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22 October, 2009

The Hon. Jay Weatherill, Minister for Water

CC The Hon. Paul Caica, Minister for Forests

Re: Briefing for meeting with CFMEU FFPD, 26 October, 2009.

CFMEU FFPD Perspective on Water Management and Forest Plantations in South Australia

Yours sincerely,

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Michael O Connor,

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A Response to Managing the Water Resource Impacts of Plantation Forests and the Enabling Legislation Natural Resources Management (Commercial Forests) Amendment Bill 2009.

Introduction

The CFMEU Forestry and Furnishing Products Division (FFPD) acknowledge the need for Australia's scarce water resources to be managed sustainably and prioritised as necessary. This acknowledgement maintains a preface that water management should be underlined by a framework which recognises the importance of the Australian forest and wood products industry to the social, economic and environmental fabric of the country, concedes the reality of the industry's growing reliance on plantation forests and accepts the necessity of the guarantee of fiber supply that the industry urgently requires to ensure sufficient investment is obtained determining the industry is internationally competitive.

No system which has the potential to restrict the location and/or size of plantation forests should therefore be implemented prior to the completion of a robust socio-economic and environmental analysis of the costs and benefits or alternatively the impediments and detriments to the industry, environment and community. Socio-economic and environmental analysis will in our view demonstrate that plantation forests should not be subject to major water restrictions as the vast benefits of plantation forestry justifies its' water usage. Water 'extraction' by plantations is different to physical human extraction of water resources and this should be considered in any framework considered. It is not appropriate or acceptable that within areas of competing water usages that regional Natural Resources Management Boards (NRMBs) have the capacity to veto industry development by declaring areas of over water allocation and by using their power to prevent plantation expansion, demand plantation reduction or determine the existence of emerging plantations. Local decisions must not override the significant potential benefits to the national interest of an expanding and secure plantation system.

Australia's forest and wood products industry is strongly positioned for growth, with increasing local demand for timber products (as indicated by a \$2b national trade deficit in wood and wood related products) and stable export prices. This growth opportunity will be squandered if excessive or ill-conceived regulation based on precaution stifles the establishment and maintenance of forest plantations.

With the recent decline in the availability of native forests able to be sustainably harvested due to government regulation (South



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Australia's forest and wood products industry harvests and processes exclusively plantation forests), the maintenance and growth of the forest and wood products industry relies increasingly on the retention of the plantation sector. Nationally, plantation forestry has already generated thousands of jobs in regional communities. Over seven thousand workers are employed in the forest growing and management sector alone. The forest and wood products industry is made up of over 120,000 workers, the vast majority are involved in the harvesting, processing, manufacturing, producing or merchandising sectors. These workers jobs, principally in secondary downstream activities, rely upon further growth in the industry which depends on continued investment made with confidence that the supply of fiber will be adequate now and in the future.

The CFMEU FFPD notes the concerns of the effects that plantations' water usage through interception has to water runoff and recharge as outlined in the South Australian government's proposed framework for 'Managing the Water Resource Impacts of Plantation Forests' and before this in the Federal government's National Water Initiative (NWI). These concerns need to be balanced with a more vigorous realisation of the importance of a stable plantation system to the forest and wood products industry and to workers and communities in regional areas.

The South Australian government's approach acknowledges that water flows must be secured for critical human needs, sustainable industry development and for environmental assets. Plantations are essential to critical human needs (employment), sustainable industry development (fiber security) and the environment (climate change abatement, carbon sequestration).

The CFMEU FFPD believes that the socio-economic and environmental benefits of forest plantations need to be taken into account in the framework of considering any system which regulates plantations regardless of the mechanism used whether be it in the form of water licenses, water permits or industry agreements. Planners around the country must take into account all the factors faced by the Australian forest and wood products industry when taking approaches to water management and it is preferable that decisions are implemented by a framework and body that takes into account national economic, social and environmental considerations in a whole of government and industry approach.

South Australian Government Amendment to NRM Legislation

The union is filled with apprehension over the government's policy direction after analysing the documents: *Managing the Water Resource Impacts of Plantation Forests* and the subsequent enabling legislation for water licensing of plantations, *The Natural Resources Management (Commercial Forests) Amendment Bill*.

