



**Tasmanian Sawmillers Association
submission to the Legislative Council
Select Committee of Enquiry
Tasmanian Forests Agreement Bill 2012**

Introduction

1. On 22 November 2012 the Tasmanian Forests Agreement 2012 (TFA) was signed by all Signatories who had participated in the 2 ½ year negotiation process. The TFA represents the best agreement possible within the confines of the negotiation process and provides framework for the restructure of the Tasmanian Forest industry and achieve an acceptable conservation outcome to enable an end to the forest wars. The TSA position and contribution is for an outcome in the best interests of the State. In the circumstances the TFA is the best agreement which can be achieved. It is not however in the best interests of the Regional Mills. Creative thinking within the confines of the TFA can result in a better outcome for Regional Sawmills.

2. The TFA was signed by the Tasmania Sawmillers Association (TSA) with the expectation the Agreement will be transacted into legislation. To quote the words of Minister Burke who advised the TFA will be implemented in its entirety “no cherry picking”. It is critical the Bill reflects the TFA. The keystone is durability.

Vision for the future

3. The TSA vision for the future provides for preservation of the current strengths of Regional Sawmills whilst positioning this sector for adaption to future resource, adoption of new technology and design opportunities. Regional Mills provide a skill resource to the State in the efficient conversion of both high quality sawlogs (HQSL) and low quality sawlogs (LQSL) through the achievement of high recovery rates from the log resource.

4. The concept is that Regional Sawmills will continue to do that which they do best which is the production and supply of green timber. The vision is that this supply

will be value added at a co-operatively owned hub of kilns, planeing and molding plant. This hub will have a critical mass sufficient to attract designers.

5. The TSA have engaged the international firm Poyry to conduct a pre-feasibility study into the future use of sawn timber and other products sourced from Regional Mills and value added through a hub. This vision is based on resource sourced from both public and private land and includes plantation logs.

6. Bombala in southern New South Wales provides an example of a timber precinct involving the co-operation of a number of wood processors which has attracted Federal funding and is to “create an integrated timber industry, with a strong value-added component, which will support local communities”. As with the Bombala model the TSA intention is to achieve security and sustainability to industry in regions by opening up long term business investment opportunities and advance Industry and Training partnerships with schools, TAFE and University to design and provide courses for the timber industry to train for skilled and highly skilled trade jobs and tertiary level studies in areas such as architecture, design and management.

TSA involvement in Forest Peace Talks

7. When the industry belatedly acknowledged in early 2010 that it was in trouble it was already overdue for restructure. Most of the difficulties it now finds itself facing are of its own making. A major reason for the difficulties now being confronted is the industries’ failure to restructure years ago. The TFA provides the opportunity to restructure and with the aid of considerable government provided funding.

8. The TSA holds the view that restructure must be achieved with an outcome in the best interests of the State. Should it be in the best interests for the State that Regional Mills become casualties then TSA will accept this. Nevertheless TSA holds the view Regional Mills do have an important place in the economic and social future of Tasmania. If this is also the position of the Government then continued Government passivity of the past towards Regional Mills will not achieve the desired outcome. The TFA and subsequent Bill being considered provides opportunity for legislative support to that section of the industry which has characteristically silently borne the brunt of negative effects of previous reductions in resource availability.

9. The TSA involvement in the talks has been to the fullest within the limitation of our financial and human resources. We take this opportunity to acknowledge both the four industry negotiators and the four ENGO negotiators who between them did the lions share of work which produced the TFA. From the outset in 2010 TSA has sought

to contribute to the benefit of all regional wood processors not only its membership. TSA key objectives were defined and limited to:

- Peace in the forests (durability)
- Guaranteed wood supply (long term contracts)
- Compensable exit (Structural Adjustment Program)
- Environmental outcome

