

The Hon. Jack Snelling M.P.



Government
of South Australia

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21 December, 2011

Mr Trevor Smith
Chair
South East Forestry Industry Roundtable
10 Wentworth Place
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Commercial in Confidence

Dear Mr Smith

Thank you for your letter of 17 October, 2011, providing a more detailed outline of the core conditions and other matters that you and the South East Forestry Industry Roundtable (S.E.F.I.R.) would like to be considered in regard to the proposed conditions of sale of the plantation estate.

As to my letter to the S.E.F.I.R. on the 10 November, 2011, the Government released the Request for Expression of Interest and potential bidders have until 31 January, 2012 to register their interests.

I very much appreciate the time and effort devoted by the S.E.F.I.R. to assist me with the sale of the ForestrySA forward rotations. The S.E.F.I.R.'s ongoing support of the Forest & Forest Products (F&FP) Industry, and its particular focus on the interests of the South East F&FP Industry, are welcomed.

In providing a comprehensive response to the matters raised in your letter, my key purpose is to address the core conditions to secure the long-term viability of South Australia's F&FP Industry, as outlined in the S.E.F.I.R.'s terms of reference. Those conditions will be reflected in the sale contract and will be based as far as possible on current and proposed ForestrySA practice.

In framing this response, I am mindful that these conditions will apply over a very long period in which many priorities could change. In this context, if the conditions put on the purchaser are too rigid, such that they are unable to respond to commercial and silvicultural challenges, then the F&FP Industry in the South East might be disadvantaged. The contract with the purchaser needs to be flexible enough to take account of industry requirements and future changes. I believe such flexibility is of benefit to both the Industry and the State.

Maintaining Target Rotation Lengths

The intent of this condition is to ensure the integrity of the standard of forest product coming out of the region by requiring the Purchaser to agree to target rotation lengths consistent with the current and planned ForestrySA standard.

Consistent with Forestry SA's current and planned target rotation lengths, the contract will specifically provide that the Purchaser will maintain target rotation lengths for Radiata pine of an area

weighted average clearfall age of not less than 30 years. This reflects the falling trend in ForestrySA's rotation lengths over many decades. Over the last fifteen years ForestrySA's average rotation length has declined from 47 years to its current area weighted average of between 32 to 35 years. ForestrySA's area weighted average rotation length is projected to fall to 30 years during the life of the first rotation to be sold.

The contract will contain commercial terms around these conditions to ensure they remain appropriate throughout the lease period.

Additionally, other terms of the sale will ensure the plantation is managed in a sustainable manner, specifically:

- The plantation manager will be required to have internationally recognised forest management accreditation.
- There will be an obligation placed on the owner of the cutting rights to ensure that the estate is used for forestry and that the land is returned to the State in a satisfactory condition. A financial sanctions regime will be put in place to ensure compliance.
- There will be annual reporting requirements to ensure the terms of the agreement are being complied with.
- The state will have the right to terminate the agreement in event of major default.

The S.E.F.I.R.'s concerns about long-term wood quality will be adequately covered by the contractual requirement for the Purchaser to maintain target rotation lengths.

The obligation to use the land for forestry, together with a contractual obligation to hand back the estate at the end of the lease's term, will address the long-term maintenance of the forestry estate.

The quality of silviculture practices will be safeguarded through a combination of contractual requirements on the Purchaser to maintain rotation lengths, having an internationally recognised, third party audited forest management certification and to use the land for forestry. Within that framework, more specific silvicultural practices will be determined by the Purchaser as dictated by customer demand and advances in forestry practices.

Matching Current Level of Planned Viable Domestic Supply

The intent of this condition is to support a future local F&FP Industry by requiring the Purchaser to agree to match ForestrySA's current level of planned viable domestic supply.

In order to safeguard domestic supply, the contract will specifically provide that the Purchaser will offer sawlog for sale to domestic and international customers pursuant to a competitive, open market tender process. Appropriate controls will be put on the terms of the contracts for export customers. Historically, export contracts have had short terms.

To further safeguard the local industry, the contract will not interfere with the Purchaser's ability to continue to supply sawlog to domestic customers under sawlog sale contracts in existence as at the time of the sale (including any extensions of those contracts) or through bilateral negotiations.

The contract will contain commercial terms around these conditions to ensure they remain appropriate throughout the lease period.

In response to your comments about production volume and price, I confirm again that all existing ForestrySA contractual obligations will be honoured, with contractors offered novations to the Purchaser on the same terms and conditions as their existing contracts, including price.

