

20 September 2019

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Ms. Emma Johnson
Secretary to the Committee
SA Legislative Council Select Committee on
Matters Relating to the Timber Industry in the Limestone Coast
Parliament House
North Terrace
ADELAIDE SA 5000

OneFortyOne submission to the SA Legislative Council Select Committee on ‘Matters Relating to the Timber Industry in the Limestone Coast.’

Dear Ms Johnson,

Thank you for the opportunity to provide a submission to the Select Committee on ‘Matters Relating to the Timber Industry in the Limestone Coast’.

This submission outlines our commitments to the region, our forests and our customers. We have responded to the question as to whether the export of wood fibre is in compliance with the conditions of sale of the radiata pine forests in the Limestone Coast and provided details on how we prioritise the domestic market.

We have a vision for a strong forest and timber products industries now and into the future and we look forward to working together to achieve that future.

For queries related to this submission please contact OneFortyOne Director of External Affairs on 0400 186 293 or jessica.douglas@onefortyone.com.

Yours Sincerely,



Linda Sewell
Chief Executive Officer



Hon Claire Scriven
Chair, Select Committee on
Matters Relating to the Timber Industry in the Limestone Coast
Parliament House
Adelaide SA 5000

Dear Chair and Members of the Committee,

On behalf of OneFortyOne I provide the following submission for your consideration and I would welcome the opportunity to address the Select Committee Inquiry into 'Matters Relating to the Timber Industry in the Limestone Coast.'

OneFortyOne is an industry leading, sustainable forest grower and forest products company, established in 2012 following the signing of the Plantation Lease Agreement with the South Australian Government.

Our submission articulates the ongoing commitment we make to growing our industry, training our people and delivering economic prosperity to the Green Triangle. We're proud of our industry and the significant role that we play in helping it to thrive in the future. This includes working with our customers, processors, manufacturers both domestically and internationally to secure markets for our timber.

Our investment has secured the regional workforce with 400 people directly employed, supported by a further 1,000 contractor employees, right along the timber supply chain and servicing both domestic and export markets. We have fundamentally enhanced our operations and industry by continually investing in our business to improve operating efficiency, raise safety and training standards, improve forest health and reduce our impact on the environment.

Each year, OneFortyOne participates in a variety of internal and external review processes to provide assurances as to its activity. The Company has reported annually to the South Australian Government on its compliance and will continue to comply with all contractual obligations stipulated in the Plantation Lease Agreement between the Government of South Australia and OneFortyOne, including in matters related to export.

The Company is proud to be a member of multiple stakeholder groups including the recently formed Green Triangle Forest Industries Hub, which has developed a bold strategy to support the forest and wood products industry, and its regional communities, to grow and thrive.

We look forward to working to achieve that future together.

Thank you

A handwritten signature in blue ink, appearing to read "Linda Sewell".

Linda Sewell
Chief Executive Officer - OneFortyOne

OneFortyOne submission to the SA Legislative Council Select Committee on ‘Matters Relating to the Timber Industry in the Limestone Coast.’

OneFortyOne prioritises domestic customers and since February 2018, 100% of OneFortyOne sawlog has been sold domestically. The majority of our harvested product (sawlog and pulplog volume) is sold through direct, bilateral negotiations with domestic processors, and those located within the Green Triangle Region. That being said, export, as it does for other industries such as mining and agriculture, has a legitimate role to play in business. An export market helps balance cyclical downturns in domestic markets, diversify customer opportunities, offers alternative markets for products and a channel for salvage from fire or pests as well as securing ongoing job opportunities.

Growing Regional Opportunity

The resilience of the region is at the core of our business, as we know that our growth is intrinsically linked to the forestry sector and the regions in which we operate. We remain committed to growing our role in the community in a meaningful way, as our team lives, works and contributes to the region.

OneFortyOne is proud to be majority owned by Australian superannuation and sovereign wealth funds.

OneFortyOne is one of the largest private employers in the Green Triangle, currently employing more than 400 people directly and approximately 1,000 people indirectly through our contractor workforce. Our workforce tends to more than 80,000 hectares of Radiata Pine softwood plantation estate in the Green Triangle region of South Australia and Victoria. The majority of our forests are subject to a 105-year lease with the South Australian Government, with approximately 2,000 hectares of freehold land and trees. We are only one of the forest growers in the region, having a 24% share of the forest estate in the Green Triangle region across softwood and hardwood plantation estate. Our share of the softwood forests is approximately 50% in the region.

OneFortyOne purchased Mount Gambier’s Jubilee Highway Sawmill in 2018, further demonstrating the company’s commitment to Mount Gambier and the Green Triangle region. In the short period under OneFortyOne’s ownership, the company has invested and/or committed to invest in almost \$40 million in the sawmill to ensure the mill remains one of the largest and most efficient mills in Australia, securing future employment in the region. This includes major projects such as the:

- \$4m boiler emissions project that reduced the mill’s air emissions by 60% - a project that has been delayed by the previous owners for over five years yet was undertaken by OneFortyOne in the first six months of ownership;
- \$14m sorter-stacker upgrade to improve product recovery and stacking capacity; and
- \$16m for two new continuous drying kilns to increase energy efficiency and product quality.



