



TA ANN TASMANIA PTY. LTD.

(A.B.N. 58 115 743 345)

150 Davey Street, Hobart, Tasmania 7000 Australia

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The Secretary

Legislative Council Select Committee on the Tasmanian Forest Agreement Bill 2012

Legislative Council
Parliament House, Hobart.

tasmanianforestsagreementbill@parliament.tas.gov.au

Dear Sir,

Ta Ann Tasmania (TAT) is the largest customer of Forestry Tasmania's (FT) hardwood logs for local processing for solid wood products. We consider the Forestry agreement legislation vital to the future of our business in Tasmania. TAT has made comprehensive submissions, including detailed verbal presentations on the Forestry Agreement legislation, to the Legislative Council prior to the Council's consideration of the current Bills in Committee. TAT has indicated the Company fully supports the approach to wood supply, wood scheduling, monitoring and conservation outcomes which was endorsed by the Forest Industries Association of Tasmania and other Signatories.

TAT was specifically asked by Legislative Council members what would happen if the legislation was not passed before 31/12/12. We replied that we expected Tasmania would lose international orders for timber flooring products as Catalogues for 2013 season in Japan could not be reliably filled with committed Tasmanian supply. While this advice has been interpreted as a "threat", the commercial reality is that it has happened with formal notification in late December 2012 that another customer is removing Tasmania hardwood product from sale in Japan due to perceived "sovereign risk".

The Company was also asked about the future of the two hardwood veneer mills under current commercial arrangements if the legislation was not passed by the Legislative Council. TAT replied to the Legislative Council that it expected that it would have to close down business operations in Tasmania. Some have commented that this was "just another threat" but again the commercial reality is that had it not been for the extra ordinary efforts from



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State and Federal governments, Forestry Tasmania, Unions, our employees and the ENGO's, the decision to close would have already been made. The attached "Open Letter to Legislative Council Members" and Media Release outline the range of measures that have been taken to "hold on" until a formal decision on the current legislation is made. The loss of the customer in December, and the package of "holding measures" implemented while we await the decision on the legislation are significant additional costs which the Company will now incur.

TAT has made very clear in previous submissions to the Legislative Council that the Company was planning to invest in a new Plywood Mill in the north of the State, close to shipping for the SE Australian markets. The company also made clear that until final detail on precise wood scheduling was available from Forestry Tasmania and studies completed on potential private wood supplies, the specific location for a northern Plywood mill could not be determined. The Plywood mill project assessment work has been suspended, as a cost reduction measure, until the future of the current forestry legislation is known.

The Company has been asked how it can operate profitably on a 40% reduction in State Forest wood supply from 265,000m³/annum to the new available volume of 160,000m³/annum. The position is clear, the compensation to be paid for the lost Contract volume will enable a proportion of the initial \$79million capital investment made by TAT at the commencement of veneer milling operations to be paid out. This reduces ongoing depreciation requirements and accordingly the costs per unit for veneer leaf production.

Fixed costs are reduced as a proportion of the reduced mill through put and this materially supports profitable operations at the lower scale.

TAT has also assessed that other wood supplies not covered in the existing Forestry Tasmania Contracts, including potential private wood supplies, may be competitively purchased as the Company seeks to progressively rebuild international markets for hardwood veneer sales. It will potentially take 18 months to 2 years to slowly rebuild market confidence in Tasmania as a source of internationally traded wood products. The suggestions that alternate international markets (China for example) at competitive prices are already available for Tasmanian produced hardwood veneer have not been



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demonstrated by any company with known commercial credibility. Market rebuilding will be a slow and costly process for TAT and associated enterprises.

The consequence of TAT being forced to leave Tasmania and relocate business operations will be significant for regional employment and wealth creation. Attached are copies of letters provided from a number of our suppliers throughout Tasmania indicating the impact for them should TAT close its Tasmanian operations.

Another consequence of TAT being forced to leave Tasmania and relocate business operations will be the increased costs of production of other log grades from “run of the bush” harvesting operations on State Forest. If fewer log grades are segregated and sold from harvested coupes on State Forests the remaining grades produced must bear all of the costs of Forest Practices, planning, harvesting, roading and haulage operations and subsequent regeneration and forest management.

TAT made a long term investment in two hardwood veneer mills, between 2005-2007, as the Company independently assessed that Tasmania could manage sovereign risk and also had a commitment to sustainable forestry with continuous improvement. If the current Forestry Agreement legislation is passed into law then this will progressively improve confidence in Tasmania as a reliable source of wood supply. If the legislation is not passed there will be few forestry companies prepared to invest in wood processing in the future and the whole forestry supply chain will gradually collapse.

TAT is always available to provide more specific and detailed information on the importance of finalising the current Forestry Agreement.

We are pleased that a number of the key Signatory parties and Forestry Tasmanian have already committed to immediate implementation of significant components of the Forestry Agreement. We have been pleased at the support from ENGO's, the Australian Embassy and Forestry Tasmania to provide a market update to, and visit, Japan in January 2013 to try and avoid the complete loss of our hardwood flooring markets while the legislation is being further considered by the Legislative Council Committee.



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We would urge a speedy consideration of any outstanding issues and encourage Legislative Council Members to support the opportunity afforded by the current Legislation to maintain a viable integrated forestry sector in Tasmania.

Yours faithfully



Evan Rolley
Executive Director
Ta Ann Tasmania

Attachments

1. Open Letter to Legislative Council Members dated 20/12/2012
2. Media Release dated 20/12/2012
3. Letters from suppliers.