

Mr Greg Hall
Committee Chair
Committee for Government
Administration 'A'
Legislative Council
Parliament House
Hobart, TASMANIA 7000

Dear Mr Hall

**2011 LEGISLATIVE COUNCIL INQUIRY INTO PUBLIC NATIVE FORESTS
TRANSITION
SUBMISSION BY DAVID RIDLEY, DIRECTOR, TA ANN TASMANIA PTY LTD**

TERMS OF REFERENCE AND TA ANN TASMANIA'S SUBMISSION

The Committee is inquiring into *"the impact of the proposed transition out of public native forest management and harvesting in Tasmania"*. TAT would like to inform the Committee about TAT's business, to advise the Committee of TAT's resource requirements, provide some views on the Transition discussions, and to comment on other matters of importance to TAT concerning the Transition.

SUMMARY

TAT is here because it was attracted by the Government endorsed Forest Growth Strategy seeking new investments to convert low quality pulp logs into high value veneer, and the absence of sovereign risk. TAT has a Growth Strategy and currently employs 160 FTE workers and contractors and in 2011 will inject almost \$45m into the Tasmanian economy. The WSAs with FT contain specifications that provide a specific veneer product. TAT supports the Transition discussions that must lead to a common footprint by Industry and ENGO's and for community acceptance. For TAT, the Transition involves a change over time to the mix of regrowth and plantation wood, the speed of which is dependent on the availability of suitable plantation timber as a substitute for regrowth veneer. TAT is not averse to the use of plantation billets, is open to innovation, and has already explored the use of plantation billets. Unpruned plantation veneer is not suitable. For pruned plantation to be suitable, six viability criteria need to be met - the right quality, the right volume, the right location, the right timing, the right size; and the right price. Our observation is that a Transition could be completed in 25-30 years if such plantations can be established and pruned to ensure supply sustainability.

BACKGROUND

Ta Ann Tasmania (TAT) has implemented the Commonwealth and State Government's value adding objectives for native forests. TAT has built new mills to peel billets that were previously used for woodchips so as to make high value veneer for domestic and international markets. This involved investing \$79M in southern and north-western Tasmania in 2007 and 2008 and created 160 direct full time equivalent jobs and additional indirect jobs. In 2011, TAT will inject \$44.8M into the Tasmanian economy. Background information on the TAT investment is attached. Both mills are required for a viable business.

TAT investments have occurred because of resource security (under the State-Commonwealth RFA agreement, Tasmanian legislation and 20-year Wood Supply Agreements with Forestry Tasmania), the absence of sovereign risk, the availability of sustainable certified timber (AFS/PEFC), the availability of investment ready sites, the existence of established markets, Government and community support for the project, and use of properties inherent in regrowth timber that have a comparative advantage - such as higher density (strength) and sustainable management.

The majority of TAT's veneer produces durable housing products, that allows the carbon in the wood to be sequestered for many decades in houses built with these products.

TAT RESOURCE REQUIREMENTS – REGROWTH AND PLANTATION BILLETS

TAT resource requirement is for supply of billets of a particular size, quality, volume, price and location. TAT requires billets in the manufacturing process that deliver a particular type of veneer product – high strength veneer with little defect for thin tongue and groove plywood flooring. Furthermore, operation requirements need to be met with billets of 20-70cm in diameter, averaging 39cm, so that production and recovery criteria are met.

Regrowth billets, previously used for woodchips, meet these requirements because TAT installed specialist machinery to produce high quality long grain veneer with few defects that is suitable for thin plywood flooring.

Old growth billets are not suitable as billets required by TAT need to be 20-70cm and solid at the centre and not rotten, so as to be capable of rotary peeling and to make long grain veneer.

Specifications adopted in 20-year Wood Supply Agreements (WSAs) with Forestry Tasmania provide the right product. The Agreements have billet specifications to allow this to happen, such as up to 2 dead knots in a 2.1m billet length from regrowth Eucalypts that have high density (strength).

TAT is not a logging company – under the WSAs, the source of billet supply is a matter for FT, consistent with the WSA specifications. TAT's contractual entitlement is for 150,000m³ p.a. for the Huon mill until 2026, and 115,000m³ p.a. for the Smithton mill until 2027. TAT expects the rollover intentions of the WSAs and the site lease agreements to be adopted as TAT business is a long term investment. TAT also aim to source 35,000m³ p.a. from private forest growers.

PEFC /AFS certification of sustainable forest management is required by TAT.

TAT also supports supply of billets from suitable plantations that allow the veneer product requirements of TAT to be met. But, this material must be suitable to generate long grain veneer of high strength (density), capable of making thin T&G plywood.