10. Some of the clauses of the TFA are specific or key to Regional Sawmills and include:

- Clause 5 - prescription of Category 2 and Category 8 LQSL in legislation (definition by log type not volume)
- Clause 5 – Forestry Tasmania immediate assessment of volumes of Category 2 and Category 8 LQSL
- Clause 6 – long term contracts
- Clause 6 – Sovereign Risk
- Clause 14 – Tasmanian Native Forest High Quality Sawlog Contract Voluntary Buyback Program (STREAM 1 program)
- Clause 15 – Tasmanian Forests Regional Sawmiller Exit Assistance Grant Program (STREAM 2 program) (now Structural Adjustment Program).
- Clause 16 – Reallocation of sawlog volumes
- An amount of \$10 million as per the funding schedule to the TFA is provided to permit a restructure through the Tasmanian Regional Sawmiller Structural Adjustment Grant Program

11. These particular clauses will be put into context as the issues relating to them are expanded upon within this submission. A form of Government support, perhaps outside this enquiry into the Tasmanian Forests Agreement Bill 2012, is a policy of priority of use of State forest resource for domestic processing over whole log export. This applies in Victoria. Log export should be a last resort regardless of the export price obtained. Government construction opportunities could require a high timber component. This applies in Canada and the USA.

12. The passage of the Bill should allow for long overdue industry restructure and must provide protection through long term contracts of wood supply including sovereign risk to encourage investment and adoption of new technology to maximize use of resource. Government policy towards the timber industry can contribute to its economic performance and the contribution of the industry to the State.

Key elements of the Tasmanian Forest Agreement to the Regional Mills

13. The Regional Sawmillers current position apropos the TFA and its possible transition into legislation, without cherry picking, can be best thought of in terms of a three legged stool; access to resource, exit assistance and prescription of Category 2 and Category 8 log grades into legislation.

14. All three of these requirements are catered for and understood to have been supported by all Signatories to the Agreement. As with all three legged stools, should any one of the legs break the whole seat is off balance. This is the case for Regional Millers if the three key elements are not present in the Bill. At present they are not.

Access to Log Resource

15. Regional Sawmillers require a diet of Category 1 and Category 3 sawlogs (high quality sawlogs (HQSL)) as well as Category 2 and Category 8 sawlogs (low quality sawlogs (LQSL)) to make their operations viable. Regional Mills cannot survive on a supply of LQSL only and they never have. The number of Regional Mills which remain in the industry will be a function of access to HQSL.

16. During the course of negotiations the Industry Signatory Representatives made clear the position of Regional Sawmills. The supply need is not less than 20 000 m³ of HQSL available to Regional Mills i.e. those mills without long term wood supply contracts for HQSL. This can now only be achieved through the “STREAM 1 HQSL Buy Back Program” and relies on a sufficient volume being offered for surrender in addition to 31 000 M3 to be paid out by the Commonwealth Government. Initial expressions of interest revealed a buyback (surrender offer) of 59 000 m³ from existing holders of long term wood supply contracts. In doing so the target figure of 137 000 m³ could be achieved (168 000 m³ less 59 000 m³ + 28 000 m³ = 137 000 m³). The 28 000 m³ to be re-allocated to the market in an open and contestable process, in not more than 5 000 m³ parcels. New wood supply agreements to be assessed and allocated on the triple bottom line principal. This is provided for in Clause 16 of the TFA. The TSA judged that 20 000 m³ of the 28 000 m³ would be won by Regional Mills. It is now unlikely that more than 31 000 m³ will be purchased by Government in the buyback process thus leaving Regional Sawmills completely devoid of HQSLs. The situation now is that Regional Sawmills may be in a position to purchase some volume above the Federal Government’s intended purchase of 31 000 m³. It is imperative that the volume of buyback above 31 000 m³ (purchased out of the \$10 million available through the funding schedule to Regional Sawmills) be available to Regional Sawmills only and at a purchase price consistent with that of the rest of the industry. This should permit

orderly, managed reduction of the state sawmilling capacity. This is an important part of industry transition.

Exit Assistance

17. The TFA determined log availability of at least 137 000 m³ of HQSL requires the majority of Regional Sawmills to exit the industry as log supply is simply not available and an even greater number of Regional Mills will exit if an adequate volume is not procured through the buyback process. The reduction in statutory volume from at least 300 000 m³ HQSL per annum to at least 137 000 m³ per annum more than halves the availability of LQSL which has been a major log source for Regional Sawmills. The program titled Tasmanian Regional Sawmiller Structural Adjustment Grant Program allows Regional Mills to voluntarily exit the industry totally and permanently with fair and equitable assistance. The Exit Assistance formula proposed by TSA will ensure mill site restoration to an environmentally acceptable standard, statutory payments to staff, tax obligations are met and owners leave the industry with dignity. This is provided for in Clause 15 of the TFA. A formula for calculating assistance is close to being agreed with DIER and a *modus operandi* for possible HQSL procurement determined.

