

Legislative Council of South Australia

Select Committee on Matters Relating to the  
Timber Industry in the Limestone Coast

Submission

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## Introduction

In 2012 OneFortyOne Plantations Pty Ltd (OFOP) leased 80,000 hectares of pine plantations from the South Australian government in the Limestone Coast <sup>1</sup> for an initial period of 70 years with an option to extend it for another 35 years. <sup>2</sup>

OFOP is owned by a handful of shareholders with local ownership at 63.5% and overseas at 36.5%.<sup>1</sup> The major local owner is the Future Fund – chaired by the ex-federal treasurer, Peter Costello <sup>3</sup> – which holds 50% of OFOP. <sup>4</sup>

## Corporate Tax

OFOP has a history of not paying any corporate tax as shown by Figure 1 below. It has to be noted that in 2016/17 OFOP earned over a third of a billion dollars in total income - \$344.8 million to be precise – but was still able to avoid paying any corporate tax.

Year	Total Income (\$m)	Taxable Income (\$m)	Corporate Tax Paid (\$m)
2014/15	255.0	0	0
2015/16	295.1	0	0
2016/17	344.8	0	0

Figure 1 Financial details of OFOP <sup>5</sup>

OFOP's business model includes the exporting of both pulpwood and at times sawlogs. This has necessitated the trucking of this timber to Portland which has contributed to the degradation of the highways between Mount Gambier and Portland.

<sup>6</sup> As OFOP is not paying any corporate tax, the burden of payment for the road maintenance falls on all other taxpayers - OFOP is not contributing its fair share.

1. OneFortyOne, 2018: Year in Review, <https://onefortyone.com/category/company-brochure-2018>
2. Land Titles Registration Office, Memorandum of Lease between SA Government and OneFortyOne Plantations Pty Ltd, August 20<sup>th</sup> 2012
3. Future Fund, Annual Report 2017 – 2018
4. Rademeyer, L., Forest fears go national, The Border Watch, October 12<sup>th</sup> 2017
5. Australian Government, Corporate Tax Transparency, <https://data.gov.au/dataset/ds-dga-c2524c87-cea4-4636-acac-599a82048a26/details>
6. Wright, T., Portland's plague of potholes has made 'death traps' of the state's worst roads, <https://www.theage.com.au/national/victoria/for-sunday-portlands-plague-of-potholes-has-made-death-traps-of-the-states-worst-roads-20161028-gscwnw.html>, October 28<sup>th</sup> 2016

Another consequence of the tax inequity is that OFOP has more funds to re-invest in the timber industry, allowing it to be a more effective competitor compared with the other enterprises in this space. This has already occurred with the purchase the Jubilee Sawmill in Mount Gambier by OFOP, creating a vertically integrated business.

Vertical integration will infer advantages upon OFOP and creates a potential conflict of interest. In times when there is a sawlog shortfall OFOP will be inclined to satisfy the demand of its own sawmill first so over time we could see a tightening of supply to the other local sawmills.

The possibility of the differential pricing of sawlogs also arises. OFOP may be inclined to sell sawlogs to its own sawmill at a discount giving it a commercial advantage. In a competitive marketplace, this could pose a long-term viability problem for the non-OFOP sawmills.

### **Climate Change**

The United Nations body the Intergovernmental Panel on Climate Change (IPCC), regularly assesses the science in relation to climate change and has documented those assessments in a series of reports.<sup>7</sup>

Due to the over-whelming evidence, the tenor of the IPCC reports is that human-induced climate change is real and is happening right now hence we ignore this phenomenon at our own peril. But ignoring this evidence is exactly what OFOP management appears to be doing. A check of OFOP's website<sup>8</sup> did not find any reference to climate change. This indicates OFOP has no policy regarding or strategy to deal with climate change – a somewhat concerning state of affairs for a business whose financial health is determined in turn by the health of the natural environment.

The South East Natural Resources Management (SE NRM) Board has documented the likely impacts of climate change on the Lower Limestone Coast.<sup>9</sup> One of the projections is that by 2070 average annual rainfall will decrease by 6.8% across the region. This will have ramifications for groundwater recharge with a lower recharge rate necessitating a reduced plantation estate size. In a recent presentation to the District Council of Grant,<sup>10</sup> Cameron McDonald, Executive General Manager, OneFortyOne, indicated reductions in water allowances may ultimately mean a 10,000 ha reduction in the size of OFOP's plantation estate. No link was made by Mr McDonald with the reductions in water allowances to climate change.