In this regard, unpruned plantation has been tried by TAT and has been sent to Malaysia to make flooring but the product fails. Unpruned plantation billets do not meet the WSA specifications but pruned plantation billets do. Furthermore, unpruned plantation billets are not suitable for the TAT veneer product because dead knots give very low % (recovery) of long grain veneer and such veneer is of low D Grade quality; unpruned veneer has proven to have roughness and gluing problems (delamination); and the numerous knots create defects in the tongue and groove joints.

Some pruned plantation is suitable - with *E globulus* (Blue Gum) having good veneer density characteristics (over 700 kg/m³), but pruned *E nitens* plantation billets give mixed results. Some *E nitens* has low MOE (bending) properties of less than 15 GPa, has low veneer density (less than 550 kg/m³), has poor sheer (pulling apart) properties, and behaves more like *Pinus radiata* than regrowth billets. Some pruned *E nitens* appears to be OK. Product resource mapping would help identify suitable pruned *E globulus* and *E nitens* for the Huon and Smithton mills and allow TAT to include this material as part of TAT's billet supply.

As indicated earlier, any plantation resource product needs not only to be the right quality but also of the right piece size, volume, location, timing and price.

GROWTH AND INNOVATION

TAT through its “Growing for the Future” strategy, has developed new Australian markets for veneer, and is assessing further downstream value adding opportunities in Tasmania such as construction of a ply mill at Smithton as part of import replacement initiatives. This would allow further value adding of some of the Huon and Smithton veneer that is currently exported in leaf form.

TAT has tried unpruned plantation timber. Innovation in the use of pruned plantation billets will be pursued by TAT.

Investigations to date indicate a ply mill in Tasmania, costing about \$17M, would provide up to 60 jobs, and make a \$35M per annum contribution to the Tasmanian economy. Other opportunities also exist for TAT to grow the business including operation of an additional peeling and drying line at the Smithton RPV mill (requiring an additional 105,000m³ p.a.); and use of waste by-products for cogeneration of electricity and steam; and/or manufacture of Biochar or biomass.

There is an opportunity for a ‘Forestry Hub’ at Smithton to occur as part of a regional development and employment initiative by Britton Timber and TAT. Discussions on this initiative by the parties involved has commenced.

A supportive investment environment has resource security and absence of sovereign risk as key ingredients. Without a suitable resource that can be reliably supplied, there can be no new investment or growth.

TRANSITION

TAT support a common footprint for community endorsement being worked out with ENGO Signatories under the “Principles” discussions, including Transition to supply of plantation billets where this is viable. The Moratorium allows space for these discussions and testing of various views and opportunities. TAT’s observation is that the ‘Principles’ are not open ended in regard to any Transition arrangements and reserves that are adopted, as wood supply commitments must also be met. Our view is that the theory of the Transition must match the reality of such a Transition.

In this regard, TAT is yet to see evidence that the currently available pruned *E nitens* and *E globulus* plantations can sustainably meet the six threshold criteria as a substitute for regrowth. That is, at the regional level:

1. The right quality;
2. The right volume;
3. The right location;
4. The right timing;
5. The right size; and
6. The right price.

Therefore TAT suggest that the Transition would be assisted by establishing new 'Designer Plantations' that adopt site specific silviculture (such as pruning) to provide billets 'designed' for suitable veneer properties and with a small knotty core and using species that can achieve the right strength and appearance characteristics. This is expected to take 25-30 years to deliver a high pruned stem with a maximum 7 cm knotty core and an average mid billet diameter of 39cm. Funding for establishing such 'Designer Plantations' would be required.

TAT supports a package of outcomes as part of any successful Transition arrangements that includes:

- Industry growth via new Designer Plantations;
- Changed Forest Practices Authority rules;
- A pathway for each mill signed off by ENGOs;
- Promotion of forest products by ENGO Signatories with the industry;
- An alternate conflict resolution system to blockades and invasions;
- Biomass use;
- Protection of areas that need to be protected; and
- Help for affected contractors, workers, industries and regional areas

The Transition discussion allows common data to be held, various views to be tested, and adoption of common regional strategies by Signatories for consideration by Government. A balanced decision will consider social, economic and environmental outcomes that the majority of the Tasmanian community can endorse.