Plantation Stewardship

A safe and secure workforce

We take a proactive role in educating our teams and the community about safety and are proud of establishing the nationally recognised OneSafeGroup - a contractor safety forum between OneFortyOne and its major operational contractors, fostering collaboration and alignment in safety across the industry and the region.

Forest Protection and Fire management

OneFortyOne works hard to protect and improve the forest plantation. This includes working in close cooperation with other forest growers in the Green Triangle; the Country Fire Service (CFS) in South Australia and Country Fire Authority in Victoria. We have invested nearly \$100,000 with the CFS to upgrade their facilities. In 2018, 99 employees were involved in actively protecting the forest in round the clock firefighting activities. We are immensely proud of their efforts and continue to invest in our own fire-fighting resources, training our team as world class fire fighters and supporting them with the biggest fleet of specialised Fireking vehicles among Green Triangle forest growers.

Carbon Sequestration

OneFortyOne recently completed a comprehensive carbon lifecycle analysis of its operations taking into account all impacts of planting, management operations, harvesting, transportation, processing and product life. It revealed carbon savings equivalent to taking more than 440,000 cars off the road every year or over 2 million tons of CO₂ per year.

Community involvement

Since 2012 we have contributed over \$1 million in donations to a range of community partnerships and initiatives that include education, health, the environment and sport.

Industry

OneFortyOne is a proud member of the Green Triangle Forest Industries Hub (GTFIH) a comprehensive cross section of the Green Triangle industry – large and small businesses, growers and processors, soft and hardwood, Victorian and South Australian – approximately 90% of the Green Triangle Forestry Industry. OneFortyOne's CEO is a member of the South Australian Government's Forest Industries Advisory Council and the Company is an active member of the Australian Forest Products Association. Members of our team are involved in the management of forest research projects at national and local levels via the Mount Gambier National Institute for Forest Products Innovation node and through Forest and Wood Products Australia Limited.

Plantation Lease Agreement

OneFortyOne takes seriously its compliance with the Plantation Lease Agreement (PLA) as agreed with the South Australian Government. The organisation has established a comprehensive internal compliance process. Each year, OneFortyOne provides the Government of South Australia (through the Department of Primary Industries and Regions SA - PIRSA) an annual compliance report on our obligations under the PLA.

Under the terms of the PLA any sawlog over and above OneFortyOne's contracts with domestic suppliers must be made available to domestic sawmills and exports on an equal basis and we have fulfilled this obligation for the last 7 years – every year of the PLA.

There is no PLA obligation in relation to export of pulplog.

In addition to our annual reporting requirements we have voluntarily agreed to an independent audit on the PLA by BDO Advisory (SA) Pty Ltd, managed by PIRSA. The audit is a comprehensive process focussing on the PLA obligations. As at the date of this submission, this audit is ongoing and we look forward to the outcome.

Australian Standards related to Sustainable Forest Management

Our management practices are globally recognised best practice through our certification to the Responsible Wood Sustainable Forest Management, which is endorsed by the Programme for the Endorsement of Forest Certification (PEFC), a global authority on sustainable forest management. Certification provides credible third-party verification that Australia's forests are sustainably managed, meeting international benchmarks for environmental management, social responsibility and the provision of economic benefit to the Australian community.

As part of this certification process OneFortyOne is required to establish the long-term sustainable yield and plan our operations to ensure this yield is not compromised considering all relevant social and economic factors. We are also required to demonstrate our support for regional industry and regional communities, including our commitments to local procurement where possible and fair contracts with suppliers of goods and services.

Supply chain value creation

OneFortyOne is working closely with its customers and industry to secure as much value from our activities as is sustainably achievable.

This includes working with domestic processors and manufacturers on ways to achieve 100% value returned from each tree harvested. Operationally this means, that (i) every part of each tree harvested is supplied to the customer which values it the most. (ii) costs of harvesting and supply are minimised. As a member of the Green Triangle Forest Industries Hub, OneFortyOne likewise supports the intention from processing and manufacturing members to investigate investment into new operating equipment that will see them able to process 100% of trees, including product currently designated as waste. This investment will significantly reduce operational constraints, improve productivity and deliver greater value to the region.

Prioritisation of domestic markets and export

The vast majority of our harvested product (sawlog and pulplog volume) is sold through direct, bilateral negotiations with Green Triangle domestic processors. Domestic first is our preferred method of business and is consistent and compliant with the PLA.

It is only after this volume is not taken up by domestic customers that it 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 wharf to understand the supply chain and to see firsthand the operation and the product that is exported.

We are focused on ensuring we have a diverse and successful customer base within the 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 produced.

