

**THE PARLIAMENTARY STANDING COMMITTEE ON ENVIRONMENT,
RESOURCES AND DEVELOPMENT MET IN THE RECEPTION ROOM, TOWN
HALL, LAUNCESTON, ON MONDAY 19 MARCH 2007.**

Mr ANDREW WHITE, CHIEF EXECUTIVE OFFICER, FOREST ENTERPRISES AUSTRALIA, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Hall) - Mr White, as I have asked earlier participants, would you give us a bit of an overview of your company's operations and you might then give some evidence that you see fit in regard to our inquiry, the terms of reference and, from your company's perspective, the log supply deal. I will then invite the members to ask some questions.

Mr WHITE - Firstly, I would like to make a statement. FEA is a Tasmanian company listed on the ASX. Our market capitalisation is in excess of \$200 million. Of all the public companies in Tasmania, about 20 to 23 per cent of the company is owned by about 800 Tasmanians and that is a fact of which we are very proud.

Secondly, FEA is a forestry and forest products company that has a stated intention to expand further into forest products in line with its maturing and expanding plantation base. We currently have plantations here in Tasmania as well as New South Wales and south-east Queensland. FEA acquired the sawmill at Bell Bay in 2002 and has been building volume and presence since that time, processing softwood primarily sourced from the Taswood joint venture as well as other private growers and increasingly, in the last two to three years, logs from hardwood plantations.

Our stated aim is that we want to become a significant processor of solid wood products borne mainly out of plantation-derived resource. We saw the opportunity to secure the volume available from the Taswood joint venture as a significant opportunity for a Tasmanian company to grow its business and we are currently embarking on a significant expansion at Bell Bay.

I would like to say that I am happy to answer any questions that are relevant to the terms of reference as listed and I would also like to offer the opportunity, as I have on many occasions, for anyone to call or contact me and I will be more than happy to discuss our business plan, our current operations and where we hope to be in the future.

CHAIR - Would you like to comment on the process at all in regard to the log supply deals? Is there any thing you would like to add there?

Mr WHITE - The only thing I would like to add is that we entered the process at full commercial risk and negotiated in good faith with the joint venture. I believe most of the process is more or less on the public record because we have been open in press releases and ASX announcements as we have made our way through the process as we see it.

Mr GUTWEIN - Andrew, welcome.

Mr WHITE - Thank you.

Mr GUTWEIN - I asked the question of Rayonier this morning as to when FEA entered the process and no-one was able to provide a date on that basis. How long before the announcement were you discussing this matter with Taswood Growers?

Mr WHITE - I will break that into two parts. We have been a customer of Taswood Growers from 2002. In mid-2005 on advice from Rayonier, the agent of the joint venture, that there was a tender process, we had a micro-log contract that went to 30 June 2007 and after that time, our contractual rights to that resource for diameter sawlogs would be relinquished. So we entered the process to renew that contract.

With respect to the balance of the volume - and I will backtrack a little bit here - we had been negotiating and succeeded in entering a contract renewal of our micro-log contract and at the conclusion of that, we entered the process of offering for the balance of the resource.

In terms of chronology, it was about mid-September - I cannot recall the exact day - when I contacted Rayonier and asked if there was a possibility of FEA making a bid for the balance of the resource that was yet unallocated. The advice then was that they were not interested in speculation and that I had to write a letter, which I did on 22 September. On 5 October I received a reply from Rayonier that detailed the fact that the joint venture would be prepared, but at that point in time FEA had not made an offer and until such time they would not consider negotiation until an offer was made.

On 27 October we submitted a significant non-binding offer to the joint venture and on 27 November we received advice from Rayonier that the joint venture board had considered our offer and was prepared to negotiate with the company. On 28 November, the next day, we made a public statement advising that we were the other party that was bidding for that resource.

I guess the other significant dates were that on 7 December we received a letter from Rayonier offering assistance and the factors in consideration of an offer, and on 18 December we submitted a further more detailed information memorandum with respect to our offer. That was concluded with an agreement on 29 January.

