

Sale of ForestrySA's forward rotations in the South Australia Government's Green Triangle plantation estates

Questions and Answers

Process for the sale of Forest Forward Rotations

1. *What progress has occurred to date with the sale of the forest forward rotation?*

- The first stage, being the call for Expressions of Interest (EOI) closed on 31 January 2012.
- The EOI was open to all parties and made available via the SA Tenders website.
- The current stage of the sale process is to release a Request for Indicative Bids to successful EOI respondents.
- Successful EOI respondents will receive further details of the sale, including the conditions of sale, through an Information Memorandum. The Information Memorandum is part of the Request for Indicative Bids.
- When received, indicative bids will be reviewed to finalise the short listing of final bidder(s).
- The final bidders will then be able to determine their binding bid(s) and submit an offer for final negotiation.
- The Government will approve acceptance of the final bid for the sale.

2. *What is the Information Memorandum and can anyone get a copy of it?*

- The Information Memorandum is a marketing sale document which includes commercial details on the sale assets as well as the Government conditions of sale.
- The document is commercially confidential and only available to successful EOI respondents.

Conditions of Sale

3. *What did the Government do before it made the decision last year to sell the forward rotations?*

- Government approved the forward sale of forest rotations on 3 May, 2011 after a Regional Impact Statement prepared by an independent external consultant concluded that it would have no significant economic, social or environmental impact.
- A comparison between the value of future income streams from the current ForestrySA (FSA) business and the likely proceeds from divestment was made prior to the final decision.

- In determining an appropriate reserve price, a discounted cash flow valuation method has been used. This involved projecting the cash flows of the FSA business and discounting them to a present value.
- The State will set a reserve price which will be informed by the value to the State if the cutting rights were retained. If the reserve price is not exceeded, the cutting rights will not be sold.
- The Government put in place specific conditions so that the South-East community could be confident their important timber industry has a long-term future.

4. *What did the Government commit to on 3 May, 2011 ?*

- The Government agreed to:
 - Establish a South-East Forestry Industry Roundtable to be chaired by former Construction, Forestry, Mining and Energy Union National President, Trevor Smith, and other key interested parties. This was to provide recommendations to Government on the conditions of any forward sale before going to market and the long-term viability of South Australia's timber industry;
 - Provide sawmill owners who have existing log supply contracts with ForestrySA an option to extend their current contracts by up to a further five years. This was to protect job security;
 - Ensure any sale condition includes the new purchaser agreeing to target rotation length consistent with the current and planned ForestrySA standard. This was to keep the integrity of the standard of forest product coming out of the region;
 - Ensure there is a commitment from the new purchaser to match ForestrySA's current level of planned viable domestic supply. This was to guarantee a future local timber industry; and
 - Create an obligation on the successful purchaser to report yearly to the Government. This was to ensure they are meeting the conditions of their purchase.
- The Government also committed to ensuring it retained ownership of the Green Triangle forest land as well as the water and carbon rights and that ForestrySA staff would continue to be employed by the Government.
- The Government stated that ForestrySA will be retained as the operational manager of the Green Triangle Estate. It will manage non-commercial parts of the estate and fulfill all community service obligations in addition to acting as forest manager for the new owner of the cutting rights.
- ForestrySA will manage the Estate for five years, with an option to renew for a second five year period.
- ForestrySA would continue to manage plantations in the Mid North and Mount Lofty Ranges.

5. *Who and what is the South East Forestry Industry Roundtable?*

- The South East Forestry Industry Roundtable comprises the following members:
 - **Trevor Smith (chair)** – former national secretary of the Construction, Forestry, Mining and Energy Union who has had involvement in the forestry industry over 35 years;
 - **Mark Braes** – chairperson of Regional Development Australia Limestone Coast and former Mayor and Councillor of the Wattle Range Council;