Export has a role to play

As is the case for the vast majority of Australian industries including those operating across the Green Triangle 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 ongoing job opportunities.

Export is a considerably smaller part of OneFortyOne's activity in comparison to domestic and in 2019 the main export product is pulplog. Pulplog are smaller trees that result from forest thinning activity whereby the smaller trees are removed to make way for the growth of sawlog trees, improving their sawlog quality for domestic customers. Thinning also improves overall forest health and reduces the fire risk across the estate.

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 2013, 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. OneFortyOne is still getting through more than five year's backlog of this product following the Kimberly Clarke mill closure.

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 protects our employees and our contractors. By securing some export activity for pulplog, OneFortyOne has been able 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.

Historically there was an option for OneFortyOne to sell excess sawlog volumes that had not been taken up domestically due to customer operating constraints. In the last two years downstream timber processors and manufacturers have made investments in their equipment resulting in OneFortyOne being able to sell 100% of its sawlog product domestically since February 2018.

Export markets carry inherently greater risks than domestic markets, including geopolitical and currency risks. OneFortyOne has purposely limited its exposure to export markets due to the risks that these markets carry. As it has outlined on a number of occasions, OneFortyOne does not have a preference for export – in fact it is the opposite. Since it began its operations in the Green Triangle, OneFortyOne has increased the overall domestic customer volume by over 50% since the PLA was entered into. The total annual volume of sawlog fibre sold domestically by OneFortyOne has increased from approximately 850,000 m3 in 2012 to a forecast of 1.3 million m3 in 2019/20, representing a significant increase.

Opportunities to strengthen forest industries in the Green Triangle

The Green Triangle supports a world class forest industry that contributes significantly to Australia's economic activity and is the bedrock of the Green Triangle. It is mature, stable and strong, utilising the ultimate renewable asset: wood fibre. All wood fibre produced in the region comes from plantations; a crop that was intentionally planted.

Growing wood fibre demand and product innovation presents an unprecedented opportunity for growth. Global demand for wood fibre is expected to quadruple by 2050,¹ driven by population growth, increased use, and a growing awareness of the benefits of increased use of wood fibre. The Australian Government has committed to planting “*A Billion Trees for Jobs and Growth*” over the next decade to help meet this growing demand, support Australian jobs and “*Grow a Better Australia*”.² The plan has been endorsed by a range of stakeholders.

Land access, constrained access to crucial inputs, and policy uncertainty are, however, stifling the Industry's ability to capitalise on this growth. The Industry has been unable to viably replant for the last three decades; an entire generation.

Constraints to industry

Without action there will be an overall reduction in the national plantation estate by 2050,³ having profound implications upstream and downstream of the Industry, and for the broader Australian community. The Industry is best placed to meet this need and rise to the challenge.

The Industry has the capability and desire to grow and meet Australia's growing wood fibre demand. It is constrained however, by various barriers. These barriers are in the form of regulations, distorting a competitive market when compared to similar industries, and restricted access to fundamental inputs. We are concerned that further expansion may be stymied in future years in the absence of changes to current regulatory conditions.

¹The World Bank. (2016) *Forests Generate Jobs and Incomes*. Available at:

<https://www.worldbank.org/en/topic/forests/brief/forests-generate-jobs-and-incomes>.

² Department of Agriculture (2018) *Growing a Better Australia – A Billion Trees for Jobs and Growth*. Australian Government.

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

Primarily, we believe that the two interrelated factors impeding future growth are the availability of land and restrictions over water licenses currently in place in the Limestone Coast. **The water licensing conditions faced by plantations in South Australia are the biggest threat to the supply chain in the region.** Under current water allocation limits, there may be a loss of more than 25,000 hectares of plantation area in the region.

Industry participants have correctly expressed that the size of forestry plantations could undoubtedly be expanded, when considering positive market conditions and high demand for timber, but that this is next to impossible without greater availability of water licenses. We believe that 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. Some practical steps that could be taken include a scientific review of groundwater movement and the impact of man-made drainage systems on water availability. Government support for research into the water use of plantations would be well received.

In order to promote a strong future for forest and timber products industries in the region, we believe that industry must introduce reforms to ensure a zero-waste policy, to minimise the waste of as little wood fibre as possible, and further invest in skill development. In turn, OneFortyOne proposes that the South Australian Government consider further options to work with industry in order to remove barriers and address the above water licence concerns.

We understand that we operate in an environment where, just like forest industries, there are many sectors and organisations that have a legitimate need to access land and water. This is why, as part of the GTFIH we are committed to genuine stakeholder consultation as we work on growing the forest industries.

Thank you again for the opportunity to provide this submission in response to the Select Committee's Inquiry on Matters Relating to the Timber Industry in the Limestone Coast. I would appreciate the opportunity to appear before the committee to highlight the great potential for the forestry industry in South Australia.



Linda Sewell
Chief Executive Officer - OneFortyOne