Mr GUTWEIN - So on 22 September you wrote to Rayonier formally requesting to become part of the process, or to make an offer.

Mr WHITE - On 22 September we wrote a letter asking whether the joint venture would receive a bid.

Mr GUTWEIN - On 5 October they wrote back saying yes, and on 27 October you put in a non-binding offer, and then on 27 November you were notified by Rayonier -

CHAIR - Joint venture.

Mr GUTWEIN - by the joint venture or Rayonier that they were prepared to negotiate, and then things went from there.

Mr WHITE - That is correct.

Mr GUTWEIN - Was there a period where Rayonier or the joint venture conducted any due diligence? Obviously, I am presuming that the amount of wood that you have subsequently tendered and won was considerably more than the micro-log allocation that you had? Do you mind if I ask if what the difference was in the tonnage?

Mr WHITE - Our renewed micro-log contract had actually reduced because of the resource reducing in coming years, but that was for a minimum of 40 000 cubic metres a year.

Mr GUTWEIN - And does the 290 000 now include that 40 000?

Mr WHITE - That is correct.

Mr GUTWEIN - Did Taswood Growers or Rayonier conduct any due diligence on the company in that period after receiving a non-binding offer from yourselves?

Mr WHITE - In the non binding offer as well as the information memorandum there was extensive information with regard to our business plans and other aspects that I guess could be considered as due diligence.

Mr GUTWEIN - We have heard today that price was one consideration but the other was the sustainability of the industry long term. In your opinion, why did you win this timber?

Mr WHITE - Firstly, I was not party to the process, so what you are asking for is opinion. I think FEA is a plantation processor with aspirations to grow. We have proven ourselves to be innovative. From our view I think that having extensive resources within the State and being able to put together an operation of enough scale to be competitive was received as an excellent offer.

Mr BOOTH - Andrew, welcome to the inquiry. You just advised Mr Gutwein there that you had a tender in for 40 000 cubic metres of micro-logs that had been accepted prior to your putting the bid in.

Mr WHITE - The tender process that started in 2005 concluded at a point in time when I think all parties received a letter advising that no tenderer was successful in the tender process and that the process was open for negotiation after that time.

Mr BOOTH - So you tendered for the micro-logs, and I think you said the current tender expired in -

Mr WHITE - Our current contract expires on 30 June 2007, which is this year. The tender process was for volumes after the expiration of those contractual terms. Sometime around September-October 2005 the joint venture or Rayonier advised all parties that no one was successful in the tender process and that the joint venture or Rayonier was open to a negotiation process.

Mr BOOTH - So then you submitted that as part of your 290 000 tonnes you have been awarded, is that correct?

Mr WHITE - That is correct.

Mr BOOTH - And 40 000 of that was for your micro-logs that you had previously been processing?

Mr WHITE - Yes, and which we had already secured a contract for.

Mr BOOTH - So in other words, effectively the new part of the contract was for 250 000 cubic metres.

Mr WHITE - That is correct.

Mr BOOTH - And what percentage of that was micro-logs?

Mr WHITE - I cannot remember off the top of my head. It is in excess of 40 000 cubic metres.

Mr BOOTH - Right. And with the tender process you at some point in time decided that you wanted to enter into this agreement; you're saying that was after you were advised that the tender process had collapsed for the big volume that Auspine were tendering for - or have I got that wrong, was it prior to that?

Mr WHITE - Well, it was sometime during September or October 2005 that everyone was advised that the tender process had collapsed and the volume was then open to offers and a process of negotiation with the existing parties.

Mr BOOTH - When you made your offer - and you talked about going through those stages from 5-27 October and you put in another bid - what sort of effort did you have to go to in terms of highlighting your move to a new high-volume low-employment mill as part of that tender process? What accent was put on that?

Mr WHITE - There were certain parts of the opportunity that we were building in with respect to a new capital investment in plant and equipment that was a part of our overall package.

Mr BOOTH - Was that part of the detail of the bid that you had to submit to become effectively the successful bidder? Did you provide detail to the joint venture, to Taswood Growers, of precisely what your plans were, what type of technology you were going to apply, details of the mill and so forth?