OTHER MATTERS OF IMPORTANCE TO TAT CONCERNING THE TRANSITION

The Transition discussions have provided the opportunity and platform for those who want to operate outside the Kelty Committee (where accountability and

testing of claims can occur), to be vocal. As part of the non-participating ENGO campaign and that of the leader of the Greens in Canberra, TAT has been subject to a number of claims aimed at undermining support for TAT initiatives and to negatively influence the Transition process. TAT seeks to put on record with the Committee the following:

Claims that TAT do not support the 'Principles'

TAT support the 'Principles' negotiations but is not a Signatory as Industry Bodies and CFMEU represent TAT's and its workers views. TAT support a common footprint being worked out with ENGO Signatories under the "Principles' discussions, including Transition to the supply of suitable plantation billets where possible (the right quality, the right volume, the right timing, the right location, the right size and the right price) and with the continued use of regrowth billets where it is not possible. This Transition would involve Regional specific strategies, including 'Designer Plantations', Transition funding for new plantations, and is likely to take up to 30 years.

Overseas Visa sub class 457 workers are employed by TAT rather than locals, under poor conditions.

The TAT mills are new mills using unique technology to take low value regrowth pulp logs to make high value veneer using multi-million \$ lathes and driers. Tasmanian engineers and workers and Skilled Visa subclass 457 workers jointly built the veneer mills. The mill machinery is all imported. The Visa 457 workers involved are experienced and skilled company employees of Ta Ann Malaysia whose expertise has been used in installation, commissioning, maintenance, start-up, training and marketing/production. No local skilled workers with experience with the machinery and process were available. Only one other site in Australia uses such equipment and has different products and markets. TAT has unsuccessfully advertised for Lathe Operators. In total 28 Skilled Visa workers have been involved at the two sites. As the local workforce becomes fully able to meet the demands of production, the number of overseas Visa holders has reduced. Twelve (12) 457 employees have returned home. Currently there remain sixteen (16) 457 Visa employees and 10 wives working at Huon and Smithton mills. Some of the 457 Visa holders wish to remain longer term and have applied for Permanent Residency. Construction of the mills has created 160 full time equivalent jobs and other indirect jobs. The mill 457 Visa workers are employed under the CFMEU-TAT site enterprise agreement. No 457 Visa worker has worked a shift at Smithton and then been transferred to continue work at Huon. Contrary to claims of disadvantaging Australian workers, there here have been positive local employment benefits, for example the Huon

mill has provided work for 100 formerly long-term unemployed people of whom 12 are now long term employees of the company.

TAT required Huon workers to attend the ENGO Huon Community transition meeting.

Any worker who attended the Huon meeting on 19/5/2011 did so as a private citizen, not as a company representative. This was advised to HVEC at the meeting. Employees had expressed a desire to attend the meeting and about 30 were present. Operation of the Huon mill continued and those who wished to attend and those who did not wish to attend are supported by TAT.

TAT log old growth; and have changed WSA specifications to allow old growth to be logged

TAT is not a logging contractor. TAT purchase resource that is sourced and made available by FT. TAT cannot use old growth billets as billets need to be smaller diameter regrowth billets, solid and not rotten so as to be capable of rotary peeling and to provide long grain veneer. FT has indicated publically that “of more than 500 coupes listed, virtually all include regrowth from which peeler billets are sourced. Only eight were mapped as not containing regrowth, and in these cases, the small quantity of peeler billets would have come from young tress that would otherwise have been exported as pulpwood”

TAT receives billets from HCVF areas.

TAT is supplied billets by FT; decisions of where these are sourced are not made by TAT. Nevertheless, TAT understands that supply by FT to TAT has occurred consistent with the Kelty Sub-Committee deliberations and that FSC allows logging provided the HCVF value is protected. The HCVF area claimed by ENGO Signatories has not been subject to scientific review and community debate exists on the matter. The Australian system for HCVF identification and management under FSC rules is yet to be finalised.

TAT Smithton mill is subsidised by a \$10 government grant

The Australian and Tasmanian Governments jointly announced the TCFA on 13 May 2005 that protected over 170,000 hectares of forest on public and private land and support for the Tasmanian hardwood industry, including \$46 million for the development and revitalisation of mills and other businesses in the industry. TAT received \$10.3M in of this funding to help build a rotary veneer plant at Circular Head, to add value from logs that would otherwise be used for pulpwood.

TAT pay a low price for logs and no increase in the price occurs over the 20 year WSA

TAT pays FT a premium compared to pulp grade material which was the alternate use. Under the WSA, the billet price is indexed each year. Malaysian peeler logs have higher recovery and provide better quality veneer and therefore are more expensive than TAT pulpwood billets.

Attacks on alleged practices of the parent company - illegal logging, Orang-utan, and human rights abuse

My meeting with WWF-Malaysia, Penan and Iban tribal leaders and forest regulatory agencies in Sarawak, as part of my due diligence process, did not identify such practices. Ta Ann prides itself on high levels of compliance and takes action to rectify any problems as they arise. My observation is that the Company culture is for continuous improvement; for example, pre-operational environmental surveys now occur.