7. IPCC, Reports, <https://www.ipcc.ch/reports/>

8. OneFortyOne, <https://onefortyone.com/>

9. South East Natural Resource Management Board, Volcanic Plains and Southern Dunes: Subregional Natural Resources Management Plan 2018 – 21, Changes in our climate by 2070, page 9

10. District Council of Grant, Minutes of Ordinary Meeting, 19072 – Presentation/Deputations, June 3<sup>rd</sup>, 2019

A business as usual approach is not possible in a climate changing world. With OFOP not giving climate change the recognition it deserves it is depriving itself of the incentive to explore avenues to combat this phenomenon such as plant breeding to produce a pine tree that uses water more efficiently.

### **Groundwater**

Groundwater is the lifeblood of the region. If it is compromised in any way, so too will the lives of every inhabitant and the viability of every business of the region hence proper management of this vital resource is essential. Thankfully, the Minister for Environment and Water The Hon David Speirs is aware of its importance as indicated in the Summary of the Discussion Paper <sup>11</sup> published four months after taking up the role. In the Foreword of the document the Minister states the following:

“A central focus of the reform program is empowering local communities and land managers to be directly responsible for sustainably managing their region’s natural resources – with an emphasis on soil quality, water management and pest plant and animal control.”

The Minister has unambiguously indicated that his “central focus” is “sustainably managing” the region’s water resources. At this point it may be helpful to revisit the definition of the word “sustainable”.

The Pocket Oxford Dictionary <sup>12</sup> has the following definition:

- 1 able to be continued or sustained.
- 2 (of industry, development, or agriculture) avoiding using up natural resources.

As the Macquarie Dictionary <sup>13</sup> is Australia’s preferred dictionary it is necessary to include its definition which is the following:

- 1 able to be sustained.
- 2 designed or developed to have the capacity to continue operating perpetually, by avoiding adverse effects on the natural environment and depletion of natural resources: a sustainable transport system; sustainable forestry.

The Macquarie Dictionary definition spells it out in the clearest of terms with “continue to operate perpetually” and “avoiding ... depletion of natural resources”. This matches the Pocket Oxford which states “avoiding using up natural resources”.

11. Government of South Australia, Managing Our Landscapes – Conversations for Change: Summary of the Discussion Paper, July 2018
12. Soanes, C., Hawker, S. and Elliott, J. (editors), Pocket Oxford English Dictionary, 10<sup>th</sup> edition, Oxford University Press, 2005
13. Macquarie Dictionary, <https://www.macquariedictionary.com.au/>

So there is agreement. The word “sustainable” means resources are available “perpetually” and the only way this can occur is by “avoiding using up” or “avoiding adverse effects on the natural environment and depletion of” natural resources.

### City of Mount Gambier

South Australia’s second largest city is virtually entirely dependent on water from the upper unconfined aquifer with occasional small amounts taken from the deeper confined aquifer in dry times <sup>14</sup>. The water quality of the unconfined aquifer is better than the confined. <sup>15</sup> The Blue Lake, from which SA Water pumps, appears to be completely fed by the unconfined aquifer <sup>16</sup> and it appears that extraction from the Blue Lake has reached its upper limit. <sup>17</sup>

Figure 2 shows the Blue Lake water levels since 1882. There is a pattern of levels rising (with a few dips) until 1911, followed by a long-term decline until 2009. From that time there was a small increase and then some degree of stabilisation.