Mr WHITE - That's correct.

Mr BOOTH - I think it has been reported, and I did mention this previously to another person before the committee, that you have said that the construction of the mill was plan B. Do you want to comment on that, because it is out in the domain and it will give you an opportunity at least to correct me?

Mr WHITE - Firstly, my perception is that it's not relevant to the terms of reference, Mr Chairman, but I guess it was always the intention to build a new facility at Bell Bay.

Mr BOOTH - So your original consideration of taking on the tender was not to somehow pick up an Auspine mill and continue employing people at Scottsdale, because that's where the relevance is, of course, in regard to local employment? So it has never been part of your intention at any point in time to take on any of the milling at Scottsdale in your own right?

Mr WHITE - Not necessarily. I think the issues you're raising relate to the transitional issues between 1 April this year and when we construct and commission some new plant and equipment at Bell Bay.

Mr BOOTH - So are you suggesting that there might have been an option to get Auspine to process your wood? That has been in the public domain. Did that form part of your negotiations to get the tender, that that is where you would process the big-end section? What did you propose to the joint venture in terms of being able to take the logs? Did you suggest that that's what you would do, or that you would export them as whole logs?

Mr WHITE - It is impossible to negotiate anything until you have a contract.

Mr BOOTH - I understand that, but it's impossible to cut them without a mill as well - if you put in a tender without a mill.

Mr WHITE - That's correct.

Mr BOOTH - So it's not an unreasonable question to ask. What were you proposing to do with the wood? Were you proposing to export the big logs?

Mr WHITE - I guess the decision rests with the Taswood joint venture and how they perceived it. We were open about the limitations of our existing processing plant; there was never any misunderstanding between us and the joint venture with respect to that and I believe, with respect, that's probably more a matter of the evaluation of the Taswood joint venture.

Mr GUTWEIN - Following on from that, what were the limitations in regard to your current processing plant? How much of the 290 000 cubic metres can you cut, without going into detail in regard to what the options might be as to how you're going to cut it?

Mr WHITE - The limitation is on logs up to 30 centimetres.

Mr GUTWEIN - Okay, so how much of the 290 000 cubic metres is your mill not able to process at the moment?

Mr WHITE - With respect, from my perspective that is outside the terms of reference and commercial-in-confidence and subject to operational constraints and discussions between ourselves and the joint venture.

Mr BOOTH - I think you've already responded to that in that 40 000 of it at least was micro-logs and a percentage of the rest was another 30 to 40 per cent.

Mr GUTWEIN - Could we have a quick discussion with Mr White in camera on that issue?

CHAIR - That is a committee decision. We can do that.

Mr GUTWEIN - I would like to propose that we do have a quick committee discussion in regard to whether that is appropriate or not because I would not mind getting some understanding from Mr White as to what -

Mr WHITE - With respect, I am happy to discuss any of these issues outside of this forum. I am aware that I am under oath, that it is a parliamentary inquiry and there are very specific terms of reference. With respect to the Forestry Act and the process I am very happy to talk about that from an FEA perspective and I am happy to meet and discuss any of our plans with any of you outside of this forum.

Mr GUTWEIN - Mr White, I am struggling to understand then the rationale as to why we cannot have that discussion here or have it in camera without -

CHAIR - That is a proposition I can put to you that we could, after we have finished this and if the committee so decides, request of you that you give some evidence in camera. We can do it in committee. Are you happy enough?

Mr WHITE - Look, I am happy to the extent -

CHAIR - The rest of the committee is happy with that. Do you wish to continue any other line of questioning in terms of -

Mrs RATTRAY-WAGNER - Process?

CHAIR - Yes.

Mrs RATTRAY-WAGNER - You indicated, and I did not write the time frame down, in the process leading up to the allocation of the awarding of the contract to FEA over Auspine that Rayonier offered assistance. You said 'assistance', they offered 'assistance'. Can you tell me what sort of assistance?