- **Matthew Brookes** – Southern Region Operations Manager of CarterHoltHarvey Woodproducts Australia with 26 years industry experience;
 - **Brad Coates** – Assistant Secretary of the Construction, Forestry, Mining and Energy Union South Australia branch with 15 years involvement in the union movement;
 - **Philip Lloyd** – chairperson of Green Triangle Regional Plantation Committee with tertiary qualifications in both forest science and business administration;
 - **Ian McDonnell** – CEO and part owner of N.F. McDonnell and Sons, a family owned sawmilling business that has been operating in the South East since 1944;
 - **Chris Peterson** – CEO of Gunns Timber Products based in Launceston with 35 years' experience in the timber industry; and
 - **Richard Sage** – chairman of the Forestry Stakeholder Group, Mayor of District Council of Grant.
- In addition to advising the Government on the conditions of any forward sale, the Roundtable will examine the broader issues facing the forestry industry in the South East and provide recommendations to the Treasurer and Minister for Forests.

Rotation length

6. What is a rotation length and why is it important?

- A rotation is the period of time between planting of a crop (in this case a Radiata pine plantation) and its final harvest.
- Specifying rotation length is important to ensure the integrity of the standard of forest product coming out of the plantations for the use of the Forest and Forest Products Industry.

7. What rotation length has the Government committed to?

- The purchaser will be required to achieve for the first rotation period an area weighted average clearfall age of between 32 and 35 years.
- After the first rotation period the purchaser can vary the rotation length but only after undertaking a consultative process with stakeholders.
- There maybe circumstances or events within the first rotation period where there will be an inability to comply with this condition; such examples could be natural disasters, pests, disease or current unknown circumstances.
- The purchaser will be permitted to ask to alter the rotation length requirement before the first rotation period in two circumstances. They are:
 - to prevent a substantial adverse impact on supply to a significant proportion of the domestic market as a result of significant changes in circumstances that currently apply; or
 - to meet supply commitments following a major disaster such as fire.
- The Government will need to be satisfied that these criteria are met before approving any such a change. In this event, the Government will seek advice on the change from a designated independent body (if one is in existence at the time).

Planned viable domestic supply

8. What is the planned viable domestic supply and why is it important?

- Planned viable domestic supply is the volume provided to existing domestic customers under medium to long term contracts plus any volume that was to be available for domestic customers through the Requests for Proposal of uncontracted sawlog recently sought by ForestrySA.
- The level of planned viable domestic supply is important to support a future local Forest and Forest Products Industry and the employment it generates.

9. What planned viable domestic supply has the Government committed to?

- The Government will require the new owner to be contractually obligated to a process to ensure the level of viable domestic supply.
- The process is that the purchaser may offer uncontracted sawlog that is in excess of planned viable domestic supply requirements for sale in a competitive open market tender process that incorporates domestic millers and exporters.
- There will be no restriction on the length of contract that can be proposed or negotiated by domestic millers.
- The purchaser will not be entitled to enter into any sawlog export contract with a term greater than two years, consistent with international trade obligations.
- The purchaser will continue to supply sawlog to domestic customers under existing or new sawlog sale contracts (including any extensions of those contracts), or spot sawlog sales.

Reporting

10. What will the Government make the purchaser commit to on reporting?

- The purchaser will be required to report annually to the Government or its designated independent body on various matters over the life of the transaction including certified information required to confirm compliance with the Government's conditions and other contractual and legal obligations, such as a summary of total production and total export and area weighted average rotation length.
- Reporting will also include changes to, and status of, the estate including summary details of resource planted, removed or harvested for the prior 12 months, timber and early age inventory class assessment and productivity measurements as well as breakdowns by market segment of log parcels offered for sale.
- There will be reporting requirements for an early age inventory and productivity indicator (for example, ForestrySA targets ages eight to ten years).

11. How will the Government make sure the purchaser does the things the contract says?

- Breaches of the contract by the purchaser will be addressed through the purchaser being required to correct the breach, or by the Government in certain circumstances using its step in rights, financial remedies and/or sanctions.

- For severe breaches, such as failing to use the estate for forestry purposes, the State can terminate the contract and take back control of the forests.

12. What if the purchaser isn't really a forest operator?

- The Government will require the purchaser to use or be a forest manager that holds an internationally recognised third party audited forest management accreditation.