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Downstream companies must have business certainty and confidence in the system of water allocation for plantation forestry. Fiber security is a vital condition for investment in an increasingly volatile and competitive global economic and financial atmosphere. For example, with the large amount of capital needed to build and maintain world class, economically sustainable and environmental efficient pulp and paper mills, business needs to be confident enough to significantly initially invest and subsequently upgrade mills to the highest technological standard and also provide specialised training to their workforces. Foreign involvement is also crucial for the future of the pulp and paper industry due to the large amount of capital expenditure which is mandatory to establish, maintain and upgrade quality facilities. It is likely that the review that has been conducted as sanctioned by the Federal government Department of Innovation and Industry by the Pulp and Paper Industry Strategy Group due for release in December, will indicate the need for extensive capital investment in technologically advanced and environmentally sustainable facilities in the future as a vital element of the sustainability of this essential industry.

Potential projects require safeguards in the short, medium and long term to be certain that the significant initial capital outlay which is made will not be wasted or else the risk is too high and the capital investment will not be forthcoming. Downstream manufacturing and value adding of forestry products is an industry which requires economies of scale and the processing facility located near to the resource. This is indicated for example by Gunns Ltd negotiating a 20 year sovereign risk agreement with the Tasmanian government for the fiber supply of the pulp mill planned at Bell Bay.

Under the enabling legislation, water allocations in areas declared over allocated will be adjusted for plantation managers at the point of harvest compared to other water usages which get a varying allocation on a yearly basis. This may seem generous to plantation owners in comparison to other users but from the point of view of sustainable investment in the value adding sectors of the forest & wood products industry (eg: pulp & paper, MDF, sawmill products LVL, veneer, engineering wood products, furniture components) the absence of resource certainty will result in cautious if not stagnated investment by these value added sectors. Further, significant industry investment in addition to technology and resource has occurred through the investment in skill development and training in response to the anticipated skills needs of a competitive industry in an international context. It is unrealistic to envisage that the industry will continue to invest in its employee's skills acquisition if the resource is not assured or the access to the levels required is denied.

Eucalyptus pulp trees have a 10- 15 year rotation, softwood plantations have an approximate rotation of 30-35 years, the pre-



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requisite to ensuring sustainable forest management practices is the ability to confidently be able to plan the continuous rotations around which industry corporates will determine the magnitude of additional investment and development in the respective sector. If fiber supply is re-determined and potentially reduced on the basis of this adjusted rotation then it is likely to dissuade business investment in plantation as well as processing value adding activities. Other dry land crops are not subject to the same requirement as they rely far less on processing, manufacturing and capital intensive value adding compared to forest and wood products.

Currently a lack of confidence in the proposed South Australian system is already affecting investment and jobs. This is of great concern to the South-East region because over 7000 South Australians are employed in the forestry, wood and paper products industry and flow on sectors in the Green Triangle Region representing 35% of the total regional primary industry workforce and 21% of jobs in the region. Forestry and wood products contribute \$664 m of gross regional production which is 44% of the total production profit of primary industries in the region and 27% of the regional economy. Continued survival of this highly important regional industry relies on growth and continued capital and technological investment. Companies are currently already favouring plantation establishment in the Victorian part of the Green Triangle region because of uncertainty which will be a feature in the proposed South Australian future water system. One example of a future value adding and job creator is the proposed pulp and paper mill in Penola which needs a guarantee of fiber in order to attract suitable investment. The current position being advocated by the government has the potential to damage both the economy of the region and state.

Environment

To base a licensing system simply on the water which plantations extract and not what plantations contribute to water flows currently (through transpiration and interception) and in the future (through climate change and drought abatement) is an error of priorities. If more vigorous study is needed to determine not just the extraction but also the contribution to water yields of plantations then a system of restriction should not be implemented until the science provides this precise indication.

The potential impact of plantations on water yield should not be considered in isolation from the substantial environmental benefits they provide. These benefits are regional (salinity abatement, biodiversity values, land reclamation) and national/ global (carbon sequestration and replacement of imported timbers sourced from unsustainably logged forests). As an environmental asset, plantation trees are pivotal as they sequester carbon in both plantations and their



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eventual final products after harvesting and processing. Current and future forest plantations have the capacity to sequester 81 million tonnes of greenhouse gas from the atmosphere every year and this will continue to contribute to the reduction of the risks associated with climate change, for instance droughts, thereby benefiting future water flows.