Mr WHITE - They advised us that we and the other party received an identical letter identifying that, in preparation of our final offer, I guess, they were going to consider a range of factors and price contractual terms and I guess the sustainability of relationship issues. They were three important - they just gave that advice, so that was the assistance or advice they gave us that they gave the other party as well.

Mrs RATTRAY-WAGNER - So the assistance is only assistance in identifying the criteria that they would be assessing the bid on.

Mr WHITE - Some of the criteria.

Mrs RATTRAY-WAGNER - Is that the right understanding?

Mr WHITE - More or less.

Mrs RATTRAY-WAGNER - I have been here a long time today, so could you just clarify?

Mr WHITE - More or less, that is correct, yes. I do not have the document in front of me.

Mrs RATTRAY-WAGNER - So they did not give you any extra information that might help you put a perceivably better bid together?

Mr WHITE - No they didn't.

Mrs RATTRAY-WAGNER - Are you quite sure of that?

Mr WHITE – Well, I am not in charge of the process. I am not privy to or have any knowledge of what they advised the other party.

Mr BOOTH - Would you be happy to table for the committee the advice you received in that regard?

Mr WHITE - I think that was probably a matter that has been dealt with by the Auditor-General. Personally I would not be happy because all of those documents are commercial in confidence and again we are party to the Auditor-General's report that examined this very issue.

Mr BOOTH - With respect, probably he has got a different terms of reference and he is not acting as the Auditor-General either so Mike Blake's inquiry probably won't satisfy this committee in terms of whether or not that offer was the same one that was made to Auspine. With respect, the only way we can find that out given that you do not know what Auspine were offered, is to look at your offer and look at their offer to see if they are like for like.

Mr WHITE - I would suggest that the process and the administration of the process is a matter for the joint venture so my view is it is probably a question best asked of the joint venture.

Mr BOOTH - Yes, well, anyway we can discuss that later.

CHAIR – Are there any further questions to Mr White at this stage?

Mr BOOTH - Yes, I have a few more in regard to the capacity that was required of you when you received that tender because it does go to the terms of reference for our committee, which is employment, and there are requirements under the GBE act for that to be considered. Did you contemplate and did you discuss with Taswood Growers that you would export volumes of unsawable timber that you took as part of the contract if you were not able to job some of that out around the local community until such time as you got your mill going?

Mr WHITE - I guess my view is that that is not a particularly relevant question because that is really a matter for the joint venture. As I have said, we made quite clear the limitations of our current saw and that was, I guess, well understood. With respect to employment considerations that was a matter for FT, under FT affairs, and I am do not believe that I am necessarily competent to actually answer questions with relation to the Forestry Act.

Mr BOOTH - No, but it does go to the offer that you made, whether you had made the joint venture aware, because it goes to our terms of inquiry. Remember, you are just simply here providing information for the committee to determine, you are not under some sort of prosecution. We simply need to get to the bottom of whether in fact, in the committee's view, certain things occurred or not and the people of Scottsdale certainly are interested to know. Given that Auspine put in a bid to process these logs through their current mill and you put in a bid that did not include a large percentage of that volume to be processed, it is pivotal I would suggest to this committee's deliberations that we know whether a bid was accepted that contemplated the export the big end section logs. I think it is a reasonable question.

Mr WHITE - Again, with respect, that is a matter for the joint venture. We have a contract that gives consideration for this until the mill is constructed and remembering too that the contract is a long-term agreement for a decade and that is really an issue more for the joint venture than it is for FEA.

Mr BOOTH - In terms of that local employment then, the Premier has written to you and asked you not to export those logs . Are you intending to export those logs or a component of those logs that do not fit your current sawing capacity?

Mr WHITE - Again, it is not relevant I believe to the process and I guess that is a question more for the joint venture than FEA.

Mrs RATTRAY-WAGNER - Would you answer that in camera?

Mr WHITE - If I believed that it was relevant, if it could be demonstrated that it was relevant to the process, but I would ask the Chairman to make a determination on that.

Mrs RATTRAY-WAGNER - I guess my answer to that is that it is relevant that 313 people will not have a job in about a week's time.