CONCLUDING REMARKS

In addressing the Committee, Ta Ann Tasmania would like to thank the State and Federal governments, its stakeholders, the forest managers, the community, its contractors, and TAT workers and their families for making the achievements to date possible.

David Ridley
Director
Ta Ann Tasmania
27 May 2011

ATTACHMENT 1: STATE WIDE OVERVIEW TA ANN TASMANIA CONTRIBUTION

TAT received the Australian and Tasmanian Emerging Exporter of the Year Award in 2008. This followed new investments to value-add regrowth billets that would otherwise be used for woodchips by producing veneer for international and domestic markets.

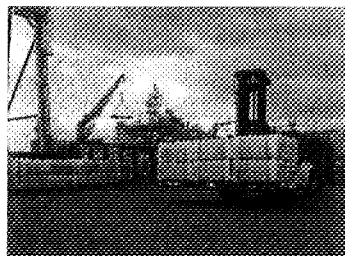
The investments by TAT result from resource security provided by Regional Forest Agreement/State - Commonwealth Agreements and by Tasmanian legislation that addressed sovereign risk, from sustainable forest management; and because of 20-year Wood Supply Agreements with Forestry Tas.

Eucalypt veneer is produced and sold domestically and internationally and is mainly used to make high value flooring and other structural plywood products. Shipments occur from Hobart & Burnie ports about every 3-4 weeks. The business requires veneer from both mills to give sufficient scale to be internationally competitive.

The new business results from a capital expenditure of \$78.9M, including a \$10.4M Commonwealth grant, to construct two rotary peel veneer mills. Huon mill was built in 2007 and Smithton in 2008.

The mills use world's best machinery and are capable of peeling & drying *Eucalypt* billets from regrowth & plantation forests. TAT has created some 160 new jobs and additional indirect jobs. Some 28 positions were filled by Skilled Visa subclass 457 workers from the parent company - in construction, commissioning, training & operation of these new facilities. As the local workforce becomes fully able to meet the demands of production, the number of overseas visa holders will reduce (currently at 16 in May 2011)

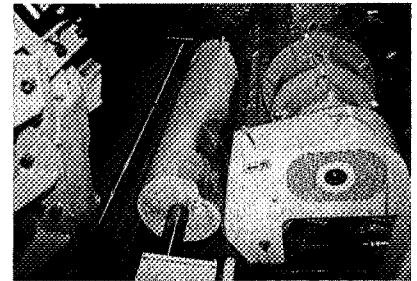
In 2011, the business will inject \$44.8M into the Tasmanian economy. Both mills are operating on 5-6 day*24hr basis.



Growing for the Future

TAT has adopted a "Growing for the Future" strategy. This includes further local value adding by examining the possibility of a ply mill at Smithton (costing about \$17M and providing up to 60 jobs), an additional

peeling/drying line at Smithton (requiring an extra 105K m3/yr of billets), and better use of 'waste' by-products to produce steam and energy or carbon capture products. There is an opportunity for suitable plantation timber to be part of the TAT's growth.



TAT requirements

The business requires regrowth *Eucalypt* from native forest to meet veneer timber property and quality requirements. As the business is productivity (size), billet quality and price sensitive, there are specific volumes, size, and quality specification in the in the 20-year WSA to deliver the TAT veneer product that is required. The TAT business requires:

- Supply as per the conditions of the Wood Supply Agreements to be honoured as well as the rollover intentions of the WSAs;
- Supply of regrowth billets and/or supply of plantation timber of suitable quality, size, location & price; and
- PEFC certification via the Australian Forestry Standard.

This provides confidence and supply security for further value adding investments such as a ply mill that would target both the domestic (import replacement) and international markets.

Plantation *Eucalypt*

TAT investment is based on the properties of regrowth billets but suitable plantation billets could also be used if and when they are available.

Plantation *Eucalypt* has been trialled by TAT at the Smithton RPV mill. Unpruned plantation is not suitable. Further tree breeding and targeted planting/silvicultural work is required for plantation billets to meet location, volume, quality, and production requirements – such as pruned logs to give green knots, avoid dead knots, provide a small knotty core, and yield particular grades of veneer. A Transition to plantation based resource is supported where plantations prove to be available and viable.

For current operations and future growth, plantation billets need to have the right properties and be at the right location, at the right time, at the right quality, at the right volume, at the right size and at the right price for both the Smithton & Huon RPV mill to be viable.