Contract extension

13. What supply contracts have the Government extended?

- The Government's intention was to provide sawmill owners who have existing sawlog supply contract with ForestrySA, an option to extend their current contracts by up to a further five years.
- ForestrySA at this stage has not contacted its customers. At this point in time no contract extensions have been offered and this is still being reviewed.

14. What is the Government considering with the extension of contracts?

- Extension of all of ForestrySA's log supply contracts is practically and commercially difficult, for the following reasons:
 - ForestrySA is completing a Request for Proposal (RFP) for the supply of a large amount of sawlog for a number of years, which was put to the market before the divestment was announced. The successful conclusion of the RFP will reduce the overall availability of sawlog to meet contract extensions.
 - The availability of large diameter sawlog from the forest is reducing, meaning that extension of contracts for such sawlog beyond 2014-15 would not be possible.
 - A number of ForestrySA's customers already have long-dated contracts and further extension would provide limited benefit to the industry.
- After considering the above, ForestrySA has at this stage offered no contract extensions and this is still being reviewed.

Future of ForestrySA

15. What happens to ForestrySA, and its employees after the sale process is finalised?

- The sale of forward rotations in the Green Triangle plantation is not a privatisation of ForestrySA. The State is selling the right to harvest trees, known as cutting rights, for a period and only for the ForestrySA plantations in the Green Triangle. The land and other assets will remain in government ownership.
- ForestrySA will be retained as the operational manager of the Green Triangle Estate. It will manage non-commercial parts of the estate and fulfill all community service obligations in addition to acting as forest manager for the new owner of the cutting rights.
- ForestrySA will manage the Estate for five years, with an option to renew for a second five year period.
- ForestrySA will also continue to manage the following:
 - The existing softwood plantation operations in the Mt Lofty Ranges (9,300 ha net

planted area) and the Mid North Region (3,000 ha net planted area).

- The joint venture hardwood projects.
 - Green Triangle Treefarm Project for Nippon Paper.
 - Portland Treefarm Project for Mitsui.
 - 23,000 ha of native forest.
 - Community service functions, including fire management, public access and management of native forests.
- ForestrySA employees will remain employed by ForestrySA after the divestment, and they will continue to be public sector employees. Remaining as public sector employees means that ForestrySA staff remain employed on their current terms and conditions and that all employee obligations and liabilities remain with ForestrySA.

Sustainability

16. How will the Government ensure that the new owner does not strip the forest leaving no sustainable forestry industry in the region?

- Only credible parties with a proven track record of sustainable forest management will be eligible to participate in any potential divestment process.
- There is a long history of successful private sector plantation management and ownership in Australasia, including in the Green Triangle.
- The terms of the divestment will ensure the plantation is managed in a sustainable manner and at the end of each rotation period that it is in as good a condition as at the beginning; specifically:
 - The plantation manager will be required to have internationally recognised forest management accreditation.
 - There will be annual reporting requirements to ensure that the terms of the agreement are being complied with.
 - The State will have the right to terminate the agreement in event of severe default such as a failure to use the estate for forestry.
 - There will be a replant obligation placed on the new owner of the cutting rights to ensure that the estate is not just harvested and land left bare.

Fire protection

17. How will fire prevention and suppression be managed under the divestment structure?

- The Government will ensure that the current levels of community fire protection remain.
- The successful purchaser will be required to fund the specific fire management costs that would 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.
- ForestrySA, as the operational manager of the estate for at least the first five years, will

manage non-commercial parts of the estate and fulfill all community service obligations, which will include fire protection capabilities.

- Discussions and further investigations are being carried out at the moment to determine the best avenue for providing the current level of fire protection in the future, beyond five years.

Land, water and carbon

18. *Will the Government retain land, water allocation and carbon benefits?*

- The Government will retain ownership of the land, water and carbon rights.
- The State will retain rights to future carbon benefits while ensuring that the divestment does not expose the State to unacceptable risks or potential future liabilities.
- All water allocations will be retained by the State as land owner.
- The new owner will have the right to manage the Forward Rotations for commercial forestry purposes for a minimum of two rotations.
- The new owner will be required to use the land for forestry purposes only.