



Questions and Answers

Proposed Forward Sale of ForestrySA's Forest Rotations

Logic and Valuation

1. *What is the logic behind selling cutting rights (the divestment) and its economic rationale?*

- The purpose of the divestment is to reduce net debt to fund the State's infrastructure and meet the increased demand for our core public services, like doctors, nurses, police and teachers. Reducing the State's net debt will improve the long term sustainability of our finances, contribute to the retention of our triple A credit rating and reduce interest borrowings thereby helping our operating balance to fund future infrastructure and core public services.
- The economic rationale for the divestment was carefully assessed before the decision was made. 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.

2. *How has the Government valued the divestment and how will it ensure an appropriate divestment price is reached?*

- 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.

Structure of the Transaction

3. *Are the forests being privatised?*

- The divestment is not a privatisation of FSA. The State is selling the right to harvest trees, known as cutting rights, for a period and only for the FSA plantations in the Green Triangle.

- The Government is not exiting the forestry industry as FSA will be retained and will manage the Green Triangle Estate for five years with an option to renew for a second five year period.
- FSA will continue to manage the following:
 - i. 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);
 - ii. The joint venture hardwood projects:
 - iii. Green Triangle Treefarm Project for Nippon Paper;
 - iv. Portland Treefarm Project for Mitsui;
 - v. 23,000 ha of native forest; and
 - vi. Community service functions, including fire management, public access and management of native forests.
- FSA employees will remain employed by FSA after the divestment and will continue to be public sector employees. This ensures that all employees remain employed on their current terms and conditions and that all employee obligations and liabilities remain with FSA.

4. Is the land being sold?

- The State will retain ownership of the land within the plantation area.
- A Plantation Lease will be granted to the successful purchaser to cover the softwood plantation estates within the Green Triangle currently operated by FSA (Plantation Lease Area).

5. How will the divestment be structured?

- The divestment model includes divestment of 2 rotations of plantation harvest with the option for a third.

6. What will happen to existing customer and supplier contracts?

- As is normal for any major transaction of this type, existing customer and supplier contracts will be honoured and transferred to the successful purchaser of the cutting rights. The Government is committed to doing this

as seamlessly as possible and working with existing customers and suppliers throughout the transfer process.

7. *But what if an existing customer or supplier doesn't want to change?*

- Contract transfers are a normal scenario for a major divestment and as you would expect there are existing contractual mechanisms in place which allow for assignment and transfer in a number of cases. The Government is confident that transfers can be achieved in a sensible and pragmatic way, and will be addressing those issues at the appropriate time in the divestment process.

8. *What is the timing of the divestment process?*

- An indicative timeline for the divestment indicates that it can take place within 12 months of Cabinet approval to take the cutting rights to market.
- Cabinet will approve final terms and conditions of the divestment.

9. *Will public access to the forests be maintained?*

- All existing public access rights will be preserved.

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

- The current level of fire protection will remain.
- FSA maintains a higher level of preparedness for fire (for example, standby aerial fire suppression capacity) than is required by the Fire and Emergency Services Act.
- After divestment it will be expected that the successful purchaser will 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 the private land owner obligations will continue and be funded by the State through community service obligation payments. These services will continue to be carried out by FSA.

11. Will the government be forgoing the carbon rights that pertain to the FSA estate?

- 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.

12. How will the issue of Water Allocations be dealt with in the divestment process?

- All water allocations will be retained by the State as land owner.
- The Regional Impact Statement (RIS) determined that the divestment will have no impact on the water use of the forest estate.

Regional Impact

13. Will the divestment result in significant job losses within the timber industry in the South East?

- No.
- Concerns about job losses are based on a view that all of FSA's uncontracted Green Triangle production would be exported. The report for the RIS states this is unlikely for a many reasons.
- The RIS report has determined that there will not be any material negative social or economic impacts resulting from the divestment of the cutting rights.

14. What additional protection are you putting in place?

- A South East Forest Industry Roundtable will be established and chaired by Mr Trevor Smith. Mr Smith has represented the Forest & Forest Products Industry employees, communities and industry interests in several roles for over 35 years, in particular as National Secretary of the Forestry & Furnishing Products Division of the CFMEU.
- 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. It will also provide advice to the Treasurer regarding the proposed conditions of the divestment such as extending existing log supply contracts, placing a cap on exports and imposing a minimum rotation length before going to market.

- There is the potential for targeted structural adjustment measures in those instances where, as a result of the divestment, firms can demonstrate disadvantage. Such measures may involve partial compensation or other support measures.
- We are proposing to include a number of conditions on the divestment:
 - i. The opportunity for millers to extend existing contracts on current terms will be made available;
 - ii. An export cap will be imposed to ensure that there is a commitment that export volumes do not exceed FSA's current or planned levels, except in exceptional circumstances such as there is no viable domestic market; and
 - iii. A new owner of the cutting rights will be required to target an average clearfall age not below FSA's current or planned levels, except in exceptional circumstances such as a collapse of the domestic market, fire salvage, very low productivity stands.

15. Will the divestment result in job losses at FSA?

- Employment levels are not expected to change beyond what FSA is already doing as part of its drive for increased efficiency and commercial operations.
- FSA employees will remain employed by FSA after the divestment and will continue to be public sector employees. This ensures that all employees remain employed on their current terms and conditions and that all employee obligations and liabilities remain with FSA.
- It should be noted that FSA has been actively seeking to become more commercial and is always reviewing its employment levels. If the divestment didn't proceed FSA would still be aiming to be as commercial as possible.

16. Will FSA remain operationally involved in the plantations following the divestment?

- Yes.
- FSA will be retained as the operational manager of the estate. It will manage non-commercial parts of the estate and fulfil all community

service obligations in addition to acting as forest manager for the new owner of the cutting rights.

- The divestment of FSA's principal commercial operations (albeit with a contract to manage these operations) may facilitate an opportunity for greater emphasis to be placed on FSA's industry-promoting and non-commercial activities.

17. Would the divestment require the owner to replant after harvest, and if not, who would?

- Yes.
- A key Government objective is to encourage the long term development of a sustainable forestry industry in South Australia. A replant obligation would be imposed on any successful purchaser to underpin long term industry development.
- If the new owner of the cutting rights does not replant, they will have to return the rights to use the land along with water rights to the State as the land owner.

18. 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 default; and

- 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.

19. Will the rotation length and quality of timber decline as a result of the divestment?

- Certain aspects of log quality are currently protected within the terms of current FSA wood supply contracts with processors. The terms in existing contracts will not change.
- Log quality is reflected in the value and selling price of the logs. A new owner of the cutting rights will be motivated to maximise value, not destroy it.
- As a condition of the divestment, the new owner of the cutting rights will be required to target an average clearfall age not below FSA's current or planned levels except in exceptional circumstances such as collapse of the domestic market, fire salvage, or very low productivity stands.

20. Will real estate prices fall in the South East as a result of the divestment?

- While it is claimed that house prices in the South East have already been affected by the proposed divestment, the report for the RIS notes that a decline in real estate prices was not unique to the South East; the Reserve Bank of Australia and commercial banks increased interest rates over 2010, which decreased overall demand for real estate.

21. Will the divestment result in no further investments in forestry or expansion of plantation forestry lands in the SE?

- This is an issue that challenges any forest owner, public or private. The reality here is that there is significant competition from other higher value land use in the South East. Under current public ownership, FSA has had difficulty expanding the estate.
- A new owner of cutting rights will make decisions around further plantation expansion on commercial grounds.