols with stakeholders to facilitate awareness and understanding of these in relevant networks. Increased uptake of these protocols will reduce the risk of catastrophic fire caused by human error.

Once again, thank you for the opportunity to contribute to this discussion. I would welcome the opportunity to speak to this submission.

Yours sincerely,



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