Mr WHITE - I understand that.

Mrs RATTRAY-WAGNER - Hence the terms of reference.

Mr BOOTH - With respect, it will be up to the committee to determine what questions we ask and if the committee requires it then you will have to provide it. But we will have a discussion about that later. With regard to the construction of the mill, have you been offered some sort of fast-tracking of this mill?

Mr WHITE - No.

Mr BOOTH - So there has been no discussion with the Government about how you will get this bill up and built in an expedient way?

Mr WHITE - No.

Mr BOOTH - To construct a mill of this size to take that capacity of wood and with no disrespect to you because you run a very good operation there currently; I have seen the nitens that you are processing and it is an excellent product and I think that there is great

potential and so forth so it is not a criticism of your capacity as sawmillers. But in terms of producing a mill of this size, getting it up and running, proving it, getting all your kiln technology happening and machining and all that stuff plus getting a market chain on line, it is a fairly big undertaking. What sort of time line would you see that you would have the thing taking the full capacity of logs that you are contracted to and processing them through that mill?

Mr WHITE - Well, consistent with our advice to the ASX and in our public release we are looking at 14 months.

Mr BOOTH - From?

Mr WHITE - From, I would anticipate, the second quarter of 2008 we would be operational.

Mr BOOTH - Do you think that you will be able to meet the mill-emission guidelines and all that sort of stuff, the smokestack emissions?

Mr WHITE - Yes.

Mr GUTWEIN - Just getting back into the process leading up to you entry into the tender process, I presume that FEA did not just suddenly wake up in the middle of September and decide that it was going to put its hand up for 290 000 tonnes. When did the company first begin considering this as an option and what discussions, if any, did it have with Rayonier through the process of negotiations on the 40 000 tonnes of micro-logs about the possibility of you entering the process in a much larger way?

Mr WHITE - We have always had a view that we would expand our sawmilling operation, so that strong interest in expansion of our forest products side of our business has always been there. Up to the time that I made the phone call to Mike Claridge there had been no discussion with Rayonier with respect to the balance of the volume. So it really started in mid-September.

Mr GUTWEIN - I have to ask this. Was there any discussion with anyone from FT or from government prior to that discussion with Rayonier?

Mr WHITE - Absolutely not, no.

Mr GUTWEIN - So as a company you say it has always been part of your objective to grow. Was there any particular reason why in September you decided that this was worthwhile stepping up to?

Mr WHITE - Well, we actually see the softwood sector as one that is going to grow in terms of, I guess, its profitability and with respect to not only the Tasmanian and south-east Australian market but the export market as well. I guess all companies have a mandate to grow their business and we had essentially concluded our contract with Rayonier for our micro-log contract and felt encouraged to proceed.

Mr BOOTH - What product diversity would you get out of this mill as opposed to say what the mill at Auspine currently produces, setting aside the micro-logs? Will you be

producing through this mill the full range of end sections that would be coming out of current Auspine mills?

Mr WHITE - I am not privy to all the products that Auspine sold but generally speaking, I would assume -

Mr BOOTH - Up to 3.5mm wide?

Mr WHITE - That is correct.

Mr BOOTH - And treatment as well? Are you intending to treat timbers there as well?

Mr WHITE - That is correct.

Mr BOOTH - Through CCA or some other alternative?

Mr WHITE - Well that is currently a part of our capital program and, again, outside the terms of this discussion.

Mrs RATTRAY-WAGNER - Just one last question - and I have to ask this on behalf of my community in Tasmania. Do you understand how hard it is for the people in the north-east to accept how this has happened? Do you personally understand that?

Mr WHITE - Well, I guess the company has been a landowner and a very committed feature of the north-eastern community for a significant period of time. We are obviously sensitive to the issues of the Scottsdale community and we actually believe that what we are proposing is vital for the long-term sustainability of the softwood sector.

CHAIR - Thank you, Andrew. I think what we will do now is resolve to move into committee. We have now finished the open part of this hearing. With that, thank you very much to everybody who has attended today because obviously we are going to have an in camera hearing with Mr White for a short time.