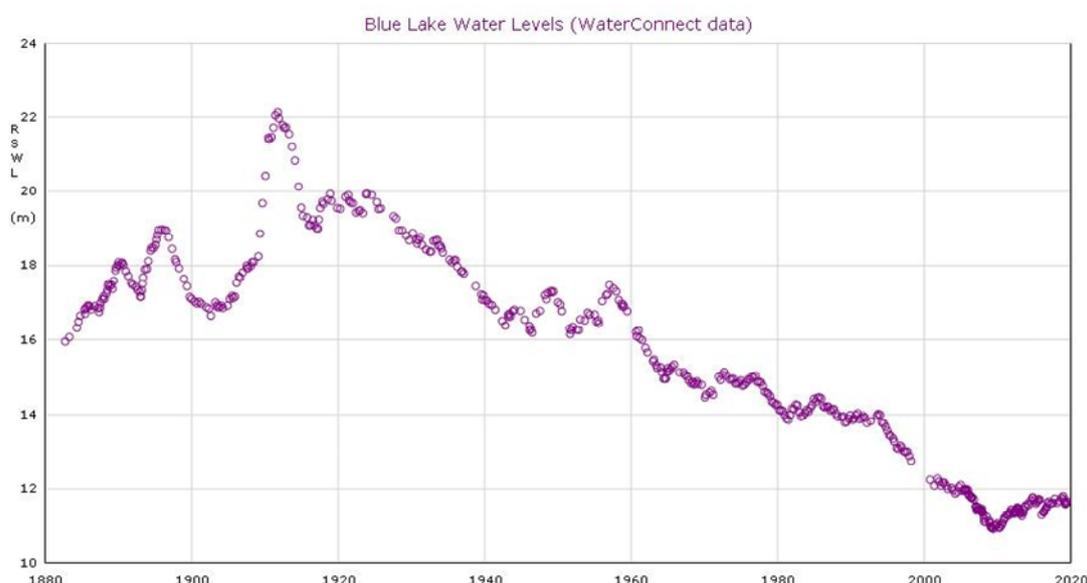


Figure 2 Blue Lake Water Levels <sup>18</sup>

14. Somaratne, N., Lawson, J., Ashman, G. and Nguyen, K., Recharge to Blue Lake and Strategies for Water Security Planning, Mount Gambier, South Australia, Journal of Water Resource and Protection, 2014, 6, 772 – 783, page 10

15. *ibid*, page 10

16. *ibid*, page 1

17. *ibid*, page 10

18. The data from 1882 to 2018 was obtained from the office of South East Natural Resource Management in 2018 with updates from the WaterConnect website, <https://www.waterconnect.sa.gov.au/Systems/RTWD/Pages/Default.aspx>

Figure 2 clearly shows the unconfined aquifer around Mount Gambier is not being sustainably managed hence will not last in perpetuity. One would envisage the Blue Lake water levels continuing their decline in the next drought under the current management regime.

Why this decline in the unconfined aquifer around Mount Gambier? More than likely it is not one factor but a combination of several. Somaratne et al, 2014, page 1 indicated the private annual pumping of groundwater in the Blue Lake capture zone was a significant 4.4 million cubic metres. The Blue Lake capture zone is also ringed by forestry plantations from the north east to the south east. These plantations would be reducing the quantity of groundwater moving into the capture zone. Figure 3 shows the annual pumping from the Blue Lake by SA Water. There appear to be three

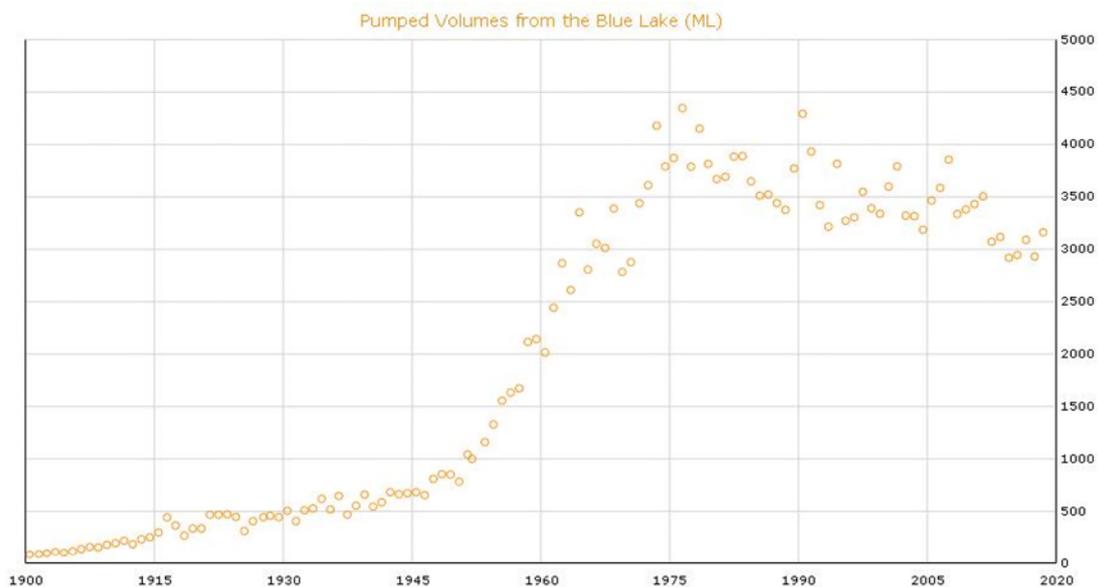


Figure 3 Pumped volumes by SA Water from the Blue Lake (ML) <sup>19</sup>

distinct phases with a gradual annual increase from 1900 to 1950, followed by rapid increase from 1950 to 1975 and then a gradual decline in the annual pumping rate. During the time of the rapid increase, pumping went from about 800 ML/yr to about 4,000 ML/yr. This is a significant increase and would have contributed to the decrease in Blue Lake water levels.

What this discussion concerning Mount Gambier’s water supply shows is that the groundwater resource is finite. The data presented confirms that peak groundwater usage has been reached for the unconfined aquifer around Mount Gambier. In fact, it could even be worse than that - unsustainable extraction may now be taking place.