Extraction of water resources by forests should not be considered as the same as deliberate human extraction due to the fact that the two main water uses by plantations ultimately return water vapour to the atmosphere unlike water extraction for other more intense dry land crops. It should be recognised in any regulatory system which encompasses water allocation plans that plantation water use is in the majority based upon:

1. Transpiration - the uptake of water from soil or ground water by tree roots. Much of this water is returned to the atmosphere as it evaporates through the pores in the leaves.

2. Interception - leafs and branches intercept rainfall so the water is ultimately evaporated back into the atmosphere.

It is the union's perspective that any inclusion of land use change to plantation forestry in a water entitlement system must take into account the above factors of plantation water usage as well as the environmental contribution that plantations and their harvested products contribute to the abatement of climate change. A lack of recognition of this currently has played a part in the thinking that the implications of the interception of rainfall by plantations have been unfairly exaggerated and that the plantation industry has been victimised and as a consequence will subsequently be penalised under the proposed revised water allocation system.

Regional Natural Resource Management Boards

A workshop at Mount Gambier convened by the South-East Regional Natural Management Board was of intense significance to our members given that 80% of plantation forests in South Australia are located in the South-East. Stakeholders used the workshop to seek to clarify some key points from the South Australian government's state-wide policy framework. Reports from the workshop suggest that due to problems associated with the *Resources Management (Commercial Forests) Amendment Bill* and the way that the potential legislation would ultimately be expected to be implemented (through a licensing system which restricts the rights of forest managers as determined by regional NRMB's) that it is not in the interest of union members for this legislation to proceed.

The *Natural Resources Management (Commercial Forests) Amendment Bill* indicates and underlines the considerable control that



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regional NRMB's have in relation to determining the specifics and therefore economic viability of existing and emerging plantations and as a direct result the entire forest and wood products industry. An example of the power they will hold is outlined in section 76 of the draft bill as follows:

- (10) A water allocation plan may, for the purposes of subsection (9):
- (a) Make different provision as to any principles, methodologies or values according to any matter or circumstance specified by the regional NRM board;
 - (b) Specify values (as measurements of hydrological impact) according to any number of trees, volume, area, year or other factor (as determined by the regional NRM board);

The above provisions afford us (and we fear the downstream and plantation industry sectors) with no confidence that the core principles of the government, as outlined in the state-wide policy framework of *Managing the Water Resource Impacts of Plantation Forests* will be followed. Of particular concern is that guiding principles of the framework will be ignored over the priorities of competing local interests. Such principles under perceived threat include:

- The optimisation of the net benefits to the community
- Sustainable industry development
- Consistent and transparent treatment of water users
- Recognition of State, National and International directions

We reiterate our extreme concern that the above guiding principles have the potential to be ignored and that NRMB's will favor the restriction of expansion and the reduction of forest plantations. Policy which should be of government ministerial responsibility will be undertaken by bodies which appear to have command of interpretation of what constitutes sustainable water usages, equipped with a framework which does not take into account the unique situation of the need for continued and sustained capital investment in the industry which requires fiber security. It is a requirement for not just short and medium term fiber to be secured but long term security is needed for the viability of the entire industry which cannot be provided if the size of plantations is regulated and in all likelihood reduced when harvest occurs. Safeguards are required so that downstream companies will have confidence in the long term value of their investments. The direct linking of plantations to downstream activities is also essential to investor confidence in plantations themselves as was indicated by the financial collapse of the MIS Company Timbercorp. The plantation sector is as reliant on the viability of downstream industry sectors as the viability of downstream industry sectors is reliant on a secure supply of plantation fiber.

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Conclusion

Rushing through this amendment of legislation without the legitimate concerns of the union and that of its members being considered would be inappropriate. Due to union and enterprise concern it would be fitting for a parliamentary enquiry into the bill to transpire which undertakes a full socio-economic and environmental analysis of the potential effects of this amendment which includes the impact on jobs in rural and regional areas, the future of downstream and reliant industries and that in other areas of timber processing, manufacturing and merchandising. The policy needs to be harmonised with the forest and wood products industry's current and future requirements and also Commonwealth government initiatives such as the 20-20 plantation target which is a key environmental and forest and wood products industry development strategy. A macro approach needs to be taken to this vital policy question.

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