REGIONAL IMPACT STATEMENT SUMMARY

Government of South Australia
Department of Treasury and Finance

1. The proposed forward sale of ForestrySA's Forest Rotations

In summary, the Government's proposal is that a third party would take commercial control of up to three forward rotations of the softwood plantations in the South East of South Australia. The successful purchaser would be subject to a replant obligation and honour all existing log supply contracts. ForestrySA would retain operational control of the forest under a contract to the successful purchaser in the first instance, although this contract would be subject to periodic benchmarking, so that arrangement may change over time.

Forestry SA would continue to own and manage the forestry estate in the Mount Lofty Ranges and Mid North Region and continue to provide a range of environmental and research functions, funded through community service obligation payments from the South Australian Government.

2. Issue

Regardless of whether the proposed forward sale of forest rotations proceeds, there are several commercial challenges facing the Australian timber industry. These challenges are independent of the proposed forward sale of forest rotations.

The Regional Impact Statement (RIS) investigates what, if any, are the potential economic impacts of the sale of up to three rotations on the regional South East Economy. It is assumed that any social impacts will flow from any identified economic impacts of the proposal.

This issue is discussed in section 2 of the RIS report.

3. Regions

In South Australia, there are plantation forests in three main regions, the Mid-North, the Mt Lofty Ranges and the lower South East. The vast majority of the estate is softwood and the majority of this is located in the lower South East of the State, near Mt Gambier, South Australia's second largest city. The region that would be affected by the proposed sale is essentially the local government areas of the District Councils of Grant and Wattle Range and the City of Mt Gambier.

The region in question is discussed in more detail in section 8 of the RIS report.

4. Interested Parties

The forestry and forest product industries are important contributors to the regional economy with the forest product industries featuring within the top ten contributors to Gross Regional

Product for the Wattle Range, Grant and Mt Gambier local government areas. A significant share of businesses in each region is based in the agriculture, forestry and fishing industries.

Given the role played by the forestry industry in these regions, interested parties in the proposed forward sale of forest rotations include a cross section of the community.

5. Consulted

A list of people consulted in the preparation of this assessment is at appendix B to the RIS report.

6. Consultation

Consultants ACIL Tasman were engaged to conduct a targeted consultation process to assist in preparing this RIS. They visited the lower South East region on several occasions in the first quarter of 2011 and met personally with all but one interested parties listed in *appendix B* to the RIS report. In addition, interested parties were also invited to provide further information that they considered relevant to the process.

The result of the community consultation was a sound understanding of the community's concerns in relation to the proposed forward sale of forest rotations.

These concerns are summarised in section 4 of the RIS report.

7. Summary of Impacts and Analysis

The RIS investigates what, if any, are the potential economic impacts of the sale of up to three rotations on the regional South East economy. It is assumed that any social impacts will flow from any identified economic impacts of the proposal.

ACIL Tasman found that the proposed forward sale of forest rotations is unlikely to have a significant economic impact on the region. Therefore, there are unlikely to be significant flow on social impacts. Environmental impacts of any significance were also considered as unlikely.

Regardless of whether the proposed sale of forest rotations proceeds, there are many of challenges facing the timber industry. Highly competitive imports of structural grade timber from Europe are increasing, in part due to the strength of the Australian dollar. To remain competitive, the South East region's mills need to continue to become more efficient and increase their scale, which may require the planting of more trees.

These challenges are independent of the proposed forward sale of forest rotations.

ACIL Tasman has found no evidence to suggest that public ownership of the plantations has been, or could be, effective in shielding the industry from the global challenges it faces. If ForestrySA were to provide short-term assistance to existing timber mills by lowering the price of log contracts, this would be to the detriment of the industry as a whole as it creates disincentives for others to invest in the timber industry in the region.

7.1. Economic Factors

The largest source of potential economic impact is that the successful purchaser would export a significant quantity of log. If in fact a large quantity of log was exported, the impact on the local processing industry would be significant.

However, ForestrySA is already exporting sawlog and based on ACIL Tasman's analysis, it is unlikely that a significant additional quantity of sawlog would be exported as a result of a change in the ownership of the rotations.

The analysis underpinning this conclusion can be found in sections 7, 8 and 9 of the RIS report.

7.2. Social Factors

Given that there are unlikely to be significant economic impacts from the proposed forward sale of forest rotations, ACIL Tasman does not expect the social impacts to be significant. In addition ACIL Tasman notes that, under the Government's proposal, the successful purchaser would be bound to provide ongoing access to the forest estate for recreational use.

In fact, it is likely the speculation about the proposed forward sale of forest rotations, based on improbable export log volumes, has had a more detrimental social impact on the region than the sale itself is likely to have.

The analysis underpinning this conclusion can be found in section 9 of the RIS report.

7.3. Environmental Factors

In relation to the environmental impact of the sale, local communities are mostly concerned with the issue of bush fire protection, plantation effects on water resources and continued management of native forests for biodiversity.

Experience of other forestry sales indicates that it is highly likely that the successful purchaser will continue to obtain or maintain all forestry plantation environmental management standards, and it is likely that this will be required as part of the proposed forward forest rotations sale terms.

ForestrySA has the largest fire fighting capacity in the region, which is well above that provided by other forest growers, including significant contributions to the region's aerial detection efforts.

No evidence was provided to ACIL Tasman during their consultations that the additional fire fighting capacity provided by ForestrySA is warranted. However, regional communities are concerned that this strong fire fighting capacity will be lost by the proposed forward sale of forest rotations.

If the SA Government deemed that the additional fire protection resources currently provided by ForestrySA are warranted, it could continue to contract these services directly with ForestrySA or local fire brigades.

The analysis underpinning this conclusion can be found in section 9 of the RIS report.