If we now view the forestry sector’s desire to increase the size of the forestry estate through the prism of Mount Gambier’s water supply challenges, it can be seen this is not a feasible proposition in this part of the region.

19. Data was obtained from SA Water in 2018

## Lower Limestone Coast Water Allocation Plan (LLC WAP)

There have been long term declines in the levels of the unconfined aquifer around Mount Gambier<sup>20</sup> and it is the WAP itself which is part of problem. The LLC WAP actually legalises a drop in the water table by up to half a metre every five years. It is only when the water table drops by greater than half a metre every five years that remedial action is required.

The LLC WAP therefore legalises the unsustainable use of the unconfined aquifer. This is an unsatisfactory state of affairs and needs to be rectified. The trigger level needs to be set if there is greater than a zero decrease in the aquifer level every five years.

Likewise with salinity, the trigger level for action is when the average annual increase is greater than 2%, measured over the preceding five years. So if the average increase is 2% per year that is acceptable. The trigger salinity level should be when the average annual increase is greater than 0% over the previous five years.

There are implications for groundwater level reductions which are made clear in the Science Review completed earlier this year by the Goyder Institute.<sup>21</sup> The effects of a consistent water table decline of 0.1 metre per year – which is within current acceptable limits - on stock and domestic (S&D) bores “will cause 23% of all S&D bores within the LLC WAP region to be dry within 30 years, and 45% of all S&D bores to be dry within 50 years.”

The health of groundwater-dependent ecosystems (GDEs) are impacted by the lowering of water tables with NSW guidelines indicating cumulative water table declines should not exceed 0.2 metre near high-value GDEs.<sup>22</sup> It would only take two years for this decline to be reached with a consistent water table decline of 0.1 metre per year.

Another obvious implication of consistent groundwater over use is that at some point the aquifer will simply cease to exist. The LLC does not want to emulate the situation that is unfolding in the Murray Mallee.

The occurrence of excessive salinity is a serious environmental problem which can take hundreds of years or longer to remediate<sup>23</sup> thus it is crucial not to allow this condition to develop in the first place.

20. Government of South Australia, Water Allocation Plan for the Lower Limestone Coast Prescribed Wells Area, November 2015, page 31

21. Simmons, C., Cook, P., Boulton, A.J., and Zhang, L. (2019) Independent review of science underpinning reductions to licensed water allocation volumes in the Lower Limestone Coast Water Allocation Plan. Goyder Institute for Water Research Technical Report Series No. 19/01, page 41

22. *ibid*, page 25

23. *ibid*, page 26

It is imperative that the LLC WAP trigger levels for both water level and salinity be changed to reflect the principle of sustainable use so that the region's groundwater resources will be available in perpetuity. This has to be the starting point for groundwater management in the LLC and from that will then flow the quantity of water that is available for agriculture, forestry, industry and urban centres. The SE NRM Board now needs to act on Minister Speirs' sustainability guidance.

### **Disincentive to Export Sawlogs and Pulpwood**

An instigator of this inquiry, the local member Troy Bell, has commented on the benefit to the local sawmilling industry if the quantity of sawlogs exported was reduced.<sup>24</sup> It is a straight forward equation – more sawlogs available to the local sawmills means a larger local sawmilling industry with all the ensuing economic benefits.

My concern, as previously noted, is that now OFOP has vertically integrated it may choose to use its new found market power to benefit its own sawmill while restricting supply to the other local sawmills. Currently all of OFOP's sawlogs are sold locally but exports could re-commence as soon as June 2020.<sup>25</sup>

One possible market scenario is that OFOP adequately supplies its newly purchased sawmill, limits sales to the other local sawmills while re-starting its sawlog export program. Over time OFOP may then be able to purchase those sawlog-starved local sawmills at a discount.

This unintended consequence of the forestry sale could at least be partially circumvented by creating a disincentive to exporting sawlogs. Any disincentive that involves the federal government, such as a tariff – which might disadvantage OFOP - may prove difficult to implement due to Mr Costello's links to the Liberal Party at the federal level. Something the state government can implement may be the best way forward.

Any disincentive to exporting sawlogs would probably create another problem as any scheme may then be circumvented by sawlogs being re-classified as pulpwood. To counteract this, pulpwood would have to be included as well.

The ball is very much in the state government's court regarding the export of softwood sawlogs. There is a clear choice of nurturing the state's sawmilling industry or allowing jobs to be exported. A clever country maximises the domestic processing of its raw products.

24. Bell, T., Motions: Timber Industry, April 4<sup>th</sup> 2019, <http://www.troybell.com.au/media/speeches/motions-timber-industry/>

25. OneFortyOne, Negative comments stem from export 'misinformation', Caption of the photograph included with the Letter to the Editor, The Border Watch, May 7<sup>th</sup> 2019