While the sale of sawlog volumes coming off contract will be a commercial matter for the Purchaser, the domestic supply safeguards the Government proposes for the contract will ensure that the domestic industry will have access to sawlog. Specifying volume percentages and product specifications beyond this is not considered appropriate because of the variable nature of demand for product and the need for flexibility in commercial responses to such challenges by the Purchaser.

Broader issues about the expansion of radiata estates in the South East are important issues for consideration by the S.E.F.I.R. in its other role of identifying challenges facing the industry and I would welcome you addressing these on a whole of industry basis.

Sawlog Contract Extensions of up to 5 Years

The intention of the Government is to provide sawmill owners who have existing sawlog supply contracts with ForestrySA an option to extend their current contracts by up to a further five years.

As you are aware, ForestrySA is currently negotiating with bidders for a significant volume of log tendered in a Request for Proposal (R.F.P.). The R.F.P. will need to be taken into account as availability of sawlog may limit the extension being offered for a full five years on all contracts with all current customers.

The offer of contract extensions must be a sensible proposition for both parties. For example, it would not be feasible for the Government to offer extensions in cases where sawlog of certain sizes would not be available at current volumes in future. The Government understands that customers are aware of the future sawlog that will be available and have planned accordingly.

In offering extensions, the Government will take into account a range of issues, for example the size of customers and the potential impacts on their operations.

Contracts currently under negotiation would not be extended.

I would consider the proposal for all new supply agreements to have a minimum term of twenty years only if this were necessary for industry development purposes. The S.E.F.I.R.'s future advice on addressing forest industry challenges could expand on this.

The contract with the new owner of the forward rotations will specifically provide that Deeds of Novation and Extension will be entered into to transition existing sawlog contracts from ForestrySA to the Purchaser on the same terms and conditions as in the current contracts. Those Deeds of Novation and Extension will take effect on and from the time of sale. The extensions, subject to availability of sawlog, will be included in the Deeds.

Other Commercial and Operational Issues

Your letter covers a number of matters that are not strictly within the ambit of the core conditions discussed above. I will, however, address them as far as possible.

Competitive Neutrality

As a general principle the Purchaser will be subject to the same regulatory environment as its private sector counterparts.

Corporate Governance and Compliance

The contract will contain comprehensive breach provisions. The contract will set out how breaches are to be resolved (a cure regime). There will be step in rights for the Government and financial consequences in the event of default as well as termination rights in certain cases of critical breach.

Additionally, a comprehensive reporting and compliance regime will be included in the contract to ensure adherence to the contract terms.

Research & Development and Regional Investment

I can confirm that the Government remains committed to research and development and to regional investment across the State. The Government is actively considering measures to further enhance these priorities.

Water Rights

Under the contract the State will retain ownership of water rights with annual costs to be passed through to the Purchaser. Where water rights are no longer available, the contract will contain a mechanism for the early return of the land to the State.

Carbon Rights

The State will retain carbon rights. The contract will contain an obligation on the Purchaser directed to the management of the plantation in a manner that optimises carbon benefits. In relation to carbon rights there will be no greater risk to the Government under the contract than currently.

Fire Protection

There will be no reduction in the levels of fire protection currently provided by ForestrySA in the Green Triangle.

Currently there is a high standard of fire protection with ForestrySA. The Purchaser will be contractually obliged to fund the specific fire management costs that would be expected to be borne by a private plantation estate in the region. The provision of additional fire services over and above private land owner obligations will continue. This additional fire service will be funded by the Government through community service obligation payments.

Next steps

The next step of the sale process is to provide an Information Memorandum in order to short list potential bidders and to provide them with conditions of sale. The contract clauses to be included in the Information Memorandum provided to short listed bidders will be based on the conditions outlined in this letter.

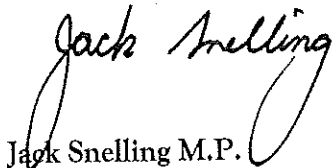
If there are any significant departures from the conditions in the course of the negotiation with bidders, these will be provided to the S.E.F.I.R. for review and for advice to be provided to me.

My response to a question from Don Pegler M.P., the Member for Mount Gambier in Parliament on 23 November, 2011 was that I intended to make public the S.E.F.I.R.'s recommendations and my responses to those recommendations at the Information Memorandum stage of the process.

In line with the terms of reference, the S.E.F.I.R. will also have the opportunity to review the final negotiated conditions and again to provide advice to me.

I thank you again for your ongoing support of the F&FP Industry in South Australia.

Yours sincerely

A handwritten signature in cursive script that reads "Jack Snelling". The signature is written in black ink and is positioned above the printed name and title.

Jack Snelling M.P.
Treasurer