Prescription of LQSL in Legislation

18. Regional Mills require a guaranteed supply of HQSL and LQSL to make their operations viable. HQSL are currently prescribed in Legislation. LQSL are currently not prescribed in Legislation which leaves this much needed resource vulnerable to leakage for example as export peeler logs. Regional Mills need security of resource as provided for in Clause 5 of the TFA This calls for prescription based on log category (i.e. Category 2 and Category 8 LQSL) not sawlog volume.

Current Situation

19. TSA acknowledge the \$10 million (part of the Funding Schedule to the TFA) is provided for the Tasmanian Regional Sawmiller Structural Adjustment Grant Program. TSA expects this allocation is to be applied to both Exit Assistance and securing HQSL resource (through the STREAM 1 HQSL Buyback Program) to make HQSL available for purchase from Forestry Tasmania by Regional Sawmills at industry prevailing prices under normal commercial arrangements between buyer and seller.

20. During the Legislative Council debates in December 2012 attempts were made by TSA representatives to have Category 2 and Category 8 LQSL prescribed in legislation. This continued to meet rejection by those drafting the Bill. Currently there

is no intention for the log categories to be prescribed in legislation but rather dealt with in regulations at a non-determined later date. This does not provide the level of log security sought by TSA. Security must be provided as an outcome of Legislative Council consideration and included in the Bill.

Environmental Outcomes

21. A criticism directed at TSA by its members is the size of the land area conceded to be protected within the TFA. The sharp end of the talks was always to be M³ v Ha. The Signatories agreed on 137/504. Two questions remain for the future. Will the zoned production forest produce the log volume and standard over the planned time to the commencement of the use of husbanded plantation sawlogs and will adequate resources be provided to efficiently manage new reserve areas? These two points will have to be realistically monitored and assessed by the Special Council. It is suggested that public perception of success or failure of the TFA will be measured by these two cardinal issues.

Forest Manager

22. The TSA considers that Forestry Tasmania must remain the forest manager. It is well known that Forestry Tasmania is an acclaimed forest manager with an international reputation for excellence being the recipient of several international awards. The forest manager must have the singular objective of supplying the industry with logs. It is its *raison d'etre* and it is of critical importance that it so remains. For FT to be a reliable log resource supplier it must remain the land manager.

Effect of Regional Sawmill closures

23. The loss of the Regional Sawmills from the industry due to inadequate resource will:

- result in the demise of up to 23 of 27 Tasmanian Regional Sawmills
- result in the loss of up to 150 jobs mostly from regional communities
- have the effect of loss to other businesses e.g. transport and engineering workshops
- result in insufficient sawmills to process the low grade arisings (LQSL) into solid timber products
- stop dead the current regional sawmill feasibility study into using low quality native forest and plantation logs for engineered wood products e.g. cross laminated timber
- cause a marked reduction in the export of solid timber and the earning of export dollars for the State

Further Contact

24. TSA can expand on any aspect raised in this submission. For further comment contact:

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Conclusion

25. Some issues are yet to be finalized to the satisfaction of the TSA such HQSL log supply volumes. With their satisfactory conclusion TSA hold a positive view of the future for Regional Sawmills remaining in the industry with the passing of the Bill. A restructured and fairer industry will provide opportunity for innovation and new technology. There is a positive future for an industry prepared to transition to a plantation based resource and produce new products of wide community acceptance while maintaining its traditional production from native forest sourced log supply, albeit at a much reduced volume.

26. The concern of greatest weight is the potential loss of Regional Sawmills for want of HQSL supply.

27. TSA supports the TFA and urges the passage of the Tasmanian Forests Agreement 2012 Bill into legislation.

Fred Ralph

Chairman
Tasmanian Sawmillers Association

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